SHASTA COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2002

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February 21, 2002

No. 2002/011

TO COUNTY ASSESSORS:

SHASTA COUNTY
ASSESSMENT PRACTICES SURVEY

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

Fieldwork for this survey was performed by the BOE's County Property Tax Division from January through February 2001. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Andrews 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 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 enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are 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 those 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 (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Shasta County Assessor-Recorder's Office.[1]

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.

The assessor is required to file with the board of supervisors a response that indicates 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 State Board of Equalization, the Senate and Assembly, the Shasta County Grand Jury, and the Shasta County 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 Cris Andrews, Shasta County Assessor-Recorder, 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 order to promote uniform, effective, and efficient assessment practices throughout California.

[1] This report covers only the assessment functions of his office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60[2] requires the BOE to determine whether the county assessment roll meets a minimum assessment level. 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 Shasta 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 Shasta County with 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 in rule 371.[3]

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.

[2] All statutory references are to the Revenue and Taxation Code, unless otherwise indicated.
[3] All rule references are to Title 18, Public Revenues, California Code of Regulations.

EXECUTIVE SUMMARY

This survey report presents recommendations for improvement, but it also emphasizes areas of the assessor's program that are innovative or efficient. Areas of improvement since our last survey, such as full implementation of four recommendations, are also highlighted.

- The assessor 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's administrative program elements—Web site, supplemental assessments, roll changes, low-value property exemption, decline-in-value reviews, assessment appeals, forms, and disaster relief — are very well organized and efficient.
- The assessor's programs for change in ownership, new construction, tenant improvements, manufactured homes, Timberland Production Zone properties, and taxable government-owned properties are all very thorough and are consistent with all requirements of property tax law.
- The assessor should investigate the privately run campground in the Lassen National Forest for possible assessment as a taxable possessory interest.
- The assessor should use a nine-year, rather than a ten-year, discounting period when assessing California Land Conservation Act parcels that have entered contract nonrenewal.
- The assessor should contact the California Public Utilities Commission to discover private water companies, and he should obtain essential documents from all mutual water companies.
- The assessor completed audits of all mandatory accounts and many nonmandatory accounts, as well. However, we recommend the assessor use an audit checklist for every audit performed.
- The assessor applies valuation factors consistently to all business property accounts. We recommend, however, that he discontinue the application of arbitrary minimum valuation factors.
- We found no significant assessment problems, as defined in rule 371. Accordingly, pursuant to section 75.60, Shasta County retains its eligibility for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Record all permit data on building records. 17

RECOMMENDATION 2: Obtain and analyze all agreements between the United States Forest Service and private entities for the operation of public campgrounds in Shasta County. 20

RECOMMENDATION 3: Assign the correct nonrenewal period to terminating CLCA contracts. 23

RECOMMENDATION 4: Annually review the CPUC report to discover assessable regulated water company properties. 24

RECOMMENDATION 5: Obtain documentation on all mutual water companies. 24

RECOMMENDATION 6: Assess mineral property as one appraisal unit as required by rule 469. 25

RECOMMENDATION 7: Audit mineral property accounts. 26

RECOMMENDATION 8: Include an audit checklist to ensure a thorough and complete audit. 27

RECOMMENDATION 9: Use the Assessors' Handbook Section 581 as intended. 30

RECOMMENDATION 10: Annually appraise vessels at market value. 34

OVERVIEW OF SHASTA COUNTY

Shasta County has experienced significant growth since our last survey report in 1995. Salient facts about the county include the following.[4] Shasta County:

- was created on February 18, 1850 as a "general law" county;
- is one of California's original 27 counties;
- contains an estimated 8,850 square miles;
- is home to over 165,000 residents;
- has a growth rate of approximately 1 percent per year;
- contains the Cities of Redding, Anderson, and Shasta Lake; and
- has a median home price of approximately $108,850.

The housing stock in Shasta County, as of January 1, 1999, consisted of 71,092 units, of which 5,000 were manufactured homes. The vacancy rate of rental units stood at 7.4 percent. The labor force in 1999 approximated 72,900 individuals, with an unemployment rate of 7.0 percent.

It has been a challenge for the assessor and his staff to keep up with the increased workload brought about by the growth in the population and economy of Shasta County. The assessor has managed to complete his assessment roll timely, despite his having fewer employees now than he had 20 years ago. (See the discussion of workload and staffing on page 6 of this report).

[4] Information from county Web site, www.co.shasta.ca.us, and from County *Profiles* page of the California Department of Finance Web site, http://www.dof.ca.gov.

RESULTS OF THE 1995 SURVEY

In our 1995 Assessment Practices Survey of Shasta County, we made four recommendations addressing problems we found in the assessor's policies and procedures. These recommendations were in the areas of new construction, taxable possessory interests, California Land Conservation Act (CLCA) properties, and business equipment valuation factors. The assessor fully implemented all changes we recommended. For more detail on these changes, please refer to the specific topic addressed in this report.

ADMINISTRATION

Overview of the Assessor's Office

Workload

The assessor produced an assessment roll for 2000-2001 consisting of 102,714 assessments (90,926 on the secured roll and 11,788 on the unsecured roll). This roll had a gross taxable value of $8,778,364,485, which was an increase of 4.3 percent over the 1999 roll total of $8,416,393,645.[5]

The 2000-2001 roll produced a real property workload consisting of approximately 7,000 transfers, 2,200 incidents of new construction, and 9,200 other assessments (e.g. California Land Conservation Act properties, Timberland Production Zone properties, taxable government-owned properties, parcel splits, decline-in-value reviews, and calamity relief claims). The assessor also completed a business property workload that included approximately 6,500 business property statement reviews, 90 audits (31 nonmandatory and 59 mandatory accounts), 5,700 vessel assessments, and 250 aircraft assessments.

Staffing

The assessor has 41.2 budgeted full-time positions, plus seasonal clerical help. While the number of staff has decreased, the number of assessments on the local roll has increased significantly.

Roll Year	No. of Assessments	No. of Employees
1978-79	71,975	53
1991-92	96,708	42.2
2000-01	102,714	41.2

Both the real property and business property sections are managed by the deputy assessor-recorder, valuation. The real property section consists of ten journey-level appraisers divided into two crews (residential and rural), each headed by a senior supervising appraiser. Work assignments are geographic (i.e., by map book). In addition, there are three senior specialist appraisers who handle specific property types, such as CLCA, possessory interests, mineral, and commercial/industrial. The business property section consists of a senior supervising auditor-appraiser and four journey-level auditor-appraisers. Clerical support is provided to both of the real property and business property sections by a supervising assessment clerk; 12 assessment clerks; and seasonal clerks. There are also three cadastral mapping technicians, with seasonal help furnished to this unit as well.

[5] The Assessor-Recorder's *2000-01 Annual Report*, official budgets for years 1998, 1999, and 2000 and a draft copy of the assessor's response to BOE's most recent Budget and Workload Questionnaire.

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 23 positions that require the employee to hold an appraiser's certificate. Using BOE records we confirmed that each employee currently holds an appraiser's certificate.

Section 24002.5 of the Government Code requires that any person who is elected or appointed to the office of assessor after January 1, 1997 must be certified as an appraiser by the BOE. The Shasta County Assessor was a certified appraiser prior to his election to the office of assessor.

The assessor's office does not employ contract appraisers. Therefore, the certification of contract appraisers is not an issue in this survey.

Budget

The assessor runs his programs on a budget augmented in recent years by loan funds from the State-County Property Tax Administration Loan Program (PTAP). The total budget for just the assessment function (including funds from PTAP) for each of the last three years follows:

Fiscal Year	Total Budget
1998-1999	$2,544,272
1999-2000	$2,453,986
2000-2001	$2,564,851

Computer System

For the 1999-2000 roll, the assessor converted his assessment database from a Harris mainframe program, which was not Y2K compliant, to the Megabyte System, an assessment software program that integrates the needs of the county assessor, auditor-controller, and tax collector into a comprehensive system. The assessor used the new Megabyte System to produce the 2000-2001 secured and unsecured rolls. The supervising assessment clerk functions as the primary in-house coordinator of the Megabyte System.

The assessor maintains a well-designed, taxpayer-friendly Web site with 33 sections on diverse topics such as assessment appeals, exemptions, tax postponement and assistance, disaster relief, and a schedule of fees for assessor's and recorder's services.[6] The Web site also offers various forms (e.g., requests for property review, exclusions from change in ownership, change in ownership statements, disaster relief applications, and business property statements) that may be downloaded and filed with the assessor's office.

[6] http://www.co.shasta.ca.us/departments/AssessorRecorder/AsrHome.htm.

The assessor's list of fees does not include the $10 charge for inspection of the two-year transfer listing required to be maintained by section 408.1. Adding this charge to the list of fees would increase public awareness that the listing is available. This information should be included on both the assessor's Web site and on the fee schedule posted at the public counter in the assessor's office. We also suggest the assessor add inspection of the two-year transfer listing to the schedule of services he offers to property owners.

Standards and Quality Control

The assessor has a written policies and procedures manual with separate sections for real property, manufactured homes, and business property. We found it comprehensive and accurate. There is also a manual dealing with the operation of the Megabyte System. The updating of these manuals is an ongoing effort, with additional topics added as needed.

The deputy assessor-recorder, valuation, and the senior supervising appraisers randomly review work completed by the real property appraisers and auditor-appraisers. The quantity of work is tracked at the point of data entry into the Megabyte System. The *Secured Appraisal Worksheet* (SAW) prepared for each work unit includes numeric codes for each appraiser, allowing total production per employee to be accumulated and monitored. The SAW also contains a two-digit production code to identify the nature of the work completed (e. g., new construction, declining value review, disaster relief), so that management can track the annual workload.

Only the supervising assessment clerk and one other clerical employee are authorized to input value changes into the Megabyte System. In addition, all roll corrections are summarized on a computer listing at frequent intervals and personally reviewed by the supervising assessment clerk. These controls ensure the integrity of the assessment roll.

The appraisal staff uses a computerized drawing program (*Apex)* which produces building diagrams and also calculates floor areas. The use of this drawing program has promoted consistently high quality, accurate, and uniform appraisal documentation. Most buildings are drawn from plans, but field checks of newly constructed buildings are made to ensure accuracy.

Currently, the appraisers inspect every transferred property. When sales indicate declining neighborhood values, the staff discusses this at monthly meetings and initiates area reviews as necessary.

State-County Property Tax Administration Loan Program

Sections 95.31 established the State-County Property Tax Administration Loan Program (PTAP). This program provides state-funded loans to eligible counties for the improvement of property tax administration.

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

In November 1995, the Shasta County Board of Supervisors resolved to participate in the PTAP for fiscal years 1995-96, and 1996-97, and 1997-98. The Board of Supervisors executed a contract during March 1996, using a fiscal year of April 1 – March 31.[7] For each of these three years, the county received a loan of $342,399. The county then extended the contract through 2000-01. For 1999-2000, the loan amount was again $342,399, but was reduced to $299,809 for the fifth year of the contract. The county's required base funding and staffing levels for the assessor's office are $1,878,308 and 40.2 positions, respectively. The Shasta County Auditor-Controller certified to the State Department of Finance that the assessor met the contractual requirements for loan repayment for all years under contract.

In the first three years of the contract, the assessor used PTAP funds for six different projects:

- performing nonmandatory audits
- reviewing direct billed business accounts
- enrolling escape assessments for new construction discovered through field canvasses
- conducting decline-in-value reviews in order to minimize the number of assessment appeals filed and hence reduce the attendant risk of large losses in roll value
- processing all late-filed business property statements, including penalties, and preparing estimated assessments for nonfiling property owners
- continuing to enroll assessments on both secured and unsecured rolls for low-valued property such as small boats and land parcels.

In the prior two years of the contract, the assessor also used PTAP funds to complete calamity reviews and restorations of value for 301 properties damaged in the Canyon and Jones fires of 1999.

Funds have also been used to purchase new computer hardware and software for all office functions, including cadastral mapping, in order to increase the long-term productivity of the assessor's office and other county units, i.e., tax collector, auditor, clerk of the board, and the information system department.

[7] Resolution No. 95-204, passed 11/21/95.

Supplemental Assessments

When a change in ownership or new construction occurs, section 75.10 requires that the assessor appraise the property at the full cash value on the date that the property changes ownership or when new construction is completed. The new base year value is enrolled immediately, which generates either additional taxes due or a refund of taxes paid. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated assessment (the supplemental assessment) that covers the portion of the fiscal year remaining after the date of change in ownership or completed new construction.

We reviewed the assessor's procedures for compliance with statutory provisions relating to supplemental assessments. The assessor's policy is to issue supplemental assessments whenever there is a change in ownership or completion of new construction. The assessor applies this policy to taxable possessory interests as well as to private fee property (see the topic "Taxable Possessory Interests" on page 19 of this report). Supplemental assessments are processed and input into the computer system within one to two days after the appraisal staff completes a value change. The values are then posted to the supplemental roll.

The assessor enrolls all supplemental assessments since the county board of supervisors has not adopted an ordinance pursuant to section 75.55(b) that would authorize the cancellation of low-value supplemental assessments. However, these small supplemental assessments do not actually result in tax billings, since, by the authority of section 75.41(d), the auditor cancels any tax bills of $20 or less.

We found the assessor's supplemental assessment processing program to be current and accurate. Supplemental assessments are properly calculated and promptly enrolled.

Assessment Roll Corrections

Pursuant to sections 4831 and 51.5, roll corrections or changes can be made when an error or escaped assessment is discovered after the roll is closed. The roll correction may be made any time after the roll is delivered to the auditor but must be made within four years, with a few exceptions, of the making of the assessment that is being corrected. Specific sections apply to escapes and overassessments.

The assessor processed approximately 1,300 roll changes during the 1999-2000 fiscal year. We found the assessor's roll change procedures to be in compliance with the Revenue and Taxation Code and Assessors' Handbook Section 201, *Assessment Roll Procedures.*

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 amount collected in taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must consider the point at which the costs of processing assessments and collecting taxes exceed the funds collected. Section 155.20 provides that the applicable base year or full value to be exempted may not exceed $5,000, except for certain taxable possessory interests.

In 1995, the board of supervisors adopted a resolution that exempted from ad valorem taxation all real property with a base year value of $2,000 or less, and all personal property with a full value of $2,000 or less.[8]

Assessment Appeals

The assessment appeal function is required by article XIII, section 16, of the California Constitution. Sections 1601 through 1641.1 are the statutory provisions that regulate county assessment appeals boards in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization; accordingly, the BOE has adopted rules 301 through 326 to regulate assessment appeals.

The assessment appeals board (AAB) in Shasta County consists of three members with one alternate, all appointed by the board of supervisors for overlapping three-year terms. Support staff is comprised of an attorney and the clerk of the board. All appeals are scheduled for hearings when the AAB meets annually in April.

Section 1604 requires that a hearing must be held and a final determination on an application made within two years of the timely filing of the application for a reduced assessment. If the hearing is not held or if the final determination is not made within that period, the applicant's opinion of value, must be accepted as the basis for the assessment until the AAB makes a final determination on the application. With the exception of several requests for extensions that were granted by the AAB pursuant to subdivision (b) of rule 309, all appeals in Shasta County have either been withdrawn, resolved by stipulation, or heard and resolved by the AAB within one year.

Because the assessor attempts to resolve assessment appeals with taxpayers, many appeals are withdrawn without a hearing. In addition, a few stipulations or extensions are negotiated each filing season. The following is a table of appeals activity for the past three roll years:

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[8] Resolution No. 94-24, adopted by the Shasta County Board of Supervisors on January 31, 1995.

Roll Year	Appeals Filed	Method of Resolution							
		AAB Cases Heard			Denied for Lack of Appearance	Continued	Stipulation	Withdrawn	Invalid
		Reduced	Sustained	Increased					
99/00	104	4	1	0	0	21	2	76	0
98/99	112	7	8	6	12	12	3	64	0
97/98	137	2	3	0	0	0	10	121	1

We reviewed randomly selected assessment appeals application files, and found that supporting evidence was well documented and organized in a professional manner. The sampling included single family residences, commercial parcels, light industrial operations, and vacant land.

The assessment appeals process in the assessor's office appears to be in compliance with all applicable statutes, rules and provisions.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance that provides property tax relief to assessees whose property has been damaged or destroyed without the assessee's fault. The ordinance may limit relief to Governor-declared disasters or it may apply to both Governor-declared and other disasters, as the board of supervisors determines. Relief is available when a property suffers a calamity resulting in damage of $5,000 or more.[9] The assessor reduces the assessment on the current roll based on the ratio of market value of land and improvements both before and after the loss. To obtain relief under this ordinance, the assessee must generally make a written application to the assessor requesting reassessment.

The Shasta County Board of Supervisors adopted an ordinance, last updated October 25,1979, that incorporates section 170 by reference and makes the section applicable to the county. It does not specify a termination date. The assessor administers tax relief for properties that have sustained damage in accordance with section 170 and the procedures included in the assessor's policies and procedures manual.

Discovery

The assessor discovers calamities through newspaper articles, building permits issued for repairs, property taxpayer notification, and extensive field investigation. We examined records relating to 23 fires that had each caused $5,000 or more in structural damage to determine whether the assessor's efforts were sufficient to discover all disasters. We found the assessor had knowledge of all these events and had promptly sent applications to the property owners to allow them sufficient time to file claims within the statutory period.

[9] Effective January 1, 2002, the minimum amount of damage must be at least $10,000.

Our review indicated the assessor's practices are sufficient to discover most calamities, but his recent development of a notification system should provide an effective backup for the current program.

The county processes 30 to 40 disaster claims in an average year. The assessor makes a thorough effort to provide calamity relief claims to all known owners of properties which have experienced disaster. The senior specialist appraiser responsible for the program has contacted representatives of fire departments to set up a program for notifying the assessor's office (by e-mail or voice mail) of damage to real property (fire or other calamity) of $5,000 or more. We encourage a continued effort to obtain this information.

Assessment Forms

Various statutes and regulations authorize the BOE to prescribe the contents of forms used by county assessors for property statements, exemption claims, change in ownership statements, and administrative procedures.[10] In addition, the BOE publishes an annually updated list of prescribed and recommended forms (Assessors' Handbook Section 222, *Standard Form List).* While the assessor may rearrange a form's layout to suit his or her local needs, he or she may not add to or delete specific language on the form.

Assessors may also employ locally developed forms to assist them in their assessment duties. However, because such forms are not subject to BOE approval, they are not designated as BOE prescribed and, therefore, no penalty may be imposed upon a property owner for failure to file such forms.

The BOE annually sends checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year and return the checklists by October 15th. Assessors are also required to submit to the BOE, by February 10, the final prints of all forms they will use.

We found in our review that the assessor consistently returns the checklists and uses proper BOE-prescribed forms, usually in prototype version. The assessor uses a vessel form different from the BOE-prescribed BOE-576-D, *Vessel Property Statement.* This form carries no penalty language, however, and serves the assessor's purposes well.

[10] Government Code section 15606(d); Revenue and Taxation Code sections 480(b), 480.2(b), 480.4(b); California Code of Regulations sections 101 and 171.

ASSESSMENT OF REAL PROPERTY

Change in Ownership

Section 60 defines a change in ownership as the 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 interest.

One of the assessor's main functions is to identify and value properties that have changed ownership. Article XIII A of the California Constitution requires that real property be assessed at the lower of its current market value or factored base year value. The assessed value on the 1975 lien date or the value that results from a change in ownership or new construction is referred to as its base year value. The base year value is adjusted annually to reflect inflation as measured by the California Consumer Price index; however, the inflation factor cannot exceed 2 percent annually. This indexed value is known as the factored base year value.

Discovery

Because the assessor is also the recorder, the recorder's office is diligent about obtaining a *Preliminary Change in Ownership Report* (PCOR) at the time of recordation, and it enforces the $20 fee for declining to file a PCOR. Consequently, only about 40 recorded transfer documents per year do not include a PCOR. An assessment clerk from the assessor's office visits the recorder's office daily to make copies of all recorded documents.

Processing Recorded Documents

The assessor processed about 7,000 changes in ownership for the 1999-2000 assessment roll. When a transfer document is recorded without a PCOR, the assessor sends a *Change in Ownership Statement* (COS) to the owner. A COS is also sent when there is insufficient or incomplete information on the PCOR. The assessor mails approximately 40 COS forms each year, and only a small fraction are not returned. In cases where the statement is not returned, the assessor applies a penalty as required by section 482.

A transfer analyst reviews each recorded document. Those indicating a change in ownership are keyed into the system and forwarded to the appraisal section. The property record and PCOR or COS are sent to the appraiser assigned to the area in which the property is located. The appraiser determines the value of the property and forwards the records to the clerical staff for enrollment.

We randomly selected and reviewed several recorded transfers of real property, tracing the process from recording to enrollment of new values. All transfers were properly identified as changes in ownership, confirmed through change in ownership statements, and revalued. These new values were properly reflected on both the regular and supplemental assessment rolls.

Section 408.1 Transfer List

Section 408.1 requires a county assessor to maintain a list of real property transfers that have occurred in the county within the prior two years, if the county had a population of 50,000 or more in the 1970 federal decennial census. The list must contain specific information and be open to inspection by any person who pays a fee of $10.

The assessor's office has an outdated two-year list of transfers at the public counter. However, upon the request of a person who has paid the $10 fee allowed under section 408(d), a current listing of the most recent two years of sales will be produced within 24 hours. We asked the assessor to provide us with an updated list of transfers that conforms to the requirements of section 408.1. The list was provided within the stated 24-hour period.

The assessor indicated that this is more cost efficient than regularly producing an updated counter copy of the transfer listing since it is seldom requested. In recent years there have been no requests to inspect or obtain a copy of the transfer listing, so the lack of a readily available copy has resulted in no inconvenience to the public. In addition, the new Megabyte System can generate a new transfer listing every quarter and the assessor intends to use this feature of the system. In light of the conversion to the Megabyte System with its ability to generate a quarterly transfer listing, we have no recommendations in this area.

Legal Entity Ownership Program

Section 64(c) provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity, as of the date of the change in control. Discovery of real property subject to a change in control can be difficult because ordinarily there is no recorded notice of changes in control of a legal entity. While such notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records.

The BOE's Legal Entity Ownership Program (LEOP) enables discovery of changes in control through responses to questions appearing on corporate and partnership income tax returns filed with the State Franchise Tax Board (FTB). Positive responses to these questions are forwarded to the BOE by FTB. A member of the LEOP staff contacts the legal entity involved to obtain additional information about the change in control, then sends a monthly listing of all confirmed transfers on a statewide basis to county assessors' offices. In addition, the assessor will also receive copies of each corresponding *Statement of Change in Control and Ownership of Legal Entities,* which identifies the specific parcel(s) in his or her county that must be reassessed as of the date of the change in control. The list includes the names of acquiring entities, the date that the stocks or partnership interests were transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

Accuracy of the data reported to the LEOP unit is not guaranteed. Assessors are advised to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly appraised.

We reviewed nine properties on the LEOP list and found that the assessor had adequately researched each change in control and enrolled a new base year value for every parcel involved. We found that the senior specialist appraisers assigned to the LEOP program are properly processing LEOP notices and identifying changes in control.

New Construction

Section 71 and rule 463 require that qualifying newly constructed real property be valued as of the date of completion or, if under construction, as of the lien date. In our prior survey, we recommended that the assessor make a more concerted effort to assess all qualifying new construction, and make greater use of historical cost data in the valuation of new construction. The assessor implemented our recommendation.

Discovery

The process of discovering, inventorying, and valuing new construction is an important and significant portion of the assessor's workload. The assessor has a computerized system that tracks new construction projects. When new construction is completed and valued, a base year is established for the newly constructed portion of the property.

There are five permit-issuing agencies in Shasta County: the County of Shasta (including Environmental Health) and the cities of Redding, Anderson, and Shasta Lake. Section 72 requires that all permit-issuing agencies transmit a copy of all permits to the assessor as soon as possible. We found that the assessor receives permits timely from all agencies.

Permit Processing

An assessment clerk processes all permits received from the issuing agencies. The processing consists of first culling permits for nonassessable new construction such as re-roofing, water heater replacement, or termite repair. Then the assessment clerk verifies the data on the remaining building permits and inputs the data into the computer system. A computer-generated *Secured Appraisal Worksheet* is attached to the permit and placed in the appraisal file to be accessed later by the appraiser assigned to the area.

RECOMMENDATION 1: Record all permit data on building records.

The culled permits are sent to the appropriate appraiser for final review. The exact number of culled permits could not be determined, because many permits are discarded and no data about them is retained.

Separate permits are often issued for different phases of a single construction project. Individually, these permits may appear inconsequential. However, when considered together, they may indicate assessable new construction.

Recording all permits would aid in the timely discovery of assessable new construction indicated by an accumulation of permits to a particular property. In addition, this information is very useful in evaluating the current status of construction in progress, condition of the structure, level of deferred maintenance in older structures, and the proper classification of items commonly misreported by taxpayers on business property statements.

We recommend the assessor record all building permit activity on appraisal records.

Valuation

Proper valuation of new construction means estimating the full value of the qualifying new construction as of the date of completion. The assessor uses BOE cost manuals to value rural and residential new construction.[11] For commercial properties, the assessor uses both local market costs and published cost data.

The assessor's permit program is well coordinated and the procedures are well documented. The assessor's staff complies with all statutory requirements. The assessor and staff are to be complimented for their thoroughness in monitoring and processing building permits.

Declines in Value

Section 51(b) requires that real property subject to the assessment provisions of article XIII A of the California Constitution be annually assessed at the lower of base year value (adjusted annually for inflation) or the current market value, as defined in section 110. If the taxable value is less than the factored base year value, section 51(e) requires an annual review until the current market value again exceeds the factored base year value. Any value enrolled as a decline in value requires annual review until the property's current market value exceeds the factored base year level; then the factored base year value resumes as the taxable value. Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines.

Decline-in-value enrollments constitute a significant part of the appraisers' workload in the assessor's office. There were 5,706 such assessments on the 1999-2000 roll and 5,591 on the 2000-2001 roll.

[11] Published in Assessors' Handbook Section 531, *Residential Building Costs*.

The decline-in-value review process is initiated by taxpayer request (in writing, in person, or by telephone) or by the assessor's appraisers. The assessor provides a form entitled *Request for Review*, which he makes available both at his public counter in hard copy and on his Web site. All taxpayer requests are reviewed by the appraisal staff, then a written determination is sent to the taxpayer. In the event of approval, written notification regarding valuation is mailed to the property owner initially and, after each annual review thereafter, for the duration of the subject property's decline-in-value review status pursuant to section 619(a)(2).

Appraisers continually monitor trends in their assigned geographic areas to identify those locations where values are declining. In addition to recognizing declines in value, the assessor conducts an annual review with the most recent supporting documentation. Sales comparables in spreadsheet form (or capitalization rate analysis, in the case of commercial properties) are referenced or included for the individual files. All of the properties that have been analyzed and reduced in value are flagged so that they can be reviewed annually.

From our review, it is apparent that the assessor and his staff have adequately monitored market values and timely reviewed properties having declining values.

Taxable Possessory Interests

A taxable possessory interest (PI) is a private property interest in publicly owned real property. For property tax purposes, the term possessory interest includes either the possession or the right to possession of real property when a tax-exempt government agency holds fee title to that property.

The assessor's staff entered approximately 1,600 PI assessments, with a total assessed value of $64.5 million, on the 1999-2000 roll. Most of these interests are for employee housing, summer cabins on national forest land, and vessel moorage rights on Shasta Lake.

The assessor's primary sources for discovering possessory interests are reports from government agencies, field inspections, and recorded leases and agreements. On each lien date, the assessor sends a request to the 27 government agencies in Shasta County. Agencies are asked to report all users of real property. For new 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.

In our previous survey report, we made one recommendation and one suggestion dealing with possessory interests. We recommended the assessor revalue and supplementally assess all possessory interests that change ownership. Based on interviews and a review of records, it is evident that possessory interests transferred are now revalued and assessed on both the regular and the supplemental tax rolls.

We also suggested the assessor revise the method of gathering possessory interest data. We urged the assessor to establish a tracking file to alert staff to pending renewals or expirations of lease agreements, and to obtain these documents whenever possible.

The assessor now contacts government agencies annually for a summary of possessory interest activity, and recorded leases and agreements are reviewed periodically. Data from such review are combined with information gleaned from field inspections. The assessor plans to add an automated flagging capability to the Megabyte System. This will replace the older, manual flagging of hard copy files that enabled the tracking of termination dates on the written instruments creating taxable possessory interests.

On Lake Shasta, a popular recreational area, moorage of certain classes of vessels for more than 30 days requires a permit, issued by the USFS. The right to moor such a vessel on Lake Shasta is a possessory interest. Since there are a limited number of permits, to obtain a moorage permit it is necessary to acquire a vessel that has a pre-existing permit. Due to the high demand for permits, vessels with permits almost always sell for more than vessels without pre-existing permits. Using vessel sales and boat guide book values, the assessor determines a value for each permitted moorage right. The assessor then analyzes all such values to determine the value to be used, since the possessory interest rights are identical in nature.

Although the assessor has cured the past deficiencies we noted in his possessory interest program, our current review noted a possible problem involving the discovery of taxable possessory interests.

RECOMMENDATION 2: Obtain and analyze all agreements between the United States Forest Service and private entities for the operation of public campgrounds in Shasta County.

We found one campground in the Lassen National Forest, managed by a private operator, that has not been reported to the assessor. There are two national forests that include land located within Shasta County, the Shasta-Trinity and the Lassen National Forests. In each forest district, the federal government has turned over the operation of various concessions and campgrounds to private operators. While the assessor was aware of one of these operating agreements and has assessed it as a taxable PI, his staff was unaware of the other agreement because the Forest Service has never reported it, despite annual written inquiries by the assessor.

Since the operator of the unreported campground is a nonprofit organization, the Forest Service staff may believe that the agreement did not create a taxable possessory interest, and thus did not report it to the assessor. It is, of course, possible that the operating agreement does not possess the necessary characteristics of independence, durability, exclusivity, and private benefit and therefore would not warrant assessment as a taxable possessory interest. However, this determination cannot be made until the actual written agreement is obtained and reviewed.

We recommend the assessor increase efforts to obtain this information from the Forest Service. While written correspondence has not been successful, perhaps a meeting with the Forest Service managers would yield positive results.

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(a), article XIII of the California Constitution. Section 11(a) provides that land, and the improvements thereon, located outside an agency's boundaries, are taxable if the property was subject to taxation 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.

Section 11 land must be assessed at the lowest of (1) the current fair market value, (2) the Section 11 value, or (3) the factored base year value. In addition, the assessor must establish a base year value for any improvement on Section 11 land that was taxable when acquired. Subsequently, the assessor enrolls the lower of the improvement's factored base year value or the current market value. Improvements constructed subsequent to acquisition are exempt unless a structure replaces a taxable one. In that case, the taxable value of the replacement cannot exceed the highest taxable value ever used for the replaced structure.

The assessor has enrolled 51 Section 11 properties owned by four local municipalities. One senior specialist appraiser is responsible for all such properties. Our review of the 51 parcels indicated that they are all assessed according to BOE guidance.

Timberland Production Zones

The Z'berg-Warren-Keene-Collier Forest Taxation Reform Act of 1976 (Chapter 176, Statutes of 1976) imposed a timber yield tax on every owner of felled or downed timber in this state. Land zoned Timberland Production Zone (TPZ) became subject to assessment in accordance with special TPZ site classifications that exclude the value of the standing timber.

Section 423.9 requires the assessor to assess land zoned as TPZ, excluding those lands under CLCA contracts, based on special TPZ site classifications contained in section 434.5. The Shasta County Board of Supervisors passed an ordinance adopting the TPZ in 1982. The land zoned TPZ is assessed in accordance with values determined each year by the BOE. These values exclude the value of the standing timber. All TPZ properties located in Shasta County are classified as Pine-Mixed Conifer sites.

Timber production is a significant industry in Shasta County. For 1999, 155.66 million board feet were produced, with a market value of $49,412,637. Shasta County has 1,874 parcels zoned TPZ. The TPZ contains approximately 610,467 acres. We reviewed a random sample of a variety of records and found no problems with the assessor's TPZ assessment program.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their land. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communication facilities). They are assessed at the lowest of this restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 prescribe the method for assessing land subject to agricultural preserve contracts.

In our 1995 survey, we recommended that agricultural rents for CLCA properties be updated on a periodic basis. In our current review, we found that the assessor now annually mails a rent and production questionnaire to all CLCA landowners. The response rate for the mailing in 2000 exceeded 60 percent. Completed questionnaires are analyzed to develop economic rents, which are then utilized in the current year's restricted valuation. The assessor supplements this questionnaire through occasional interviews with CLCA landowners and reviews of the annual county agricultural report, which lists reported production for all agricultural ventures.

The assessor applies cash rents, share rents, or owner-operator analysis, as appropriate. Shasta County has a large variety of crops (wheat, onion seed, timothy, mint, wild rice, alfalfa, etc.). The imputed land rent is often based on an alfalfa crop, since it is considered the highest and best use for most land in the county that is capable of being irrigated.

As a result of studies performed by the assessor, the risk rate varies from 0.5 percent to 5 percent, depending on the crop and the area. Grazing land and land with alfalfa receive a rate of 0.5 percent. Strawberry land receives a risk rate of 3 percent and wild rice between 2 and 3 percent. The variation is based on production risk. Finally, a higher risk rate of 5 percent is used for trout farm sharecrop lease, not only because of production and productivity risk, but also because the property is leased.

The assessor's CLCA program is the responsibility of a senior specialist appraiser. This program, which has been computer-assisted since 1984, is well administered. There are 555 parcels restricted by CLCA contract. These parcels represent approximately 167,695 acres, including two parcels consisting of 4,175 acres in nonrenewal status.

Procedures

The computer program used by the assessor in valuing CLCA parcels is effective. The assessor complies with all requirements for discovering, valuing, and enrolling all CLCA properties as outlined in sections 422 through 430.5.

Nonrenewal

Section 426 provides that the assessor must recalculate the taxable value of the land once a notice of nonrenewal of the contract has been served by the landowner. Through a discounting process, this recalculation gradually reduces the difference between the restricted value and the factored base year value for each of the nine years of the nonrenewal period.

RECOMMENDATION 3: Assign the correct nonrenewal period to terminating CLCA contracts.

We noted the assessor used an incorrect period in calculating nonrenewal values. We reviewed the values of two parcels currently in nonrenewal status. In the initial year of nonrenewal valuation, the assessor followed the requirements of the relevant statutes except that he selected a ten-year discount period. The discount period is properly the number of years remaining until the termination of the enforceable restriction; therefore, the first computation after a notice of nonrenewal will be for a term of nine years (see Government Code section 51244.5).

We recommend that the assessor make the appropriate corrections to the taxable values of the parcels encumbered by these nonrenewing CLCA contracts.

Water Companies

Water company properties assessed on local tax rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies (either regulated by the California Public Utilities Commission (CPUC) or unregulated) or mutual water associations. Each type presents different appraisal problems. There are no water companies on taxable government-owned land in Shasta County.

Private Water Companies

Private water companies are privately owned utilities in business to earn a profit from the sale of water. The current market value of the properties of a closely regulated water company is likely to approximate historical cost less depreciation (HCLD), the "rate base" on which the company is entitled to earn a return under CPUC regulations. Depending on the degree of regulation and the market's anticipation of future regulation and earning potential, the income approach may also approximate current market value. The assessor should calculate the HCLD and income approach value indicators for regulated companies. The market value of the property of a water company can be greatly influenced by regulated rates and may be less than the company's real property factored base year value. A comparison of these two values should be made annually on the lien date in order to determine the taxable value of the properties of the water company.

The assessor enrolled the assessments of the properties of only one CPUC-regulated water company. In valuing this company, the assessor prepares two value indicators, historical cost less depreciation (HCLD) and an income approach, using the recommended appraisal methodology. The assessor correlates these two indicators into a final estimate of value.

RECOMMENDATION 4: Annually review the CPUC report to discover assessable regulated water company properties.

Although the assessor is diligent about properly valuing the properties of the one private water company, we discovered another private water company on the CPUC report whose properties do not appear to be assessed. It appears that this water company maybe related to an enrolled mutual water company. However, the properties are not currently assessed and there is no documentation in the assessor's records to resolve the relationship issue.

We recommend the assessor obtain the necessary information from the CPUC for this company.

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. The association, when incorporated, can enter into contracts, incur obligations, own property, and issue stock. If not incorporated, it can only do these things in the names of all its members. Corporations organized for mutual purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than stockholders and members.

RECOMMENDATION 5: Obtain documentation on all mutual water companies.

Shasta County has 15 mutual water companies, and only two of the mutual water companies' property records contained articles of incorporation or lists of parcels served. It is important to obtain such documentation, because a mutual water company's articles of incorporation contain much of the information that must be considered by an appraiser in valuing the company's property. Without this data, it is very difficult to determine the proper taxable value of a mutual water company.

We recommend that the assessor obtain the following information from each mutual water company in Shasta County: articles of incorporation with amendments, bylaws, a listing of all owners and parcels served, and a list of lands, improvements, and distribution systems owned. With this information, the assessor can ensure the proper assessment of each mutual water company.

Tenant Improvements

Leasehold (or "tenant") improvements are improvements located on land owned by someone other than the owner of the improvements. Leasehold improvements may vary from simple tenant improvements, such as storefronts, interior finish, partitions, etc., to entire buildings. Depending on the circumstances, leasehold improvements may be enrolled on either the secured roll or the unsecured roll. Although in some cases these improvements cannot be enrolled on the secured roll, they must be assessed in the same manner as other real property.

Commercial, industrial, and other types of income-producing properties require constant monitoring by assessors because, as tenants change over a period of time, they may alter the original improvements in a number of ways. Examples include additions, removals, or possibly both, resulting in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

A portion of the BOE-prescribed form BOE-571-L, *Business Property Statement,* is reserved for reporting costs expended by tenants for improvements to rented or leased land or structures where they operate their business, trade, or profession. This section of the statement, referred to as Schedule B, can be a valuable means of discovering new construction.

In the assessor's office, both the real property and business property sections are responsible for valuing leasehold improvements. To help coordinate this responsibility, the staff uses a three-part transfer memo for every leasehold parcel, to ensure tracking and a timely review by both sections.

In our last survey, we were concerned about the coordination between real property and business property sections and suggested the assessor emphasize coordination between the sections. In our current review of property records, we found that tenant improvements are thoroughly investigated, properly classified, and well documented. Furthermore, tracking has been improved between both sections through the use of the three-part transfer memo for each new file.

Mineral Properties

There are several types of mineral-producing properties located in Shasta County. Most of these are sand and gravel quarry operations with some extraction of volcanic cinder for decorative rock. Other minerals include diatomaceous earth, limestone, shale, and some gold. A senior specialist appraiser is responsible for the assessment of these properties. There are some unpatented mining claims, but the values for most of them fall below the county's low value ordinance threshold.

RECOMMENDATION 6: Assess mineral property as one 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. One senior specialist appraiser in the real property section values mineral rights by the royalty method, while the

auditor-appraiser in the business property section values the fixtures and improvements using full value factors. Under the current office practice, there is no determination of total property value by the unit appraisal approach.

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 properties. The rule requires that declines in value be measured using 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.[12] 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).

RECOMMENDATION 7: Audit mineral property accounts.

Our review of the annual property tax statements filed for several mineral properties showed what appears to be a disturbing trend. Taxpayers have consistently reported higher expenses than earnings for their properties for a great number of years. One property reviewed has failed to show a profit for 12 years. The revenue reported per unit of mineral sold is significantly lower than the reported average price for this commodity as reported by the United States Geological Service (USGS).[13] The implication is that the properties are losing money on a regular basis, but this is difficult to reconcile with the fact that the properties are still operating. It appears that the amounts reported may not be accurate.

The assessor has the authority to audit a business property account even if reported costs do not meet the section 469 threshold. Subdivision (d) of section 441 permits examination, by the assessor, of an assessee's income and expense data and other information pertinent to the assessment function.

The consequence of continuing to accept filings with apparently inaccurate data is that these mineral properties may be underassessed.

The assessor has already developed a successful program for auditing other nonmandatory accounts. We urge him to audit these mineral property accounts as well in order to resolve discrepancies in reported income, expenses, and production.

Power Generating Facilities

We reviewed the appraisals of several power generating facilities and found them to comply with generally accepted appraisal practices. The assessor primarily uses the income approach to value these properties. However, some appraisals contained cost information as well in the reconciliation of value. The value analyses by the assessor's office were well documented and easy to follow.

[12] However, leach pads, tailings facilities, and settling ponds are separate appraisal units for purposes of measuring declines in value.

[13] USGS Mineral Commodity Summaries, January 2001

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

Mandatory Audits

Pursuant to section 469 and rule 192, audits are mandatory for taxpayers reporting tangible business personal property and trade fixtures valued at $300,000 or more for four years (increased to $400,000 for the 2001 lien date). A comprehensive audit program is essential to the successful administration of any tax program that depends on information supplied by taxpayers. A good audit program discourages deliberate underreporting and helps educate those property owners who unintentionally misreport.

For the 1999-2000 assessment year, there were 236 mandatory audit accounts in Shasta County. This is a level annualized workload of 59 audits in a four-year cycle. With the current staffing level, all of the mandatory audits can be and, indeed, are completed timely. We reviewed several recently completed audits for various techniques and procedures. We looked for a review for change in control (ownership), a verification of leased equipment, construction in progress, supplies, proper classification of equipment, and other topics of investigation a typical audit would include. The worksheets, cross-referencing, and numerical entries were accurate and well displayed in all cases. However, in many cases we could not determine if the auditor had reviewed every audit checkpoint.

RECOMMENDATION 8: Include an audit checklist to ensure a thorough and complete audit.

The auditor-appraisers do not currently use an audit checklist. Using a checklist would not only emphasize the procedures to be followed in the course of the audit, but would affirmatively notify a reviewer of the audit what procedures had been followed and which areas investigated. A sample audit checklist can be found in Appendix D of Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

Therefore, we recommend that the assessor require the use of an audit checklist for every audit performed by the auditors.

Statute of Limitations

In our previous surveys of the assessor's office, we noted that the assessor obtained signed waivers of the statute of limitations for all mandatory audits that would not be completed within the statutory period. In the current survey, we note once again that the assessor sought and obtained signed waivers for those accounts for which audits are due and the statute of limitations will expire before an audit can be completed.

Offsetting Adjustments

In a multiple-year audit, there are often underassessments (escapes) for one year and overassessments (refunds) for another year. Section 533 requires that offsets be considered for the amount of the tax liability and refund only—not the full value. We found that the business property section correctly submits audit results to the auditor-controller's office. The auditor-controller's office then determines penalties, interest, and roll corrections for segregated yearly assessments in compliance with section 533.

We commend this assessor for submitting all audit results to the auditor-controller.

Nonmandatory Audits

A well-run nonmandatory audit program, like a mandatory audit program, is a good means of encouraging accurate reporting by property owners. It also generates revenue through discovery of property escaping assessment.

The assessor has an excellent nonmandatory audit program. Using loan monies from the PTAP (please refer to page 7 of this report), the assessor was able to complete 39 nonmandatory audits in calendar year 1999 and 31 nonmandatory audits in calendar year 2000. The assessor realizes that a representative sampling of all sizes and types of accounts rounds out the audit program. Additionally, an audit program for accounts below the mandatory level can produce tax change greater than the cost of the program. With the recently increased threshold of $400,000 for mandatory audits, the nonmandatory audit program will play an even more important role, because the population of nonmandatory accounts will increase and with it the need for increased audit coverage.

Business Property Statement Processing

The assessor's office receives reports of taxable business property from taxpayers on form BOE-571-L, *Business Property Statement* (BPS). Statements are mailed annually to taxpayers who have assessable business property costing more than $100,000, in accordance with section 441. The business property section has effective procedures in place to annually process nearly 6,500 business property statements, not including boats and aircraft. Boats and aircraft are reported separately on specially designed statements.

As part of our review, we interviewed staff to evaluate the BPS processing procedures. We also looked at the policies and procedures manual. Additionally, we randomly selected some taxpayer files to determine if the policies and procedures were correctly applied to the processing of business property statements. Finally, we reconciled the actual property statement processing practices to pertinent authoritative citations, including application of the Revenue and Taxation Code, Letters To Assessors, property tax rules, annotations, and relevant sections of the Assessors' Handbook. In all cases, the assessor's policies and procedures and their application were in compliance with the controlling authoritative citations.

In our sampling of taxpayer files, we reviewed ten business property statements pertaining to agricultural property, lessors' business property, secured and unsecured personal property, and apartment personal property. In all cases, a certified property appraiser had reviewed the statements for completeness. Incomplete statements were tagged for additional contact with the taxpayer.

For taxpayers who have failed to file a business property statement, section 501 gives the assessor the authority to make an estimated assessment based on information in his possession. Additionally, section 463 requires a penalty of 10 percent of the assessed value of the unreported taxable property to be added to the assessment and section 506 mandates that interest be added to the tax on the current roll. The assessor currently applies the penalty and interest to statements that are not timely filed, including unreported assessable business property assessed pursuant to section 501.

We found no problems with the assessor's processing of business property statements.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing eligible low-valued business accounts without the annual filing of a business property statement. The assessor establishes an initial value for such accounts and continues it for several years. Periodically, the assessor will either require the filing of a property statement or conduct a field review of the business location. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes and restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to taxpayers and to the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements that must be processed annually by the assessor's staff. This increases time available for the auditor-appraisers to perform other required duties.

The business property section utilizes such a program. The accounts that are direct-billed are generally stable and between $10,000 and $30,000 in full value of reportable business property. Direct billing accounts are also subject to routine update within the statute of limitations. Every three to four years the assessor's staff conducts a field check of an account to determine if there have been any substantial unreported changes, including increased or decreased amounts of equipment, the sale of the business, or a change in location. It then decides whether the account is still of a type that is suitable for direct billing. If it is not, staff resumes yearly business property statement mailings to the property owner.

The direct billing program is excellent. However, there is no provision for the policies of the program in the assessor's procedures manual. Management should consider setting forth the policies and outlining the procedures of the program in the *Business Property Standard Operating Procedures Manual.* It would serve as an excellent training and cross-training tool, as well as a resource for those who are involved in administering the direct billing program.

Discovery

The assessor has an efficient business property discovery program. Field canvassing is the principal means of discovering new businesses. The auditor-appraisers conduct an annual canvass prior to the lien date. The staff discovers assessable business property by reviewing business permits, sales and use tax permits, newspaper articles and advertisements, telephone and city directories, other county referrals, and BOE notifications. We commend the assessor's business property section for its effective discovery process.

Valuation Factors

Annually, the BOE publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH581), to guide assessors in the valuation of business property and trade fixtures. Price index factors measure the change in historical cost levels of equipment and fixtures over their service lives. The percent good factors are intended to reflect the average loss in value that equipment and fixtures will suffer over their service life. The factors are based on averages and represent a reasonable estimate of depreciation for the majority of business property.

The *valuation factor* is the product of the price index factor and the percent good factor. The proper choice and application of valuation factors to audited historical cost produce an estimate of taxable value. The assessor produces tables that use such combined factors to aid in the valuation of business property. The equipment valuation factors that the assessor uses are programmed into his computer system. We reviewed all of the valuation table factors and found them to be correct except in the specific areas discussed below.

While the auditor-appraisers in the business property section generally use valuation factors based on the suggested price and percent good factors from AH 581 to appraise machinery and equipment, there is an area of disagreement that is reflected in the following recommendation.

Minimum Percent Good

RECOMMENDATION 9: Use the Assessors' Handbook Section 581 as intended.

The assessor currently uses a minimum percent good factor for commercial, industrial, agricultural, and construction equipment. He has no documentation to support these minimum percent good factors. These factors are based on the position adopted without a study by the California Assessors' Association.

Index factors recognize items such as price changes and the effects of technological progress, and are intended to reflect the price of a replacement. The percent good factors are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives. The percent good factors contained in AH 581 are based on the premise that these types of properties lose value as they age. The use of an arbitrary minimum percent good will usually result in overassessments of older equipment.

When valuing property, appraisers may analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the normal percent good factor to reflect the deviation. However, this analysis must be documented. Arbitrarily establishing minimum values is not an acceptable appraisal practice.

We recommend that the assessor use AH 581 as intended.

Service Station Equipment

Prior to the passage of article XIII A of the California Constitution, service station improvements were generally assessed as a single unit, with no distinction made between structure and fixture improvements. But since the addition of this article, it is now more important to segregate fixture improvements from structures, because fixtures are a separate appraisal unit for purposes of recognizing declines in value. In addition, the replacement of a structural item may be considered normal maintenance and hence, not assessable as new construction, whereas the replacement of one fixture with another qualifies as newly constructed property.

One auditor-appraiser on the assessor's staff specializes in the analysis, segregation, and appraisal of service station property, both real and personal. She analyzes each property statement specifically for proper classification of property.

For new service stations, she segregates fixture improvements from structures and land; for established service stations in which existing fixtures are removed and replaced with new fixtures, appropriate adjustments are made for fixtures that had been incorporated into the real property assessment. She treats qualifying replacements as new construction. She sends a packet to the service station owner when a reallocation of fixtures and real property occurs, explaining the change and the reason for the reallocation.

The program for assessing service stations is well thought out and appropriately administered.

Leased Equipment

One of the responsibilities of the business property section is the discovery and assessment of taxable leased equipment. Taxpayers report all leased equipment (i.e., taxable property in their possession but belonging to others) on the annual business property statement. On the statement, the assessor requests the name and address of the owner, the month and year of property acquisition, the acquisition cost, the location, and other relevant information.

In the assessor's office, one auditor-appraiser designated as the lease expert is in charge of tracking and valuing leased equipment. When a lessee reports leased equipment on the business property statement, the auditor-appraiser checks to see whether the named lessor's file has been documented with a reference to the lessee. If there is a note in the file, the auditor-appraiser ensures that the lessor and lessee account files are properly cross-referenced and that the business property is properly assessed.

The business property staff sends statements to all known lessors and lessees and reconciles all information submitted. The auditor-appraiser then determines when an assessee meets the requirements for mandatory audit status. As a general rule, lessors are assessed for leased equipment, including propane tanks. Lessees may be assessed when a lessor/lessee agreement calls for assessment to the lessee(s), or when the lessor is exempt and the lessee is not. The assessor's staff also pays particular attention to whether the actual lease document is a lease or something other than a lease, such as a conditional sales contract. If a contract of sale exists, the lessee is assessed as the fee owner of the business equipment.

When the auditor-appraiser processes business property statements from leasing companies and other known lessors in the county, he checks to see whether any items have gone off-lease (expired lease) and possibly escaped assessment for the current year. Off-lease equipment is frequently purchased by the former lessee and should be reported as such.

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 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 procedures for assessing leased equipment and sampled a substantial lessor account for compliance with office procedures, communications with the real property division, and compliance with statutes. We found the program to be well managed, with the assessor doing an excellent job in the discovery, tracking, and assessing of leased equipment.

Aircraft

General Aircraft

Section 5363 provides that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft as prescribed by the BOE. Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data.* The BOE no longer publishes this handbook and now recommends that assessors determine market value by referring to a commercially published aircraft price guide. On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft. In cases where aircraft are not listed in this price guide, the BOE approved use of the *Vref Aircraft Value Reference* and further directed that the listed average retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date.

The senior supervising auditor-appraiser administers the aircraft valuation program. He annually mails a statement to the owner of each aircraft in the county. The form lists the aircraft and requests the owner to report added or deleted extra equipment, engine air hours since last major

overhaul, date of last overhaul, overall condition, and, if the aircraft has been sold since the last lien date, information about the sale.

Upon receipt of the completed aircraft statement, the auditor-appraiser prepares a value estimate from a published value guide and incorporates adjustments to it for sales tax, overall condition of the aircraft, additional or special equipment, and engine hours since last major overhaul. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft. Field checks are made on a case by case basis in response to the owner's claim of deferred maintenance, lack of airworthiness, or other special circumstances.

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.

Commercial Aircraft

The assessor values certificated aircraft from each of the three commercial airlines having assessable time in the county. The auditor-appraiser in charge of aircraft assessment bases his appraisals of these aircraft on the audited costs reported in the business property statements filed by the airlines. He then applies the percentage of time the aircraft was situated in Shasta County based on a one week sample (including factors for both ground time, air time, aircraft arrivals and departures) to the airline's total audited estimate of fleet value, in order to derive a pro rata estimate of the portion of value allocable to Shasta County. We reviewed the certificated aircraft appraisals and found the procedures to be correctly administered and the audited estimates of values to be properly calculated.

Historical Aircraft

Section 220.5(d) defines an historical aircraft as an aircraft of historical significance which is (1) an original, restored, or replica of a heavier than air powered aircraft at least 35 years of age, or (2) any other aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

To claim the exemption, the owner of an historical aircraft must submit a claim for exemption on or before the deadline of 5:00 p.m. on February 15. A filing fee of thirty-five dollars ($35) is also charged and collected by the assessor upon the initial application for the exemption.

Historical aircraft are exempt from property taxation when (1) the owner does not hold the aircraft primarily for purposes of sale, (2) the aircraft is not used for commercial purposes or general transportation, and (3) the aircraft is available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed. To meet the "display" test, BOE staff has recommended that the assessor require the aircraft owner to (1) announce to the public the times and dates of display; (2) display

the aircraft at least four hours on each display date; and (3) display the aircraft in an area accessible to and able to accommodate the public.

We found the assessment procedures for historical aircraft conform to the guidelines provided in section 220.5

Vessels

The assessor uses a form entitled *Vessel Owner's Report* (VOR) to solicit information from registered boat owners who own assessable vessels in the county. This form is not BOE-prescribed and, consequently, the assessor cannot, and indeed does not, assess penalties for failure to timely file this property statement. The BOE-prescribed form, BOE-576-D, *Vessel Property Statement*, is a comprehensive form similar to Shasta County's VOR and was developed by BOE staff in collaboration with the California Assessors' Association (CAA). We encourage the assessor to use form BOE-576-D. Because it carries a penalty for failure to file or to file timely, use of this form would encourage cooperation on the part of vessel owners.

The vessel assessment program is conducted by one auditor-appraiser, under the direction of the senior supervising auditor-appraiser. Her principal duties are to ensure discovery to the extent possible and to ensure that the valuation process for vessel appraisals yields market value.

The primary sources of discovery are Department of Motor Vehicles reports, marina listings, and referrals from other counties. Vessels are valued using data from the *ABOS Marine Bluebook* (ABOS). If current or reliable information is not available in ABOS, the auditor-appraiser uses the *National Automobile Dealers Association Marine Appraisal Guide*, information from local boat dealers, and information gathered from the Internet.

RECOMMENDATION 10: Annually appraise vessels at market value.

Once a value has been initially established for a vessel, the auditor-appraiser makes future assessments by annually decreasing the prior year's vessel value by a depreciation percentage. The depreciation percentage is an average of depreciation percentages for a sampling of vessels. Once the auditor-appraiser computes the depreciation percentage for all sampled boats, she computes an average dollar amount of depreciation for the sampling. She then applies the resulting percentage to all vessels ranging from small fishing vessels and runabouts to 50-foot luxury house-boats, except jet skis. In addition, the assessments of houseboats are reviewed every 2-3 years.

While applying a fixed depreciation to all vessels simplifies the assessment process, it assumes that the values of all types of vessels decline equally, which has not been demonstrated by the assessor's own study. Although the assessor currently conducts a study that identifies depreciation percentages for different classes of vessels, he does not use the information, as detailed in his annual depreciation study. He could easily determine the annual trends in market values for different classes of vessels from data compiled in his annual study, supporting a percentage change in value from year to year by distinct vessel category.

The assessor conducts a similar study for personal watercraft (jet skis), which is identified by the assessor's staff as a distinct vessel grouping. The depreciation amount applied to personal watercraft accurately reflects value declines for the entire category and, thus, the assessor's practice yields accurate assessments for such watercraft.

We recommend that the assessor annually appraise vessels at market value.

Apartment Property

Landlord-owned furniture, fixtures, and equipment used in multi-residential rentals is reportable on form BOE-571-R, *Apartment House Property Statement*. Such personal property includes but is not limited to furniture, freestanding refrigerators, freestanding electric stoves, exercise equipment, landscape equipment, office equipment, common area furniture, and supplies. If the assessor has placed a small apartment building on direct billing (see a discussion of this program on page 29 of this report), he will not ask the property owner to annually file this statement but, rather, at less frequent intervals, such as every third or fourth year.

Personal property that qualifies as household furnishings and personal effects are exempt under section 224 and rule 134. No claim needs to be filed by an eligible owner to enjoy the benefits of this exemption. However, assuming that the personal property found in apartments is used in a business, trade, or profession, it will not be eligible for this exemption. The responsibility lies with the assessor to make the proper determination as to whether the property qualifies for exemption as personal effects and household furnishings.

In our review of homeowners' associations and apartments, we found no cases where personal property qualifying for exemption had been assessed. Further, we found in our review of appraisal files that all taxable apartment property was being correctly identified and assessed.

Animals

Shasta County has very few assessable animals. Only a few rodeo brood stock horses are taxable. There are also some llamas raised for their hair and some bee colonies in portable apiaries, but these qualify for the business inventory exemption as animals used to produce food or fiber for human use or consumption.

Methods of discovering taxable animals include exchange of information between the assessor's staff and other county assessors, newspaper articles and advertisements, telephone directories, business directories, agricultural property statements, and audits of agricultural property.

In Shasta County, the auditor-appraiser who specializes in agricultural property also discovers, identifies, and assesses taxable animals. This specialist is careful to recognize the exempt status of animals that qualify as pets or business inventory. The program is well administered.

Manufactured Homes

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

Manufactured homes are considered to be personal property and must be classified as such. However, for assessment purposes manufactured homes are treated differently than other personal property. Manufactured homes are entered on the secured roll with an established base year value that is subject to compounding by an inflation factor each year. The taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments when there is a change in ownership or new construction. The taxable value of a manufactured home is the lesser of its factored base year value or its full cash value on the lien date.

Although there are 99 manufactured home parks in the county, manufactured homes comprise only a small part of the workload performed by the assessor's office. There are approximately 5,000 manufactured homes on the 2000-2001 roll.

The assessor has assigned his appraisers to geographical areas comprising several map books each. The appraisers are responsible for most property types within these areas, including manufactured homes. 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. The assessor's discovery procedures are effective.

We reviewed 17 manufactured home assessments, including pending transfers, new installations of manufactured homes, and new foundation systems placed under existing manufactured homes. We found no problems in any of these assessments.

APPENDICES

A. County Property Tax Division Survey Group

Shasta County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Assessment Practices Survey Section Manager:

Michael Lebeau	Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong	Supervising Property Appraiser

Survey Team Leader:

Peter Gaffney	Supervising Property Appraiser

Survey Team

James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Ken King	Associate Property Appraiser
Bob Marr	Associate Property Appraiser
Nick Winters	Associate Property Appraiser
Ancil Aydelott	Associate Property Auditor Appraiser
Kim Trotto	Junior Property 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, if any, and BOE comments on the assessor's response, if any, constitute the final survey report.

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

SHASTA COUNTY

OFFICE OF THE ASSESSOR-RECORDER

CRIS ANDREWS
ASSESSOR-RECORDER

RECEIVED
NOV 16 2001
County Property Tax Division
State Board of Equalization

November 11, 2001

Mr. Charles Knudsen, Chief
County Property Tax Division
California State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0062

Dear Mr. Knudsen:

Pursuant to section 15645 of the Government Code, the following is the Shasta County Assessor's response to the recommendations in the recent Assessment Practices Survey conducted by the State Board of Equalization. Please include my response in the final published report.

This office appreciates the professional and courteous manner in which the survey team conducted themselves. Their recommendations help us analyze the effectiveness of our efforts to serve the citizens and property owners of Shasta County. In addition the survey team recognized the high quality of the assessment programs in Shasta County, which are directly attributable to the dedication, and professionalism of my staff.

In my response to the survey report, you will see that the recommendations are already being addressed.

I want to express my gratitude to the employees of the Assessor's Office for their hard work, expertise, dedication and commitment to public service.

Sincerely,

Cris Andrews
Shasta County Assessor-Recorder

Attachment

ASSESSOR'S OFFICE: 1500 Court St., Room 115, Redding, CA 96001-1694; (530)225-3600
RECORDER'S OFFICE: 1500 Court St., Room 102, Redding, CA 96001-1679; (530)225-5671
INTRA-COUNTY TOLL FREE: 1(800)479-8009 FAX NO.: (530)225-5673

SHASTA COUNTY ASSESSOR-RECORDER'S
RESPONSE TO ASSESSMENT PRACTICES SURVEY

FORWARD

As the Assessor-Recorder of Shasta County I welcome the results of the Shasta County Assessment Practices Survey recently completed by the California State Board of Equalization. I view this as an opportunity to examine our effectiveness and to make adjustments in our assessment procedures where needed.

I am proud of the complimentary tone of the survey. While I have always known that this office maintains a high level of standards for quality assessments and public service, it is particularly pleasing to have this excellence recognized by the California State Board of Equalization's Survey Team.

I especially want to thank the employees of my office for their outstanding service. The survey validates their dedicated and professional efforts to serve the citizens of Shasta County.

I want to recognize the teamwork and cooperation that exists in Shasta County between the Assessor-Recorder and the Tax Collector, Auditor, Clerk of the Board, and the Information Systems Department. The cooperative efforts of these departments to provide a fully integrated property tax system have served the public well.

I also want to acknowledge the Shasta County Board of Supervisors and the County Administrative Office for their support and understanding of the importance of the property tax system despite the erosion of the County's share of property tax. Our success is, in no small part, a result of their efforts to adequately fund the Assessor's Office.

Thanks to all of you!

Cris Andrews
Shasta County Assessor-Recorder

SHASTA COUNTY ASSESSOR'S
RESPONSE TO ASSESSMENT PRACTICES SURVEY

BOE RECOMMENDATION 1: **"Record all permit data on building records."**

ASSESSOR'S RESPONSE:

We concur that there may be some benefit to recording all building permit activity on appraisal records. Under the Megabyte property tax system we will track all the permits in the computer.

While we concur with the recommendation it should be noted that no specific problems involving property escaping assessment were found by the survey crew as a result of the current system. In fact the survey states that *"the Assessor's permit program is well coordinated and the procedures are well documented. The Assessor's staff complies with all statutory requirements. The Assessor and staff are to be complimented for their thoroughness in monitoring and processing building permits."*

BOE RECOMMENDATION 2: **"Obtain and analyze all agreements between the United States Forest Service and private entities for the operation of public campgrounds in Shasta County."**

ASSESSOR'S RESPONSE:

We concur.

However, as reported in the survey, *"While the Assessor was aware of one of these operating agreements and has assessed it as a taxable PI, his staff was unaware of the other agreement because the Forest Service has never reported it, despite annual written inquires by the Assessor."*

It should be noted that the campground operator in question is the California State University at Chico Research Foundation, which is a non-profit organization in the process of applying for the appropriate property tax exemption. Apparently the Forest Service staff believed the operator was exempt and did not report it the Assessor's Office.

BOE RECOMMENDATION 3: **"Assign the correct non-renewal period to terminating CLCA contracts."**

ASSESSOR'S RESPONSE:

We concur and have corrected the taxable values of the parcels involved. As the survey correctly points out, we followed the requirements of the relevant statues for assessing CLCA (Williamson Act) parcels that were in non-renewal status except that we selected a ten-year discount period rather than nine years.

We are pleased that the survey noted that the CLCA program is "*well administered and that the computer system program used by the Assessor in valuing CLCA parcels is effective*".

BOE RECOMMENDATION 4: **"Annually review the CPUC report to discover assessable regulated water company properties."**

ASSESSOR'S RESPONSE:

We concur and are reviewing the one private water company found by the survey crew that may not have been assessed. However, as the survey points out, this water company may be related to a mutual water company that has been assessed.

Regardless of whether this one small water company escaped assessment or whether the value was in the subdivision lot values, we agree that it is a good practice to annually review the CPUC report.

We are pleased that the survey recognized that Assessor's staff is diligent about valuing the water companies and that they use the recommended appraisal methodology.

BOE RECOMMENDATION 5: **"Obtain documentation on all mutual water companies."**

ASSESSOR'S RESPONSE:

We concur and are in the process of obtaining this information.

BOE RECOMMENDATION 6: **"Assess mineral property as one appraisal unit as required by rule 469."**

ASSESSOR'S RESPONSE:

We concur with the recommendation. However, we believe that we accomplish this by having the real property appraiser coordinate and communicate with the business property appraiser so that rule 469 is followed when assessing mineral properties.

BOE RECOMMENDATION 7: **"Audit mineral property accounts."**

ASSESSOR'S RESPONSE:

We audit all business accounts that require an audit pursuant to section 469. As the survey points out we have an excellent and well-run non-mandatory audit program and we will include mineral properties when it appears warranted.

The mineral production property statements are but one tool used in valuing the mineral producing properties. Even though the survey crew reviewed several properties where the expenses exceeded the income as reported on the property statements, there was no indication or evidence that the Assessor's staff somehow was deceived into processing this information into a negative value or an incorrect value.

Complex properties such as mineral properties are assigned to Senior Specialist Real Property Appraisers who are experienced in valuing these properties and employ many appraisal methods and obtain information from many sources, including the property statement.

BOE RECOMMENDATION 8: **"Include an audit checklist to ensure a thorough and complete audit."**

ASSESSOR'S RESPONSE:

We concur that an audit checklist is a good tool and will implement this recommendation.

We were pleased to note that the survey complimented the quality of our audits.

BOE RECOMMENDATION 9: **"Use the Assessors' Handbook Section 581 as intended."**

ASSESSOR'S RESPONSE:

The Assessor does not have a minimum percent good policy. The valuation tables, which are a combination of indexing and percent good, stop at a certain point depending on the type of property and the expected life. However, with appropriate documentation older machinery and equipment are often valued below what the standard tables indicate on a case-by-case basis. There is no arbitrary minimum percent good policy in Shasta County.

The California Assessors' Association's (CAA) recommended methodology for appraising business personal property and fixtures is not arbitrary and has been brought about by the efforts of the most experienced Auditor-Appraisers in the business of appraising this kind of property.

The CAA has gone to great efforts to promote appropriate appraisal practices consistent with law and to promote uniformity throughout the counties in California. The CAA would welcome a collaborative effort with the Board of Equalization to recommend standards for economic lives for various types of business property.

BOE RECOMMENDATION 10: **"Annually appraise vessels at market value."**

ASSESSOR'S RESPONSE:

We concur and believe that this can be accomplished through the Megabyte property tax system.

It should be noted that the appraisals on the higher valued houseboats are reviewed every two to three years and are not over or under valued because of the average depreciation percentage.

Application of a standard depreciation factor is a mass appraisal technique and as such is subject to error. We recognize that refinement of its use for different classes of vessels will result in a slightly better appraisal. However, this is still a mass appraisal technique and occasionally it will require value adjustments on a case-by-case basis just as we do now.