

# YUBA COUNTY ASSESSMENT PRACTICES SURVEY

**DECEMBER 2003**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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December 31, 2003

TO COUNTY ASSESSORS:

YUBA COUNTY  
ASSESSMENT PRACTICES SURVEY

No. 2003/090

A copy of the Yuba 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 David A. Brown, Yuba County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Yuba County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division in July and August 2002. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:jm  
Enclosure

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## INTRODUCTION

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

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

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

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

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

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

Our survey of the Yuba County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Yuba County that provided information relevant to the property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by rule 371.<sup>2</sup>

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

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

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

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

## **EXECUTIVE SUMMARY**

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

In our 2000 Yuba County Assessment Practices Survey, we made 14 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented eight of the recommended changes, implemented parts of four recommendations, and did not implement two. The recommendations or portions of recommendations that were not implemented are repeated in this report.

In the area of administration, we noted several positive aspects:

- The assessor has participated in the State-County Property Tax Administration Loan Program every year since its inception, enabling him to avoid backlogs in all areas of his assessment program.
- The assessor and his appraisal staff possess the appraisers' certificates required by section 670.
- The assessor's low-value property exemption assessment program conforms to statutory requirements.
- The assessor has effective and thorough programs for disaster relief and assessment appeals.

Several administrative components of the assessor's programs have room for improvement:

- The assessor fails to audit mandatory accounts of exempt organizations.
- The assessor denied the welfare exemption claim of an organization operating several multispecialty medical clinics in Yuba County, contrary to the provisions of section 214.9.
- The assessor has exempted property owned by veterans' organizations that is not used for a qualifying purpose.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, supplemental assessments, decline-in-value, taxable government-owned property, Timberland Production Zone parcels, possessory interests, and water company properties. However, we noted the following deficiencies in his real property program:

- When enrolling escape assessments, the assessor does not include the notation required by section 533.
- The assessor fails to apply the statutory penalty for failure to file a change of ownership statement.
- The assessor does not consider the restricted value when determining the base year value of Section 11 properties that change ownership.

- The assessor was unable to identify and quantify reported structural leasehold improvements, and instead enrolled the entire reported cost of the improvements.
- The assessor continues to treat association mining claims as separate claims for assessment purposes.
- The assessor inappropriately values unpatented mining claims.
- The assessor does not assess mineral property as an appraisal unit as required by rule 469.

The assessor has effective programs for the discovery of taxable personal property, processing business property statements, and valuing computers and taxable animals. We found no problems in the assessor's programs for audits, leased equipment, manufactured homes, vessel, or aircraft valuation. However, we noted the following deficiencies in his business property program:

- The assessor applies an arbitrary minimum percent good factor to older equipment still in service, and he averages new and used percent good factors for agricultural equipment.

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

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**RECOMMENDATION 13:** Ensure that the appropriate percent good factors are used for new and used agricultural and construction mobile equipment. ....35

## RESULTS OF 2000 SURVEY

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

We recommended that the assessor request that the board of supervisors adopt an ordinance exempting low-value property. For the 1999 lien date, the Yuba County Board of Supervisors adopted Resolution No. 98-86, which exempts certain low-value taxable possessory interests. Thus, the assessor has implemented this recommendation.

### ***Disaster Relief***

We recommended that the assessor: (1) request that the board of supervisors conform the disaster relief ordinance to reflect the January lien date; (2) assess damaged property as of the date of completion of repair, restoration, or reconstruction; and (3) inform taxpayers of the possibility for deferral of property taxes due on damaged property. We found that the disaster relief ordinance has been updated and that the assessor now assesses damaged property as of the date of completion of repair, restoration, or reconstruction. Section 194 et seq. provides for the deferral of property taxes only when an ordinance has been passed and implemented and the Governor has declared the county to be in a state of disaster. Since our last survey there have been no Governor-declared disasters in Yuba County. Therefore, although this portion of our prior recommendation is still applicable, the situation to which it relates has not presented itself since our 2000 survey. Thus, that portion of our recommendation is not repeated in this report.

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

We recommended that the assessor include the caption required by section 533 on all applicable escape assessments. The assessor has not implemented this recommendation.

### ***Change of Ownership***

We recommended the assessor apply the statutory penalty required by section 482 for failure to file a *Change of Ownership Statement* (COS). We found the assessor is sending another *Preliminary Change of Ownership Report* (PCOR) instead of the COS. Substitution of a late PCOR for a COS is improper. The assessor has not implemented this recommendation.

### ***Declines in Value***

We recommended that the assessor implement a formal program for discovering properties with market values that are less than their factored base year values. The assessor now actively reviews and adjusts property values to reflect current market conditions.

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

We recommended that the assessor review the terms of possession for grazing leases and identify the specific government agencies that had previously been identified as "USA" and "State of California." The assessor has reviewed the terms of possession for grazing leases and now specifically identifies government agencies. Thus, the assessor has implemented both parts of this recommendation.

### ***Water Companies***

We recommended that the assessor verify the identity of a mutual water company before assigning a nominal value to its property. We identified three mutual water companies and found current articles of incorporation on file. The assessor has implemented this recommendation.

### ***Restricted Properties***

We recommended that the assessor reflect the effect of government restrictions when valuing properties encumbered by federal government financing agreements. Currently, the assessor uses the subject's actual rent and a capitalization rate that reflects the terms of the government financing when valuing restricted multifamily housing. The assessor has implemented this recommendation.

### ***Mineral Property***

Regarding unpatented mining claims, we recommended the assessor use the factored base year value as the upper limit of value, utilize BOE-prescribed valuation techniques, include new construction values in the assessments, and verify filing status.

The assessor has revised his procedures so that he now includes new construction values in the assessment of mining claims. But, he has not implemented the other three parts of the recommendation.

We also recommended that the assessor consider the appropriate appraisal unit when determining the taxable value of sand and gravel quarries and adjust the base year values for changes in reported reserves. The assessor now adjusts the base year values for changes in reported reserves, but still does not value mineral properties as an appraisal unit.

### ***Equipment Valuation***

We recommended the assessor use the BOE's equipment index factors as instructed, particularly with respect to index factors for commercial, industrial, and construction equipment, and as they pertain to new and used agricultural and construction mobile equipment. The assessor has partially implemented this recommendation; however, for certain new and used equipment the assessor still fails to use the appropriate factors.

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

### ***Vessels***

We recommended that the assessor obtain computerized access to the Department of Motor Vehicles (DMV) vessel database and also annually appraise pleasure boats at market value. Although the assessor has not obtained access to the DMV's vessel database, we found an efficient vessel discovery program. We also found that the assessor's vessel depreciation procedure approximates market values.

### ***Manufactured Homes***

We recommended that the assessor classify manufactured homes as personal property. The assessor has corrected this problem. We also recommended that the assessor annually review manufactured homes for declines in value. We found that the assessor now annually reviews approximately 25 percent of all enrolled manufactured home assessments for possible declines in value. This review adequately addresses our concerns. Therefore, we do not repeat this recommendation.

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

Yuba County is a general law county, established by the California Legislature in 1850 as one of the original 27 counties. It is located in the Northern Sacramento Valley, about 125 miles east of San Francisco and 125 miles west of Reno, Nevada. Neighboring counties include Butte and Plumas to the north, Sierra and Nevada to the east, Placer to the south, and Sutter to the west.

The City of Marysville is the county seat. Governed by a five-member board of supervisors, Yuba County's population is approximately 61,000, with 13,000 persons residing in Marysville, the county's largest incorporated city.

### **Staffing**

For the 2001-02 roll year the assessor increased his staff by one, to a total of 16 positions. For 2002-03, the assessor's permanent full-time staff remains at 16, which includes the assessor, assistant assessor, four real property appraisers, two auditor-appraisers, six support staff, one cadastral draftsman technician, and one assessment office supervisor. Additionally, there is one part-time assessment assistant.

### **Budget**

As shown below, the assessor's 2002-03 budget showed an increase of 22.5 percent since the 1998-99 fiscal year. On a budget of \$953,615, the assessor prepared the 2002-03 local roll with assessments of almost \$2.6 billion.

<b>FISCAL YEAR</b>	<b>GROSS BUDGET</b>
2002-03	\$915,357
2001-02	\$953,615
2000-01	\$909,720
1999-00	\$881,315
1998-99	\$747,002

### **Assessments**

Commensurate with county growth, annual assessments have increased since the 2000-01 roll year. The total increase between 2000-01 and 2002-03 was approximately 11.5 percent, reflecting an average annual increase of about 6 percent. The following table lists the assessments for each year:

<b>ROLL YEAR</b>	<b>SECURED LOCAL ROLL</b>	<b>SECURED ROLL UNITS</b>	<b>UNSECURED LOCAL ROLL</b>	<b>UNSECURED ROLL UNITS</b>	<b>TOTAL LOCAL ROLL</b>
2002-03	\$2,387,366,000	24,259	\$229,530,000	3,378	\$2,616,896,000
2001-02	\$2,284,674,000	24,048	\$208,686,000	3,345	\$2,493,540,000
2000-01	\$2,148,262,000	23,986	\$197,375,000	3,363	\$2,345,637,000

## ADMINISTRATION

This portion of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the assessor's State-County Property Tax Administration Loan Program, appraiser certification, exemptions, low-value property exemptions, disaster relief, and assessment forms. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares for and presents assessment appeals.

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

In 1995, the Legislature established the State-County Property Tax Administration Loan Program (PTAP). This program provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for the fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

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

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

Yuba County has participated in PTAP since April 1, 1996. For contract year 2001-02, the assessor borrowed \$88,968. The county's required base funding and staffing levels for the assessor's office is \$570,344 and 14.5 positions, respectively. The Yuba County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every year under contract.

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

- Defending his values for all applications filed for reductions in assessment;
- Performing annual reviews of properties to determine whether decline-in-value adjustments are warranted;

- Performing nonmandatory audits;
- Enrolling new business accounts;
- Enrolling new construction under \$10,000 in value;
- Reviewing and restoring the values of properties damaged in the Pendola fire when the properties were partially or fully repaired, restored, reconstructed, or replaced;
- Reviewing orchard properties for irrigation improvements and new tree plantings;
- Purchasing software packages for the offices of the assessor, auditor, and treasurer-tax collector;
- Converting 30,000 master property index cards to compact disc (CD) format with a searchable database program; and
- Purchasing two digital cameras to improve the documentation of property appraisal files.

The assessor used full-time employees and added an interim assessment clerk position to achieve the contracted performance measures. The assessor has exceeded the performance measures established in his contract for every year he has participated in the loan program.

### ***Appraiser Certification***

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

Based on information obtained from the BOE's appraiser certification and training section, we confirmed that the assessor and his staff possess the required certificates. In addition, all of the appraisers who are qualified to hold an advanced appraiser's certificate have one. The assessor does not employ contract appraisers.

### ***Exemptions***

The assessment office supervisor processes claims for church and religious exemptions, while an appraiser III processes the welfare exemption claims. Field inspections of all properties for which an exemption is claimed are conducted by the appraiser assigned to the geographic area of the county where the property is located.

#### **Welfare Exemption**

The welfare exemption is available for property used exclusively for religious, hospital, scientific, or charitable purposes that is owned and operated by community chests, funds, foundations, or corporations organized and operating for those purposes. If the property is owned by one qualified

organization and used by another qualified organization more than once per week, then both must file a claim for the property to receive an exemption.

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

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

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

The following table summarizes welfare exemptions granted on the local roll for the last five years:

<b>ASSESSMENT YEAR</b>	<b>NUMBER OF CLAIMS</b>	<b>ASSESSED VALUE</b>
2002-03	125	\$117,037,061
2001-02	124	\$118,122,552
2000-01	141	\$ 89,547,196
1999-00	133	\$ 83,664,149
1998-99	130	\$ 80,329,214

We reviewed a variety of claims on file at the assessor's office, concentrating our review on claims that contained special findings. These findings included but were not restricted to the following:

- First-time filings (new claims);
- "Not been met" for any reason (i.e., a claim that was denied);
- "Late filed" claims; and
- Mid-year acquisitions eligible for cancellation or proration of taxes pursuant to section 271.

Specific property types that we reviewed included:

- Low-income housing and hospitals (partial exemptions);
- Reasonably necessary staff housing, including parsonages;
- Religious schools;
- Multispecialty health care clinics; and
- Exempt organizations subject to mandatory audit pursuant to section 469.

The assessor maintains well-documented claims. There is a permanent file for every organization. However, we found room for improvement in the assessor's welfare exemption program.

### Audit

**RECOMMENDATION 1:** Perform mandatory audits of exempt organizations.

The assessor does not audit any organization meeting the mandatory audit threshold if the organization receives an exemption from property taxation.

Section 469 and rule 192 require that assessees owning, controlling, or possessing tangible business personal property and fixtures with a full cash value of \$400,000 or more for four consecutive years must be audited every four years. Exempt organizations are subject to audit as are any other type of business under sections 469 and 470. According to Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, property owned by an exempt organization is assessable, even though there may not be a net taxable value. The statutory requirement to audit is not contingent upon the ultimate disposition of the enrolled assessment.

Due to nonqualifying use, many organizations receive only partial exemptions on their property. Moreover, an organization may fail to file a claim for exemption in a given year. In either case, the assessor must then enroll an assessment for the property. If this occurs, the assessment must be prepared in the same manner as any other assessment, which includes the requirement to periodically audit the organization.

Failing to perform a mandatory audit is contrary to an explicit statutory directive. We recommend that the assessor audit qualifying exempt organizations.

### Multispecialty Medical Clinics

**RECOMMENDATION 2:** Approve the welfare exemption claim of multispecialty medical clinics as provided in section 214.9.

The assessor has denied the welfare exemption claims of an organization operating several multispecialty medical clinics in Yuba County. The parent organization claimed exemption as a medical clinic under

section 214.9, i.e., an outpatient clinic of the type described in section 1206(l) of the Health and Safety Code that offers medical services on a charitable basis. The assessor denied that claim on the grounds that the individual clinics did not meet specific criteria of section 1206(l), in that it did not have 40 physicians practicing at least 10 specialties, two-thirds of whom practiced medicine full time at each location.

The BOE considered the matter of multispecialty medical clinics in its decision in the *Matter of St. Jude Hospital Yorba Linda, dba St. Jude Heritage Health Foundation* (1997) and concluded that for purposes of the welfare exemption, claimants could aggregate multiple locations to meet the requirements of section 214.9.<sup>3</sup> Thus, although the individual clinics in Yuba County did not meet the criteria for exemption, when viewed as a whole they met the criteria specified in section 214.9. Therefore, the individual clinics qualify for the welfare exemption. BOE staff originally approved the organization's welfare exemption claim for the 1999-00 roll and have approved it annually since then. However, the assessor continues to deny the claim.

We recommend that the assessor approve the welfare exemption of multispecialty clinics as provided in section 214.9.

### Veterans' Organizations

**RECOMMENDATION 3:** Exempt only qualifying portions of property owned by veterans' organizations.

There are three veterans' organizations in Yuba County. The assessor exempts 100 percent of the taxable value of the real and personal property of these organizations, including portions that do not qualify for the welfare exemption, e.g., bar, meeting rooms, kitchen areas, game rooms, and locker rooms.

Section 215 exempts from taxation personal property owned by veterans' organizations. The BOE has approved the welfare exemption for real property owned by these organizations only to the extent of those portions of the property used exclusively for charitable purposes, i.e., counseling veterans and assisting them in applying for government benefits.

The assessor has inappropriately exempted property that is not used for a qualifying purpose. We recommend that the assessor exempt only those portions of the property used for exempt purposes.

### Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This provision, implemented by section 206 of the Revenue and Taxation Code, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and

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<sup>3</sup> See Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (April 2002), pp. 34-35.

necessarily required for church parking is exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for church-owned property as well as leased property meeting the requirements in section 206.1

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

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

**Religious Exemption**

The following table represents the number of religious exemptions and assessed values for the last five years:

<b>ASSESSMENT YEAR</b>	<b>NUMBER OF EXEMPTIONS</b>	<b>ASSESSED VALUE</b>
2002-03	80	\$19,367,867
2001-02	76	\$18,895,478
2000-01	79	\$19,164,918
1999-00	81	\$18,968,965
1998-99	80	\$18,429,956

Our review of the assessor's religious exemption program discovered no problems. We have no recommendation in this area.

**Church Exemption**

The following table represents the number of church exemptions and assessed values for the past five years:

ASSESSMENT YEAR	NUMBER OF EXEMPTIONS	ASSESSED VALUE
2002-03	5	\$284,896
2001-02	5	\$321,559
2000-01	6	\$329,803
1999-00	2	\$183,321
1998-99	2	\$164,182

Our review of the assessor's church exemption program showed no problems. We have no recommendation.

### Low-Value Property Exemption

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

In our prior survey report, we recommended that the assessor discontinue exempting low-value property unless the board of supervisors adopts a resolution exempting such property. On December 15, 1998, the Yuba County Board of Supervisors adopted Resolution No. 1998-149, which implemented the provisions of section 155.20, commencing with the fiscal year 1999-00. In its current form, this resolution allows for any/all classes of real and personal property with a full value of \$1,000 or less to be exempt from taxation.

For the 2002-03 roll year, the assessor identified 261 properties (23 secured and 238 unsecured) that qualify for the low-value property exemption. Each property is exempted only until such time as its full value (in the case of personal property) or its factored base year value (in the case of real property) exceeds the exemption limit.

We found no problems with the assessor's low-value property exemption program.

### **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 damaged

exceeding \$10,000 (without fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

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

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

The Yuba County Board of Supervisors adopted an ordinance granting the assessor the power to provide tax relief on properties damaged by calamity or misfortune. Ordinance No. 1244 contains provisions that include information on filing time limits, procedures for reassessments, restoration of reduced values, and the cancellation or refund of taxes.

The assessor discovers calamities by reviewing building permits, newspaper articles, taxpayer notification, and by conducting field investigation. Although the assessor does not receive fire reports, we found that the discovery efforts are adequate.

We reviewed nine properties for which the owners had filed disaster relief claims. Eight of the properties were damaged by fires and one property was damaged by flooding. We found that the assessor's disaster relief program is accurate, efficient, and in compliance with all applicable provisions of the law.

### ***Assessment Forms***

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. The BOE currently prescribes 76 forms for use by county assessors and one form for use by the county's assessment appeals board. Generally, the assessor has the option to change the appearance (e.g., size and color) of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form provided the assessor obtains prior approval from the BOE.

In addition to those BOE-prescribed forms specifically required by statute, such as property statements, assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, no penalty may be imposed upon a property owner for failure to file such a form or questionnaire.

The BOE annually sends to assessors checklists for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, and return the checklists for property statements and miscellaneous forms

by October 15, and the exemption forms by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.

The assessor uses 54 of the 76 BOE-prescribed forms, two of which are rearranged forms. The assessor also timely returns the three forms checklists each year. We found no problems with the assessment forms used by the assessor.

**Assessment Roll Changes**

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

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

We found that roll changes are made within the authorized period of time and as required by section 531.8, *Notices of Proposed Escape Assessment* are mailed to taxpayers at least ten days before the changes are entered on the roll. The volume of annual roll changes for the last four years is shown in the following table:

ASSESSMENT YEAR	NUMBER OF ROLL CHANGES
2001-02	1,149
2000-01	1,025
1999-00	1,049
1998-99	836

**Section 533 Notation**

In our prior survey, we recommended that the assessor include the notation required by section 533 on all applicable escape and penalty assessments. This recommendation has not been implemented.

**RECOMMENDATION 4:** Include the notation required by section 533 on the assessment roll.

We found that escape assessments added to the assessment roll continue to lack the notation required by section 533. All escape assessments should be posted to the current year's roll and the escape assessments for prior years should be noted on the roll with the proper notation. This method, as set

forth in section 533, is explained in greater detail in Assessors' Handbook Section 201, *Assessment Roll Procedures*.

Section 533 requires the assessor to enter a specific notation on the assessment roll when enrolling escape assessments. Section 533 provides that escape assessments for prior years shall be entered on the current roll and shall be followed with the notation: "Escaped assessment for year \_\_\_\_ pursuant to Sections \_\_\_\_ of the Revenue and Taxation Code."

We recommend the assessor include the notation as required by section 533 following the entry of an escape assessment for a prior year.

**Assessment Appeals**

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

The following table summarizes recent assessment appeals activity in Yuba County:

<b>Fiscal</b>	<b>No.</b>			<b>APPEALS BOARD DECISIONS</b>				
<b>Year</b>	<b>Filed</b>	<b>Continued</b>	<b>Withdrawn</b>	<b>Stipulated</b>	<b>Reduced</b>	<b>Upheld</b>	<b>Increased</b>	<b>Denied</b>
2001-02	69	2	46	0	1	1	0	19
2000-01	24	3	7	4	1	1	0	8
1999-00	32	0	15	7	0	1	0	9
1998-99	78	0	12	42	0	8	1	15
1997-98	53	0	33	13	3	2	0	2

The assessor is proactive in taxpayer education, which may eliminate issues that would otherwise lead to a larger volume of assessment appeals. We found that the assessor and the county board of equalization work closely together to ensure that all appeals are tracked and heard within the required two-year time frame. The assessor administers an effective assessment appeals program.

## ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as taxable government-owned land.

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

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

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

The assessor regularly receives *Preliminary Change of Ownership Reports* (PCOR's) and grant deeds from the recorder. An assessment assistant II processes the documents and provides the transfer information to appraisers. If a PCOR was not received initially, one is mailed to the transferee. The office also utilizes property questionnaires as needed for additional information.

If the PCOR indicates the need for a homeowners' exemption, or the possible availability of an exclusion from change in ownership, the appropriate form is mailed to the transferee(s). The following table summarizes the number of documents processed annually for the most recent two years:

ROLL YEAR	DEEDS
2001-02	1,920
2000-01	1,941

We reviewed recorded grant deeds from the recorder's database and followed their processing through appraisal and enrollment of supplemental assessments. The changes in ownership had been properly identified and supplemental assessments had been enrolled for all applicable periods. Some of the

transfers were properly excluded from change in ownership, and these special circumstances (e.g., parent-child transfer, transfer of base year value for persons over age 55, and the formation of a legal entity) were well documented in the appraisal records and on the computer database. Quarterly reports are regularly sent to BOE for sections 63.1 and 69.5 exclusions.

### Legal Entity Ownership Transfers (LEOP)

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

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

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

We reviewed a number of properties on the assessor's LEOP list and found no errors pertaining to identification and enrollment. The assessor processes LEOP notices and identifies changes in control properly and expeditiously.

### Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements (e.g., sewers, sidewalks, lighting, and water lines) that generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond establishes a lien that runs with the land and binds the owner and all successors in interest in accordance with 1911, 1913, or 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of evidence. However, if the assessor is unaware of which parcels are encumbered with bonds, this presumption cannot be rebutted.

We found that there are two active bond assessment districts in Yuba County. The assessor tracks bond balance information, and all parcels located within the boundaries of the two assessment districts are marked to reflect these bonds. When an encumbered parcel sells, the assessor determines from current comparable sales whether the bond balance has been included as consideration paid for the property. The assessor's practice of comparing properties with and without improvement bond balances

properly considers all factors influencing value, including the outstanding balances of improvement bonds.

### Change in Ownership Statements

In our prior survey, we recommended that the assessor apply the penalty as provided in section 482 for failure to file Form BOE-502-AH, *Change of Ownership Statement*. The assessor has not implemented this recommendation.

**RECOMMENDATION 5:** Utilize the *Change of Ownership Statement* required by section 480 and apply the penalty required by section 482 for failure to file.

At the time a grant deed is recorded, most transferees in Yuba County elect to file a Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR). To those transferees who fail to file a PCOR at the time of recording, the assessor sends a second copy. Most transferees return these statements within 45 days. When a transferee fails to file a PCOR or files late, no penalty is applied. The assessor does not use Form BOE-502-AH, *Change of Ownership Statement* (COS).

Section 482 provides that failure to file a change in ownership statement within 45 days from the date of a written request by the assessor results in a penalty of either \$100 or 10 percent of the taxes applicable to the new base year value, whichever is greater, to a maximum of \$2,500, if the failure to file was not willful. The assessor's procedure is contrary to the intent of section 480(a), which requires that all transferees shall file a COS. Furthermore, the assessor's practice does not encourage transferees to respond, because it lacks a penalty.

We recommend that the assessor utilize the COS as required by section 480 and apply the penalty for failure to file as provided in section 482, when the new owners do not file timely.

### ***New Construction***

Section 71 requires the assessor to determine new base year values for newly constructed real property upon the date of completion. New construction in progress on the lien date is appraised at its full value on such date, and on each lien date thereafter until it is completed. Property Tax rule 463 governs the assessment of new construction and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides additional guidance.

### Building Permits

Section 72 requires that agencies that issue building permits transmit copies of the permits to the assessor as soon as possible. The assessor receives an average of about 1,800 permits annually from five permit-issuing agencies. The agencies are the building departments of the cities of Wheatland and Marysville, the Yuba County Department of Environmental Health, the Yuba County building department, and the California Department of Housing and Community Development (HCD). These agencies are the primary source for discovering assessable new construction. Other sources of

discovery are business property statements and field reviews. The collection, screening, sorting, and tracking of permits is a high priority. The assistant assessor reviews all building permits.

The following table shows new construction activity occurring for the previous five fiscal years:

<b>YEAR</b>	<b>TOTAL NO. OF PERMITS RECEIVED</b>	<b>TOTAL NO. OF PERMITS VALUED</b>
2001-02	1,777	940
2000-01	1,786	961
1999-00	1,919	1,054
1998-99	1,786	933
1997-98	2,714	1,879

The assessor's policy is to enroll all new construction, including low-valued items such as walls, fences, and patio covers. The assessor's new construction program is accurate, efficient, and in compliance with all applicable provisions of the law.

### ***Supplemental Assessments***

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

We reviewed a number of supplemental assessment records for properties that had experienced new construction or a change in ownership during the 2002-03 assessment year. The assessor processed these supplemental assessments correctly. For events occurring on or after the lien date and on or before May 31, two supplemental bills were issued as required by law and all notices were issued in a timely manner. The assessor's supplemental assessment program is accurate and in compliance with all applicable provisions of law.

### ***Declines in Value***

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

The assessor discovers properties experiencing declining values through taxpayers' requests for reviews and by tracking market value trends in the different geographical areas of the county. The following table shows the number of decline-in-value assessments processed for the most recent five years:

ROLL YEAR	NO. OF SEC. 51 REDUCTIONS ENROLLED
2002-03	1,363
2001-02	1,580
2000-01	1,560
1999-00	1,446
1998-99	1,072

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor in developing the subsequent year's taxable value. These assessments are reviewed annually by the appraiser responsible for the geographical area.

In reviewing a number of decline-in-value assessments, we found that the records were well documented, complete, and the values were well supported. We found that the assessor has an effective and thorough program of annually reviewing and adjusting real property assessments to reflect declines in value.

**Taxable Government-Owned Property**

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

**RECOMMENDATION 6:** Determine the base year value of Section 11 properties at the lower of current market value or restricted value.

The assessor determines the base year value of Section 11 properties that change ownership to be their current market value, without considering the restricted value as of the date of sale.

Letter To Assessors 2000/037 provides that base year values for taxable government-owned properties acquired after March 1, 1975, are established at the lower of (1) fair market value or (2) value determined according to a formula provided in section 11, as of the date of change in

ownership. In most cases, the value determined under the formula (i.e., the "restricted value") will be lower than the current market value. By not considering the restricted value in establishing the base year value, the assessor will in most cases enroll a taxable value that exceeds the statutory maximum.

We recommend that the assessor establish a new base year value for Section 11 properties following changes in ownership at the lower of current market value or the restricted value.

### ***Timberland Production Zone Property***

Land zoned Timberland Production Zone (TPZ) is assessed in accordance with special TPZ site classifications that exclude the value of the standing timber. The assessed value of TPZ land, each year, must be its appropriate site value plus the current market value of any existing, compatible, nonexclusive uses of land. This treatment does not apply to structures on TPZ lands or to sites that accommodate such structures. Instead, structures and their supporting lands are subject to the same assessment treatment as other real property. Land zoned as TPZ that is not under a California Land Conservation Act contract is assessed at the lowest of its appropriate site value, current market value, or factored base year value.

Yuba County has 175 TPZ parcels comprised of 30,737 acres with an assessed valuation of \$3,462,272. The land zoned TPZ is assessed in accordance with values determined each year by the BOE. The BOE's values exclude the value of the standing timber. All TPZ properties located in Yuba County are classified as Pine-Mixed Conifer region.

We found that the assessor correctly values TPZ properties. Permitted exclusive uses such as homesites, residences, and necessary outbuildings are assessed correctly, and compatible uses are considered in the valuation

### ***Possessory Interests***

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

There were 165 separate taxable possessory interest assessments on the 2001-02 roll totaling \$13,123,993. The assessor's primary sources for discovering taxable possessory interests are reports from government agencies, field inspections, and recorded lease agreements. The assessor annually contacts 30 federal, state, and local public agencies by mail or telephone to obtain current information about private uses of their property. For newly created taxable possessory interests, the assessor requests that the agencies send a copy of the lease or license agreement, which states the details of the interest held, the term, a description of the leased property, and the lease amount. Typically, government agencies are cooperative and responsive.

We found that the assessor is diligent in his discovery of taxable possessory interests and in compliance with proper assessment procedures.

### **Leasehold Improvements**

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

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

When real property is reported on the business property statement, coordination between the real property and business property divisions of the assessor's office is very 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 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. Additionally, both divisions must agree on which items will be assessed by which division; otherwise escapes and/or double assessments may result.

We reviewed business property statements and real property records indicating leasehold improvements. We checked for: (1) reported costs and descriptions; (2) proper identification of leasehold improvements by the business property division; (3) coordination between the business property division and the real property division; and (4) proper assessment. We found inconsistencies in the valuation and assessment of structural leasehold improvements.

**RECOMMENDATION 7:** Properly classify and supplementally assess all structural leasehold improvements.

We found instances where the assessor was unable to identify and quantify reported structural leasehold improvements, and instead enrolled the entire reported cost of the improvements. Additionally, we found that the assessor will create a foreign improvement account for items that are sufficiently large, in his opinion, and will supplementally assess them. However, he does not issue supplemental assessments for unsecured leasehold improvements that he judges to be relatively small.

Section 75.5 provides in part that for purposes of supplemental assessments, "property" means and includes real property. Leasehold improvements that are structures or additions to structures qualify as new construction of real property. Thus, they are subject to supplemental assessment.

The effects of not enrolling supplemental assessments for unsecured leasehold improvements are: (1) property owners are not being treated equally, and (2) assessments are below the statutorily required level.

We recommend the assessor properly classify and supplementally assess all structural leasehold improvements.

## **Water Company Property**

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

### **Municipal Water Systems**

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. As to water system property, this exemption applies to both property owned by city water departments and 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 governmental agency.

We found the parcels owned by the municipal water systems located within the city limits or district boundaries to be assessed correctly. The parcels were exempted from taxation under Article XIII, section 3(b) of the California Constitution. We did not identify any water system parcels owned by a local government but located outside their boundaries.

### **Mutual Water Companies**

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

We were able to identify three mutual water companies in Yuba County. We found that the value of the mutual water company property was correctly reflected in the assessments of the parcels served by the water system.

### **Private Water Companies Regulated by the CPUC**

Private water companies are privately owned utilities in business to earn a profit from the sale of water. This type of water company is subject to regulation by the CPUC and must submit an annual report to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return on the company's unamortized investment in plant and equipment. Because the earning ability of a regulated private water company is tied to this "rate base," as it is known, the current market value of the water company property may be adversely affected by this restriction on earning ability.

We found that the assessor correctly assesses these properties. In the determination of fair market value the assessor considers the historical cost less depreciation method and the income approach. The fair market value is compared to the factored base year value and the lowest of the two is enrolled. The assessor's water company assessment program is accurate and in compliance with all applicable provisions of the law.

### **Private Water Companies Not Regulated by the CPUC**

Unregulated private water companies are private systems usually owned by individuals or corporations and serving manufactured home parks, resorts, campgrounds, etc. They are unregulated because they do not sell water to the general public, but rather supply it only to users in their own development.

The assessor receives a listing from the State Department of Health Services that contains water users in the county. We reviewed several water companies from the list and found that all were correctly assessed.

### **Mineral Property**

#### **Mining Property**

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

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

#### **Unpatented Mining Claims**

There is still a significant amount of mining activity in the county, though most of it now involves unpatented mining claims that are mostly worked as a hobby. Mining claims will generally take one of two forms, placer or lode. Placer claims mine material from current or old streambeds. The minerals are deposited by water action. On lode claims, the mining removes material that is imbedded in the rock.

In our prior survey, we made a four-part recommendation regarding unpatented mining claims. We recommended that the assessor use the factored base year value as the upper limit of value, utilize BOE-prescribed valuation techniques, include new construction values in mining claim assessments, and verify filing status.

The assessor has corrected his procedures to include new construction values in the total taxable value. However, the remaining portions of that recommendation have not been implemented.

**RECOMMENDATION 8:** Treat association mining claims as a single assessment unit.

The assessor continues to treat association placer claims as if they were separate claims for assessment purposes. Association placer claims allow multiple persons to claim up to 160 contiguous acres with one filing, whereas the maximum size of a claim for an individual is 20 acres. The advantage of filing an association claim is that only one discovery must be made and only one \$100 rental fee needs to be paid for the entire claim. The assessor divides the total acres in an association placer claim by 20 to extrapolate the number of claims for valuation purposes. The assessor then imputes a \$100 rental fee to each extrapolated claim. Since this method treats each association placer claim as multiple claims, the result is an overvaluation of the association placer claims.

Association claims should be treated and valued as one property in conformance with the federal definition. We, therefore, recommend the assessor treat association claims as a single unit for assessment purposes.

**RECOMMENDATION 9:** Properly determine the reasonably anticipated term of possession for valuing unpatented mining claims.

The assessor determines the base year value of unpatented mining claims by dividing the annual maintenance fee by the capitalization rate. In so doing, the assessor imputes a perpetual term of possession to the mining claim, which results in valuing the mining claim as if owned in fee.

Under the direct income method described in rule 21, the value of the possessory interest is properly calculated by capitalizing the economic rent for the reasonably anticipated term of possession. Pursuant to rule 21, if there is no stated term of possession, the reasonably anticipated term of possession shall be demonstrated by the intent of the public owner and the private possessor, and by the intent of similarly situated parties. In general, the reasonably anticipated term of possession should be at least five years for an unpatented mining claim (based on the federal requirement that a land patent application can only be filed after a minimum of \$500 of assessment work has been completed – minimum of \$100 per year), and possibly much longer, depending on the historical data the assessor can gather regarding typical holding periods for such claims.

The assessor's practice results in inaccurate valuations of unpatented mining claims. We recommend that the assessor properly determine the reasonably anticipated term of possession in his valuation of these claims.

**RECOMMENDATION 10:** Reappraise unpatented mining claims only upon a change in ownership.

The assessor continues to treat an annual filing of an unpatented mining claim as a change in ownership. In 1995, the assessor raised mining claim assessments from \$1,500 to \$2,000. The assessor contends that the annual filing of the rental fee or assessment work on mining claims constitutes a renewal, and thus a change in ownership, under the provisions of section 61.

We disagree with the assessor's position. Although the filing of the evidence of assessment work or payment of the maintenance fee allows continued possession of the claim, neither of these events constitute a change in ownership. Because mineral properties can take several years to develop, the option to renew is always a necessary part of a mining claim, and is factored into the anticipated term. Rule 462.080 provides in part that "renewal" and "extension" of a lease do not include the granting of an option to renew or extend an existing agreement pursuant to which the term of possession of the existing agreement would, upon exercise of the option, be lengthened, whether the option is granted in the original agreement or later. The expending of labor or payment of the maintenance fee as required by Bureau of Land Management (BLM) does not cause a change in ownership of the claim.

The assessor's practices for assessing unpatented mining claims result in overvaluations of such interests in that it fails to recognize the factored base year value as the upper limit of assessable value. We recommend that the assessor reappraise such interests only upon expiration of the reasonably anticipated term of possession used to establish the initial base year value.

### **Sand and Gravel Property**

In our prior survey, we recommended that the assessor use the appropriate appraisal unit when determining the taxable value of sand and gravel quarries, and adjust the base year values for changes in reported reserves. The assessor now adjusts the base year values for changes in reported reserves but still does not value mineral properties using the appropriate appraisal unit.

**RECOMMENDATION 11:** Assess mineral property as an appraisal unit as required by rule 469.

The assessor's current practice for mineral-producing properties is to value and enroll the mineral right separately from the improvements and fixtures located on the property. Appraisal records indicate that the assessor enrolls the factored base year value for the minerals and the current market value for the improvements. He does not determine the total property value as an appraisal unit.

This practice is contrary to the provisions of rule 469(e)(2)(C). The procedure required by the rule is different than that applied to other types of property. The rule requires that declines in value be measured in terms of the total property value. The lower of the total current market value or factored base year value of land, improvements, and mineral rights must be enrolled, along with the current market value of personal property. To implement this provision of the rule, it is necessary to make a total property appraisal and then allocate that value among the various components of the property (land, mineral rights, improvements, fixtures, and personal property).

Unless current market value is determined, increases or decreases in value from reserves will not be properly reflected in the total value. Once this value has been determined, the assessor can allocate the value among the various parcels comprising the property.

We recommend that the assessor determine the current market value of the mineral property appraisal unit as required by rule 469.

## 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.

Annually, the assessor's business property staff processes over 2,000 property statements, audits about 23 accounts, and enrolls approximately 112 aircraft and 1,900 vessels.

### **Audit Program**

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

### **Mandatory Audits**

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

The assessor has a total workload of approximately 92 mandatory audit accounts, or an average of about 23 audits per year. The assessor has a timely mandatory audit program.

### **Nonmandatory Audits**

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

The assessor has a discretionary audit program that includes all business accounts that report business tangible personal property and trade fixtures valued at \$100,000 or more. The following table shows the results of his audit program for the last four years:

	2002	2001	2000	1999	Total
<b>Mandatory (&gt;\$400K)</b>	20	27	27	18	92
<b><u>All Audits:</u></b>					
<b>Audits &gt;\$100K</b>	70	47	49	62	228
<b>Audits &lt;\$100K</b>	17	32	32	21	102
<b>\$ Refunds</b>	(\$4,285,294)	(\$724,673)	(\$854,601)	(\$6,876,867)	(\$12,741,435)
<b>\$ Escapes</b>	\$14,312,022	\$4,232,119	\$8,336,377	\$10,635,355	\$37,515,873
<b>\$ Net Assessed Value Change</b>	\$10,026,728	\$3,507,446	\$7,481,776	\$3,758,488	\$24,774,438

### Statute of Limitations

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

In our investigation, we discovered that the assessor's office either completes audits within the statutory time allowed or obtains a voluntary waiver of the statute of limitations from the taxpayer if the audit cannot be completed in a timely manner.

### Audit Quality

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

We reviewed several recently completed audits. We verified whether the assessor performed change in control (ownership) reviews, verified leased equipment, enrolled construction in progress, accounted for supplies, and properly classified equipment, among other things. In all cases, the audits were accurate and well documented, and were supported by a comprehensive audit checklist defining the areas of investigation.

**Business Property Statement Program**

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

We reviewed the assessor's property statement processing procedures and found no problems. In every case, the policies and procedures applied were in compliance with statutory requirements. Additionally, the assessor has an effective discovery program that relies on reviewing business permits, sales and use tax permits, newspaper articles and advertisements, telephone and city directories, referrals from assessors' offices in other counties, and BOE notifications. The following table displays the assessor's workload of property statements, leased equipment, accounts, vessels, and aircraft for the 2002-03 assessment roll:

TYPE	SECURED		UNSECURED		TOTAL	
	COUNT	VALUE	COUNT	VALUE	COUNT	VALUE
Businesses, Agriculture, and Apartments	1,173	\$117,577,064	874	\$160,922,509	2,047	\$278,499,573
Leased Equipment			132	5,603,177	132	5,603,177
Boats			1,921	11,555,940	1,921	11,555,940
Aircraft			112	4,362,185	112	4,362,185
TOTAL	1,173	\$117,577,064	3,039	\$182,443,811	4,212	\$300,020,875

**Business Equipment Valuation**

**Commercial, Industrial, and Agricultural Equipment**

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

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

**RECOMMENDATION 12:** Use the AH 581 percent good factors as intended.

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

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

Some equipment, when no longer economic to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal. The AH 581 factors assume that average equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to one percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment.

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

However, when using a mass appraisal tool such as the AH 581, it is important to use the tables as presented. Use of arbitrary minimum valuation factors may value some equipment correctly, but will substantially overvalue most older equipment.<sup>4</sup> Accordingly, we recommend the assessor use the percent good factors in the AH 581 as intended in order to avoid overvaluations.

**RECOMMENDATION 13:** Ensure that the appropriate percent good factors are used for new and used agricultural and construction mobile equipment.

It is the assessor's policy to assign percent good factors to agricultural and construction mobile equipment based on whether it was acquired by the assessee as new or used. However, we found instances where the assessor, for expediency, averaged the "new" and "used" percent good factors listed in the AH 581, Table 5. This was done to compute the RCNLD for harvesters, agricultural mobile equipment (non-harvesters), and construction equipment, even when it was clear that the equipment was acquired used.<sup>5</sup>

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<sup>4</sup> Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner (AB 2714, Ch. 299, Stats. 2002, adding section 401.16 to the Revenue and Taxation Code).

<sup>5</sup> Beginning with the 2003 lien date, assessors are prohibited from averaging BOE-supplied factors for equipment acquired new and equipment acquired used, if information reported by a taxpayer indicates whether the property was first acquired new or used (AB 2714, Ch. 299, Stats. 2002, adding section 401.16 to the Revenue and Taxation Code).

We recommend the assessor ensure that the appropriate percent good factors are used for new and used agricultural and construction mobile equipment.

### Computer Valuation

The valuation of computers and computer equipment is somewhat different than the valuation of other machinery and equipment. Computers and related equipment have shorter useful service lives, principally due to rapid changes in technology and user needs. The BOE has recognized these differences and has developed valuation factors that reflect those shorter lives.

The BOE's tables promote uniformity in appraisal practices and assessed values as mandated by section 401.5. There are three tables: personal computers (costing \$25,000 or less), mid-range computers (with a component cost range of \$25,001 to \$500,000), and mainframe computers (with component costs of more than \$500,000).

We reviewed the assessor's computer valuation program and found that the proper factors are used and no modifications are applied. We found no problems with the assessor's computer valuation program.

### Leased Equipment

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

When the auditor-appraiser processes business property statements from leasing companies and other known lessors in the county, he checks to see whether leases have expired for any equipment. Equipment is frequently purchased by the former lessee at the end of the leasing period and should be reported as such. If such equipment is not reported, it will escape assessment.

The assessor is diligent in ensuring that all leased and previously leased equipment is accounted for and that the valuation factors applied are appropriate to the particular type of leased equipment, rather than to the particular commercial enterprise or industry where the equipment is used. For instance, a photocopier leased to a hospital would be treated as office equipment rather than as hospital/medical equipment.

We reviewed the assessor's procedures for assessing leased equipment and sampled a substantial number of lessor accounts for compliance with these procedures and statutory requirements. We found the program to be well managed, with the assessor doing an excellent job of discovering, tracking, and assessing leased equipment.

## **Aircraft**

### General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Bluebook*.

The 2002-03 assessment roll included 112 general aircraft with a total assessed value of \$4,362,185. Sources of aircraft discovery include reports from airport managers, referrals from other counties, and aircraft owners. The assessor relies primarily on the listing of aircraft as provided by the county airport manager. This listing, which shows aircraft present as of January 1, is submitted annually to the assessor. The listing is compared to the prior year's listing and changes are noted.

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

### Historical Aircraft

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

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

The assessor granted ten historical aircraft exemptions for the 2002-03 assessment roll. We found the assessment procedures for historical aircraft conform to the requirements of section 220.5.

## **Vessels**

Assessors in California are required to annually appraise vessels at market value and to assess all vessels with an assessed value above \$400, unless the county has a low-value property exemption. The Yuba County Board of Supervisors has passed a resolution that exempts real and personal property valued at \$1,000 or less.

For the 2002-03 assessment roll, the assessor enrolled approximately 1,900 vessels with a total assessed value of about \$11.6 million. The primary discovery sources are Department of Motor Vehicle (DMV) reports, marina lists, referrals from other counties, and information provided by the vessel owners themselves. Sources of valuation data include reported purchase prices, the *BUC Used Boat Price Guide*, and the *N.A.D.A. Marine Appraisal Guide* (NADA). We found the assessor's vessel assessment program well administered.

### **Manufactured Homes**

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or upon the owner's request for conversion from vehicle license fee status to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in sections 5800 through 5842. Manufactured homes are classified as personal property and enrolled on the secured roll. If the home is situated on an approved permanent foundation system that meets the requirements of Health and Safety Code section 18551, it is real property and it is not assessed as a manufactured home.

In determining the full cash value of a manufactured home, pursuant to section 5803, the assessor must take into consideration sales prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, the *Kelley Blue Book Manufactured Housing Used Value Guide* and the *N.A.D.A. Manufactured Housing Appraisal Guide*.

There were 1,549 manufactured homes on Yuba County's 2002-03 assessment roll, with a total assessed value of \$37,154,169. About 850 of these are located in 50 manufactured home parks.

The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development (HCD) listings, building permits, dealer's reports of sale, tax clearance certificates, and voluntary conversions.

Our review of a number of manufactured home appraisal records in Yuba County confirmed that the current program is well managed and in compliance with existing property tax law.

### **Animals**

The California Constitution provides that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and rule 133.

Yuba County has very few assessable animals. Most animals are reported either on Form BOE-571-F, *Agricultural Property Statement*, or on Form BOE-571-F2, *Registered and Show Horse Statement*. Those animals include two show horses and several rodeo stock horses and bulls.

Methods of discovering taxable animals include intercounty communications, newspaper articles and advertisements, telephone yellow pages, business directories, animals reported on the *Agricultural Property Statements*, and audits of agricultural property.

We reviewed the procedures for discovering and assessing taxable animals and found that the program is well administered.

## APPENDICES

### A. County Property Tax Division Survey Group

#### Yuba County

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

Mickie Stuckey

##### *Survey Program Director:*

Benjamin Tang

Principal Property Appraiser

##### *Survey Team Supervisor:*

Pete Gaffney

Supervising Property Appraiser

##### *Survey Team Leader:*

Dale Peterson

Senior Specialist Property Appraiser

##### *Survey Team:*

James McCarthy

Senior Petroleum and Mining Property Engineer

Simeon Okoroike

Senior Petroleum and Mining Property Engineer

Bob Marr

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Ancil Aydelott

Associate Property Auditor-Appraiser

Dave Barbeiro

Associate Property Auditor-Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

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

### **Government Code**

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

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

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

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

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

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

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives

conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.**

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

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

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

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

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

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

**15644. Recommendations by board.**

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

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

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

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

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

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

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

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

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

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

(b) For purposes of this section:

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

**Title 18, California Code of Regulations**

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

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

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

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

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

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

**Rule 371. Significant assessment problems .**

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

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

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

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

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

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

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

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

November 14, 2003

Mickie Stuckey, Chief  
County Property Tax Division  
State Board of Equalization  
450 N Street, MIC: 62  
Sacramento, CA 95814

**RE: Yuba County Assessment Practices Survey**

Dear Ms. Stuckey:

Pursuant to Section 15645 of the California Government Code, the following is the Yuba County Assessor's response to the recommendations presented in this Assessment Practices Survey conducted by the State Board of Equalization survey team. Please incorporate my response in your final Assessment Practices Survey Report.

In reviewing my response, you will note that we agree with many of the recommendations and have already implemented or are planning to implement the changes necessary to achieve compliance. I am pleased to note that most of the issues raised are minor technical matters that do not involve or affect the major duties and functions of the Department. We will continue to strive to observe every aspect of the law as well as sound appraisal practices in the production of the annual assessment roll.

I wish to thank you and the entire survey team for the professional and courteous manner in which the survey was conducted. As always, I appreciate and welcome the periodic review of the operations of this office.

Most importantly, I want to thank my staff for their hard work, professionalism, and dedication to serving the citizens of Yuba County. We will continue our best effort to produce a fair and complete assessment roll every year with the resources we are provided.

Sincerely,

/s/ David A. Brown  
DAVID A. BROWN  
Yuba County Assessor

DAB:jc  
Enclosures

**YUBA COUNTY ASSESSOR'S RESPONSE  
TO  
STATE BOARD OF EQUALIZATION ASSESSMENT PRACTICE SURVEY  
LIEN DATE - JANUARY 1, 2002**

**Recommendation 1:**

**Perform mandatory audits of exempt organizations.**

Response:

We concur with this recommendation. Yuba County has 3 qualifying non-profit exempt organizations that possess tangible business personal property and fixtures with a full cash value of more than \$400,000. However, if the assessor were to find escaped property upon audit of these organizations, it would be exempt from taxation. Audits of this type are generally not cost effective. We will perform these types of audits as time and resources become available.

**Recommendation 2:**

**Approve the welfare exemption claim of multi-specialty medical clinics as provided in Section 214.9.**

Response:

We disagree with this recommendation. The California Assessors' Association (CAA) position concerning multi-specialty medical clinics, under Section 214.9, is that the welfare exemption for multi-specialty medical clinics should be granted on a single clinic site basis only. After analyzing each clinic location in Yuba County it was determined that each clinic did not have the 40 physicians practicing at least 10 specialties, two-thirds of which practiced medicine full time at each location. The owner of the clinics also did not comply with requests for documentation that would verify that private benefit was not inuring to physicians.

**Recommendation 3:**

**Exempt only qualifying portions of property owned by veterans' organizations.**

Response:

We concur with this recommendation. The assessor has reviewed and determined that all real property owned and used by veteran organizations in Yuba County who are chartered by the Congress of the United States and organized and operated for charitable purposes have met all the qualifications for exemption pursuant to Section 215.1 of the Revenue and Taxation Code.

**Recommendation 4:**

**Include the notation required by Section 533 on the assessment roll.**

Response:

Section 533 of the Revenue and Taxation Code and Board Rule 252(a) require the following caption to appear on the assessment roll when processing escaped assessments: **“Escaped assessment for year 19\_\_ pursuant to Sections \_ of the Revenue and Taxation Code.”** This caption is a holdover from the days when assessors produced hard copy rolls. The assessor used a rubber stamp to place the caption on the hard copy roll and then filled in the blanks. Today's assessment rolls are produced in electronic format and more information is available to the public than ever before. Any assessment that has been corrected is identified on the public inquiry screen with a roll correction number. The taxpayer can then access all information concerning the correction by going to the menu and selecting “Assessor Roll Correction Inquiry.” The taxpayer can then view the assessor's roll correction worksheet, which contains the sections of law that pertain to the correction, roll values before and after the correction and the assessor's comments explaining why the correction was made. Although not in the exact format required by Section 533, all of the information required by Section 533 and more is being provided to the public.

**Recommendation 5:**

**Utilize the Change in Ownership Statement required by Section 480 and apply the penalty required by Section 482 for failure to file.**

Response:

Section 480 of the Revenue and Taxation Code requires each transferee to file a change in ownership statement in the county where the real property or manufactured home is located. The assessor obtains transfer information by using the Preliminary Change in Ownership Report (PCOR) BOE-502-A, which does not require penalties to be added for failure to file. If a PCOR is not completed at the time of recording, a second request is made. The assessor is able to obtain approximately 98% of all transfer information using the PCOR. This has avoided having to add an onerous penalty on taxpayers for failing to file an ownership statement that is very difficult to understand. We are also avoiding the administrative cost of having assessment appeal boards abate the penalty once the taxpayer has filed a change of ownership statement. The goal here is to obtain information, not penalize taxpayers.

**Recommendation 6:**

**Determine the base year value of Section 11 properties at the lower of current market value or restricted value.**

Response:

Letter to assessors 2000/37 explained the procedure to be used when properties were acquired by government entities after March 1, 1975. No place in the recommendation is there a reference to Section 11 properties acquired by government agencies prior to March 1, 1975. The letter to assessors 2000/37, last paragraph (2), explains how to establish a new March 1, 1975 base year value when the government agency acquires the property after March 1, 1975. The inference of the letter is that properties acquired prior to March 1, 1975 would continue to be assessed each year using the lowest of the Phillips Factor Value, Prop-13 base year value, or the current market value, which is the procedure used by the Yuba County Assessor.

**Recommendation 7:**

**Properly classify and supplementally assess all structural leasehold improvements.**

Response:

The Business Property Statement requires each unsecured business owner to report structures that they have installed on their landlord's property. The improvement costs reported on these unsecured accounts are normally small, and the assessor adds them to the roll and applies a Prop-13 factor as part of processing the statements. A separate (850) unsecured improvement account is set up for large improvement costs reported by the taxpayer, and supplemental assessments are processed. It is not practical to create a separate unsecured improvement account to supplement small improvements. The net prorated supplemental would be too small to create a supplemental tax bill and the low value ordinance would exempt most of these improvement accounts on the subsequent lien date.

**Recommendation 8:**

**Treat Association Mining Claims as a single assessment unit**

Response:

We concur with this recommendation.

**Recommendation 9:**

**Properly determine the reasonably anticipated term of possession for valuing unpatented mining claims.**

Response:

We concur with this recommendation.

**Recommendation 10:**

**Reappraise unpatented mining claims only upon a change in ownership.**

Response:

We agree with the Board that mining claims are subject to reappraisal upon a change of ownership. What we disagree on is what constitutes a change of ownership for a mining claim. For the 2003/2004 assessment roll, the assessor enrolled 73 mining claims with a total taxable value of \$330,662. It is the assessor's position that mining claims are taxable possessory interests. The claimant is required by law to make an annual filing with the Bureau of Land Management (BLM). Failure to pay the annual maintenance fees, file a waiver of maintenance fees, or perform proper assessment work on a claim/site, will render the claim/site subject to cancellation. The assessor believes this annual filing constitutes a renewal of the mining claim and a change of ownership subject to reappraisal. Section 61 "Change in Ownership" includes, in part, "(a) The creation, renewal, sublease, assignment, or other transfer of the right to produce or extract oil, gas, or other minerals regardless of the period during which the right may be exercised," emphasis

added.

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**Recommendation 11:**

**Assess mineral property as an appraisal unit as required by Rule 469.**

**Response:**

We agree with this recommendation because when measuring declines in value for mineral properties when all of the property is under the same ownership, the assessor adheres to Rule 469. The only mineral property in Yuba County whose market value (Prop 8) is less than its factored base year value is a gold mining operation. During the survey and the draft conference, the appraisal of this property, which is in complete compliance with Rule 469, was shared with board staff.

The accounts produced by the board to support their position were accounts 006-100-074, 006-100-075, and 800-000-155-000. The assessor pointed out that secured accounts 006-100-074 and 006-100-075 were for the land only and were owned by Teichert Land Co. The structures, fixtures, and personalty located on the property were assessed on the unsecured roll on 800-000-155 to Teichert A. & Son, Inc. because those assets were under different ownership from the land. Therefore, a total unit appraisal under Rule 469 would not be appropriate for the property reviewed by the board. It is the assessor's opinion that this recommendation should not have been included in the survey because the board's position was never substantiated.

**Recommendation 12:**

**Use the AH581 percent good factors as intended.**

**Response:**

The assessor believes the California Assessors' Association (CAA) recommendations regarding the use of percent good factors are appropriate based on the following:

- (1) The minimum percent good factor (the percent good calculated using 125 percent of the estimated economic life) recommended by the CAA is consistent with logic expressed by the Board in AH 581 for developing the maximum recommended Equipment Index Factor. It is also supported by the appraisal experience of senior auditor appraisers in California Assessor's Offices, assessment appeal cases and business property audit data.
- (2) Assessors' Handbook section 582 (p.22) states: "*As survivors of an original group reach older age, there may be less reliability in percent good factors applicable to these items. When property items reach this latter stage of their life and the tables indicate very low or zero percent good factors for property that is still functioning, special consideration should be given in assigning percent good factors.*" The vast majority of business property is still in use when it is assessed.
- (3) The minimum percent good factors recommended by the CAA are also generally supported by industry equipment salvage values identified in the *Marshall Valuation Service* publication.

The percent good factors are adjusted to allow for additional depreciation when there is sufficient evidence to warrant such changes.

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**Recommendation 13:**

Ensure that the appropriate percent good factors are used for new and used agricultural and construction mobile equipment.

**Response:**

During the processing of the Business Property Statements, the Auditor-Appraisers try to identify farm equipment and construction equipment that was clearly purchased new or used. Equipment purchased the same year as the year manufactured does not necessarily mean that it was purchased new. When it can be determined from the information provided by the taxpayer that the equipment was purchased new or used, the Auditor-Appraiser assigns the appropriate table. If it is not possible to determine new or used, the Auditor will assign an average table in conformance with Revenue and Taxation Code Section 401.16(a)(2). We will continue to review our records to identify construction and farm equipment that may be incorrectly factored.

