

# BUTTE COUNTY ASSESSMENT PRACTICES SURVEY

**JUNE 2005**

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STATE BOARD OF EQUALIZATION  
PROPERTY AND SPECIAL TAXES DEPARTMENT  
450 N STREET, SACRAMENTO, CALIFORNIA  
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062  
916 324-5827 • FAX 916 323-5689  
www.boe.ca.gov

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June 30, 2005

TO COUNTY ASSESSORS:

BUTTE COUNTY  
ASSESSMENT PRACTICES SURVEY

No. 2005/042

A copy of the Butte 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 Kenneth O. Reimers, Butte County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Butte 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 November through December 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Reimers 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/ Mickie Stuckey for

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:jm  
Enclosure

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## **INTRODUCTION**

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Butte County Grand Jury and 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 Kenneth O. Reimers, Butte County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

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

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

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

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

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

## **EXECUTIVE SUMMARY**

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

In our May 2000 Butte County Assessment Practices Survey, we made 31 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor has fully implemented 17 of the recommended changes, has not implemented 10 of the recommendations, which are repeated in this survey; and has not implemented four, which are not repeated.

In the current survey, we identified the following problem areas:

- The assessor's information packet on disaster relief available to the public at the front counter contains outdated information.
- The assessor does not assess all unqualified low-value properties listed on the low-value property printout.
- The assessor uses outdated assessment forms, which contain incorrect information such as the incorrect filing deadline.
- The assessor adds the value of improvement bonds to the sales price of property without a formal study of comparable sales to support the adjustments.
- The assessor fails to correctly compute the capital replacement allowance for irrigation wells when valuing land subject to California Land Conservation Act (CLCA) contracts.
- The assessor does not properly establish the base year values of taxable government-owned properties acquired after March 1, 1975 in accordance with BOE guidelines.
- The assessor does not assess all taxable possessory interests (PI's) at the county fairgrounds, does not annually determine the market value of a PI based on the stated term of possession as required by rule 21, and has not implemented a tracking system for PI accounts to flag reassessable events.
- The assessor incorrectly allows property taxes as an expense item when valuing historical property.
- The assessor overstates the operating expenses he uses in valuing petroleum properties, does not adjust the factored base year value of petroleum properties for changes in the reserves, and fails to assess mining properties as an appraisal unit.

- The assessor does not timely audit the books and records of professions, trades, or businesses pursuant to section 469; and fails to obtain a signed waiver of the statute of limitations whenever a mandatory audit cannot be completed timely.
- The assessor does not use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.
- The assessor is citing the incorrect statutory provisions as the basis for requesting information on his aircraft property statement.
- The assessor does not annually assess vessels at market value and does not mail a marina report form to marinas to discover vessels.

Despite the problems noted above, we found that most properties and property types are assessed correctly. We found no significant assessment problems as defined in rule 371. Since Butte County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Butte County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

<b>RECOMMENDATION 1:</b>	Update the section on disaster relief in the assessment information packet available at the front counter. ....	14
<b>RECOMMENDATION 2:</b>	Assess all unqualified low-value properties. ....	15
<b>RECOMMENDATION 3:</b>	Revise the form procedures by: (1) using only the current version of BOE-prescribed forms, and (2) ensuring locally-developed forms reflect the correct assessment appeals annual filing deadline. ....	18
<b>RECOMMENDATION 4:</b>	Value properties subject to improvement bonds in accordance with section 110(b). ....	23
<b>RECOMMENDATION 5:</b>	Correctly compute the capital replacement allowance for irrigation wells. ....	28
<b>RECOMMENDATION 6:</b>	Establish base year values for taxable government-owned properties acquired after March 1, 1975, in accordance with BOE guidelines. ....	29

**RECOMMENDATION 7:** Improve the possessory interest assessment program by: (1) assessing all taxable possessory interests at the county fairgrounds, (2) annually determining the market value of a possessory interest based on the stated term of possession as required by rule 21, and (3) implementing a tracking system for possessory interest accounts to flag reassessable events. ....31

**RECOMMENDATION 8:** Value historical property according to section 439.2. ....33

**RECOMMENDATION 9:** Revise the mineral property assessment program by: (1) modifying the cash flow analysis template for gas well properties to comply with rule 8, (2) adjusting the factored base year value of gas well properties for changes in the reserves according to rule 468, and (3) assessing mining properties as an appraisal unit according to rule 469. ....36

**RECOMMENDATION 10:** Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469, and (2) obtaining signed waivers of the statute of limitations whenever a mandatory audit cannot be completed timely.....39

**RECOMMENDATION 11:** Use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.....41

**RECOMMENDATION 12:** Reference the correct statutory provisions on the aircraft property statement. ....43

**RECOMMENDATION 13:** Revise the vessel assessment program by: (1) annually assessing vessels at market value, and (2) sending the marina report form to all marinas. ....45

## **RESULTS OF 2000 SURVEY**

### ***Computer System***

We recommended that the assessor store computer system backup files at a secure off-site location. The assessor has implemented this recommendation.

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

We recommended that the assessor review the low-value printout to discover unqualified low-value properties, document low-value property appraisal files, and train his staff on low-value property assessment procedures. The assessor has implemented the second and third recommendations. For the first recommendation, we found that the assessor is now reviewing the low-value printout to discover unqualified low-value properties. However, we found several unqualified low-value properties on the printout that the assessor was not assessing; therefore, we repeat the recommendation.

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

We recommended that the assessor develop a mass appraisal program to review the assessments of residential properties for declines in value. The assessor currently monitors all sales and compares the sale prices with the assessed values of similar properties to determine if there has been a decline in value. Therefore, the recommendation is not repeated.

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

We recommended that the assessor include a charge for property taxes and maintenance expenses in the income stream for nonliving improvements. The assessor has implemented this recommendation.

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

We recommended that the assessor review the nonassessed property list to discover taxable government-owned properties. The assessor has implemented this recommendation.

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

We recommended that the assessor send an annual questionnaire to TPZ landowners to obtain information on nonexclusive, compatible uses of their land. This recommendation has not been implemented. However, since this is not a statutory requirement and since we did not discover any escaped compatible uses, we do not repeat this recommendation.

### ***Possessory Interests***

We recommended that the assessor assess all taxable possessory interests at the fairgrounds and implement a tracking system for possessory interest accounts to determine reappraisable events. The assessor has not implemented either of these recommendations and we repeat them.

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

We recommended that the assessor annually review county and state water inspection reports to discover assessable water company properties. Though the assessor has not implemented this recommendation, there is no evidence that he has allowed any water companies to escape assessment; therefore, the recommendation is not repeated. We recommended that the assessor review real property owned by government-owned water systems to discover property assessable pursuant to section 11 of article XIII of the California Constitution. The assessor has implemented this recommendation.

Finally, we recommended that the assessor correlate the income, sale comparison, and cost approaches to value the property of regulated water companies. The assessor has not implemented this recommendation. However, due to the lack of comparable sales, and the fact that the income approach used by the assessor would yield a value that would closely approximate the value estimate by the Historical Cost Less Depreciation method, this recommendation is not repeated.

### ***Mineral Properties***

We recommended that the assessor obtain the appraisal records of petroleum property from the assessor's former consultant, adjust the factored base year value of petroleum properties for changes in the reserves, and assess mining properties as an appraisal unit. The assessor has implemented the first recommendation but not the other two. We repeat both of them in this report.

### ***Audit Program***

We recommended that the assessor timely audit all mandatory accounts and obtain written waivers of the statute of limitations whenever a mandatory audit could not be completed timely. The assessor has not implemented either of these recommendations and we repeat them.

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

We recommended that the assessor return incomplete business property statements to taxpayers to complete. This recommendation has been implemented.

### ***Uniform Assessment Practice***

We recommended that the assessor use a uniform appraisal approach to value outdoor signs. The assessor has implemented this recommendation.

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

We recommended that the assessor use the equipment index factors in Assessors' Handbook Section 581 as intended. The assessor has not implemented this recommendation and we repeat it.

### ***Vessels***

We recommended that the assessor use a market-derived procedure to assess pleasure boats and contact marinas that do not return a harbor master's report. The assessor has not implemented either of these recommendations and we repeat them in this report.

### ***Aircraft***

We recommended that the assessor adjust the value of general aircraft indicated by the value guides as recommended by BOE and contact airport owners or managers who do not return the airport manager's report. The assessor has implemented both recommendations.

### ***Billboards***

We recommended that the assessor establish procedures for processing sign permits and ensure coordination between the business property and real property staff to discover changes in ownership of the land where a billboard is constructed. The assessor has implemented both of these recommendations.

### ***Manufactured Homes***

We recommended that the assessor: (1) classify all manufactured homes as personal property, (2) consider the value in recognized value guides as required by section 5803, (3) supplementally assess only those manufactured homes that change ownership after the initial enrollment, and (4) review manufactured homes for declines in value. The assessor has implemented all four recommendations.

## OVERVIEW OF BUTTE COUNTY

Butte County, one of the original California counties, was founded on February 18, 1850.<sup>3</sup> Its name is derived from the Marysville or Sutter Buttes, which lay within the boundaries of the county when it was created. Butte County is the home of 210,400 people, living in the cities of Chico, Oroville, Gridley, Biggs, the Town of Paradise, or other parts of the county.

Butte County's population of 210,400 for 2003 makes it the 27th most populous county in California. Butte County ranked 25th in California for percentage growth in population for 2002, with an increase of 1.5 percent over the previous year.

For 2003-04, the assessor produced a local assessment roll that had a gross taxable value of \$12,024,024,522, which was an increase of 6.57 percent over the 2002-03 roll total of \$11,282,918,455.

The following table illustrates the growth in assessed values during the past several years.

ASSESSMENT ROLL	TOTAL ROLL VALUE	PERCENT INCREASE
2003-04	\$12,024,024,522	6.57
2002-03	\$11,282,918,455	6.73
2001-02	\$10,571,549,631	4.87
2000-01	\$10,080,421,252	5.30
1999-00	\$9,573,385,622	---

The 2003-04 assessment roll workload generated 100,919 assessments (91,853 on the secured roll and 9,066 on the unsecured roll), and 12,933 supplemental assessments. The assessor also processed 218 church and religious exemptions and 241 welfare exemptions, made 2,050 roll corrections, and resolved 141 appeals filed for the 2002-03 roll year.

For the 2003-04 assessment roll, the real property workload consisted of 8,802 appraisable transfers. The 2003-04 assessment roll included 7,410 manufactured homes, 250 taxable possessory interests, 212,941 acres under CLCA contract, and 160,837 acres of TPZ land. The assessor also completed a business property workload that included approximately 10,055 business property statement reviews, 65 completed audits, and assessed 2,953 vessels and 244 aircraft.

<sup>3</sup> Information from County of Butte website.

## ADMINISTRATION

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

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

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

As displayed below, the assessor's budget, which includes funds from the State-County Property Tax Administration Program (PTAP), has increased over the last five years. PTAP funds, however, have remained constant.

<b>FISCAL YEAR</b>	<b>GROSS BUDGET<sup>4</sup></b>	<b>PERCENT CHANGE</b>	<b>FULL-TIME STAFF<sup>5</sup></b>	<b>PTAP FUNDS RECEIVED</b>	<b>PTAP STAFF</b>
2003-04	\$3,345,002	9.58	49	\$381,956	7
2002-03	\$3,052,640	7.42	49	\$381,956	7
2001-02	\$2,841,683	2.07	49	\$381,956	7
2000-01	\$2,783,960	5.56	49	\$381,956	7
1999-00	\$2,637,410		49	\$381,956	7

The assessor's office has 49 budgeted full-time positions, including the assessor. For the last five years, staffing has remained constant at 49 full-time employees. Seven of the positions have been funded using PTAP funds. Included in the seven positions are four full-time appraisers, two full-time auditor-appraisers, and two half-time extra help clerical. The assessor does not use the services of any contract employees. The assessor's main office is located in Oroville, with field offices located in Chico and Paradise.

<sup>4</sup> Gross budget figures include PTAP funding of \$381,956.

<sup>5</sup> Includes positions funded by PTAP.

The following table shows the staff positions and the number of employees in each classification (some positions, although budgeted, were not filled at the time of our fieldwork):

CLASSIFICATION	NO.	CLASSIFICATION	NO.
Assessor	1	Administrative Services Assistant	1
Assistant Assessor	1	Information Systems Analyst	1
Assessment Systems & Stds Officer	1	Supervising Assessment Officer	1
Supervising Appraiser	2	Staff Services Systems Specialist	1
Supervising Auditor-Appraiser	1	Supervisor Staff Support Services	1
Senior Appraiser	4	Assessment Clerk I/II/III	12
Property Appraiser I/II/III	12	Office Assistant II	1
Auditor-Appraiser I/II/III	3	Senior Cadastral Drafting Tech	1
Appraiser Specialist	3	Cadastral Drafting Tech	2

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

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.<sup>6</sup> This program expired June 30, 2001, and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

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

Butte County first participated in PTAP for the fiscal 1996-97. The county's required base funding and staffing levels for the assessor's office is set at the 1994-95 fiscal year with a gross appropriation of \$1,805,433. The base year staffing level is set at 41. For the 2002-03 fiscal year, Butte County received a grant in the amount of \$381,956 from the State Department of Finance. The assessor used the PTAP funds to hire additional personnel and for computer replacements.

<sup>6</sup> Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

In order to maintain eligibility to receive the grant, a county must show that the increase in tax revenue exceeds the grant amount. In a report submitted to the State Department of Finance, the total change in value from all qualifying activities for the 2002-03 fiscal year was \$84,948,488. This figure exceeded the \$61,725,000 increase projected by the assessor in his grant application.

### **Appraiser Certification**

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 28 certified appraisers on staff, of whom 20 hold advanced certificates and 8 have permanent appraiser's certificates. We found that the assessor and his appraisal staff possess the required certification. Additionally, we found that the auditor-appraisers performing mandatory audits meet the academic requirements referenced in section 670(d). The assessor does not utilize the services of any contract appraisers

### **Assessment Appeals**

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

Butte County has one assessment appeals board, consisting of three members and one alternate. There is also a hearing officer available to hear appeals if so requested. Appeals heard by the hearing officer cannot exceed \$500,000 in value. The county board of supervisors appoints the members of the appeals board.

The following table illustrates the assessment appeals workload for the last five years as of November 2003:

<b>ASSESSMENT ROLL</b>	<b>2003-04</b>	<b>2002-03</b>	<b>2001-02</b>	<b>2000-01</b>	<b>1999-00</b>
Appeals Filed	106	165	174	183	222
Appeals Carried Over From Prior Yr.	42	18	9	11	---
<b>Total Appeals Workload</b>	<b>148</b>	<b>183</b>	<b>183</b>	<b>194</b>	<b>222</b>
<b>Total Resolution</b>		<b>141</b>	<b>165</b>	<b>185</b>	<b>211</b>
To Be Carried Over		42	18	9	11

We found that the assessor and the assessment appeals board work closely together to ensure that all appeals are tracked, heard, and decided within the required two-year time frame. The assessor properly administers his assessment appeals program.

**Disaster Relief**

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

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

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

The Butte County Board of Supervisors adopted such an ordinance in 1974 (No. 1531) and amended it twice, once in 1977 (No. 1802) and again in 1981 (No. 2197).

The assessor is proactive in the discovery of disasters. The assessor becomes aware of disasters by checking local newspapers and building permits, by conducting field canvasses, and from responses to press releases and other taxpayer contacts.

The following table represents the most recent five assessment rolls of disaster relief claims:

<b>ROLL YEAR</b>	<b>CLAIMS</b>
2003-04	64*
2002-03	208
2001-02	158
2000-01	70
1999-00	78
*Number of claims through 10/01/03	

We reviewed a number of disaster relief accounts and found that the assessor's staff is processing, tracking, and verifying the eligibility of section 170 claims effectively. We did, however, find a problem with the assessment information packet available at the front counter.

**RECOMMENDATION 1:** Update the section on disaster relief in the assessment information packet available at the front counter.

We found that the section on disaster relief in the assessment information packet available at the front counter of the assessor's office has not been updated. The information still refers to a minimum qualifying loss of \$5,000. Effective January 1, 2002, section 170 has been amended to a minimum qualifying loss of \$10,000.

Misstating the proper value threshold for disaster relief may lead to the submission of unqualified claims for disaster relief. This could result in the assessor wasting resources, such as personnel, to process and investigate unqualified claims.

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

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

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

For lien date 2003, the assessor filed for an extension of time to complete the assessment roll. The assessor completed and transmitted to the county auditor the unsecured roll on July 14 and the secured roll on July 18, 2003. The assessor processed approximately 2,050 roll corrections during fiscal year ending June 30, 2003, and 613 roll corrections as of December 2003.

An appraiser or auditor-appraiser initiates the roll change. Data on the working papers include the original and changed assessment amounts, applicable statutory provisions, appraiser's signature, supervisor's signature for reviewing the change, and the verification from the auditor's office. Appraisal support personnel enters the data into the system which generates the letter to the taxpayer. We found that the assessor performed the roll change in a correct and timely manner.

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

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

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. A board of supervisors must adopt a low-value property

exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

On October 6, 1993, the Butte County Board of Supervisors adopted Resolution No. 93-158, which implemented the provisions of section 155.20, and established a \$2,000 low value threshold, commencing with the fiscal year 1994-95.

In our prior survey, we recommended three changes to the assessor's low-value exemption program. We recommended that the assessor properly document low-value property appraisal files. In our current review, we found that the records of low value properties are properly documented.

We recommended that the assessor train staff on low-value property assessment procedures. Our current review indicates staff is aware of the low-value resolution and the appropriate procedures for handling these types of properties.

The final recommendation was for the assessor to review the low-value property printout to discover unqualified low-value properties. Our current survey indicates that the assessor is reviewing the low-value property printout but is not assessing all unqualified low-value properties. Therefore, we repeat the recommendation.

**RECOMMENDATION 2:** Assess all unqualified low-value properties.

We found five parcels whose base year values exceeded the \$2,000 exemption threshold on the printout of low-value properties that the assessor had not assessed. These five properties had been revalued for changes in ownership and, as a result, the new base year value exceeded \$2,000. However, tax bills were never issued because the properties were still coded as low-value properties, and therefore, exempt.

By failing to recognize those properties that no longer qualify for the low value exemption, the assessor is losing additional property tax revenue. In addition, the assessor exempts property without authorization.

## ***Exemptions***

### **Church and Religious Exemptions**

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

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

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

The assessor processed 6 church exemption claims and 212 religious exemption claims for the 2003-04 assessment roll. The following table illustrates religious and church exemption data for the last five assessment rolls.<sup>7</sup>

ROLL YEAR	RELIGIOUS		CHURCH	
	Number	Exempt Value	Number	Exempt Value
2003-04	212	\$97,026,325	6	\$1,025,739
2002-03	202	\$91,435,800	4	\$470,416
2001-02	202	\$85,691,090	4	\$505,595
2000-01	212	\$84,109,813	3	\$275,685
1999-00	202	\$82,231,124	3	\$270,279

As required by sections 255 and 256, all claimants for the church exemption are required to file an annual claim. We reviewed a number of church exemption claims and found that all claimants had filed a 2003 BOE-prescribed *Claim for Church Exemption* (BOE-262-AH). We found the assessor's church exemption program to be properly administered and exemption records were well documented.

In Butte County, first-time claimants for the religious exemption file Form BOE-267-S, *Religious Exemption Claim*. Once established, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*. If a claimant fails to return BOE-267-SNT, the assessor attempts to contact the claimant by telephone. If unable to contact the claimant by telephone, an onsite inspection is often conducted to verify exempt activity.

### Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations

<sup>7</sup> BOE-802 Report on Exemptions for 2003, 2002, 2001, 2000, and 1999.

formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

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

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

The following table shows welfare exemption data for the last five assessment rolls.<sup>8</sup>

ROLL YEAR	WELFARE	
	Number	Value
2003-04	241	\$346,116,386
2002-03	245	\$265,652,788
2001-02	254	\$291,819,105
2000-01	202	\$288,770,239
1999-00	222	\$307,299,984

To judge the effectiveness of the assessor's welfare exemption program, we reviewed a variety of claims. We found that the assessor follows the correct procedures in applying this exemption and the property uses were within the scope of the exemption. Where there were other users on the property, they too, had valid claims filed and approved before the assessor granted the exemption. All welfare exemption claims received by the assessor are date stamped. In addition, the assessor properly imposes the late filing provisions and the cancellation and pro-ration provisions for eligible property acquired after the lien date.

Our review indicates the assessor's portion of the welfare exemption process is well administered with one exception. The assessor does not audit any exempt organizations that meet the mandatory audit threshold established in section 469. For exempt organizations, the assessor enrolls an assessment in the same manner as any other assessment.

Exempt organizations are subject to audit as are any other businesses under sections 469 and 470. Property owned by an exempt organization is assessable, even though there may not be a net taxable value (Assessors' Handbook Section 504, *Assessment of Personal Property and*

<sup>8</sup> BOE-802 Report on Exemptions for 2002, 2001, 2000, 1999, and 1998.

*Fixtures*, p. 153). The statutory requirement to audit is not contingent upon whether or not an organization qualifies for a full or partial exemption. This issue is addressed in the Audit Program Section.

### **Assessment Forms**

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.<sup>9</sup> For the 2003 lien date, the BOE prescribed 78 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally-developed forms to assist them in their assessment duties.

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

The assessor uses 56 BOE-prescribed forms. The assessor submitted the required checklists to the BOE in a timely manner. Of the 56 forms, the assessor rearranged six forms, which were timely submitted and approved by the BOE. We noted a few areas that could lead to possible confusion or misunderstanding of assessment forms.

**RECOMMENDATION 3:** Revise the form procedures by: (1) using only the current version of BOE-prescribed forms, and (2) ensuring locally-developed forms reflect the correct assessment appeals annual filing deadline.

#### **Use only the current version of BOE-prescribed forms.**

Of the forms used by the assessor, two forms were outdated versions of the BOE-prescribed form (Form BOE-266-CD, *Claim for Homeowners' Property Tax Exemption [Card]*, and Form BOE-266-SCD, *Reclamo Para La Exencion De Impuestos Prediales De Los Propietarios [Card]*).

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.<sup>10</sup> BOE-prescribed forms are updated on an annual basis, and a checklist of current forms is sent to assessors. Outdated BOE-

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<sup>9</sup> Also sections 480(b), 480.2(b), 480.4, and rules 101 and 171.

<sup>10</sup> See also sections 480(b), 480.2(b), 480.4 and rules 101 and 171.

prescribed forms should not be used, as they could provide incorrect information or may be misleading.

**Ensure locally-developed forms reflect the correct assessment appeals annual filing deadline.**

We found that some of the locally-developed forms stated an incorrect deadline for the taxpayer to file an assessment appeal application. Amended section 1603 extended the application filing deadline from September 15 to November 30 for those counties that do not notify assesseees of the value of their real property prior to the assesseees receiving their tax bills. The Butte County Assessor does not send out notification to all taxpayers of their assessed values; therefore, the appeals filing deadline for Butte County is November 30.

By failing to provide the correct filing information, some taxpayers may not file an assessment appeal application because they believe the filing period has passed.

## **ASSESSMENT OF REAL PROPERTY**

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

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

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

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

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

### **Document Processing**

The assessor's primary means of discovering properties that have changed ownership is from reviewing deeds and other documents recorded at the county recorder's office. Recorded documents are imaged daily by the recorder and copies are automatically sent to the assessor. Butte County does not have an ordinance requiring deeds to be identified by assessor's parcel number (APN), however, the recorder requires it.

The following table shows the total number of recorded documents, documents transferring title in real property, and reappraisable transfer documents processed by the assessor for the most recent five years:

ROLL YEAR	RECORDED DOCUMENTS	TRANSFER DOCUMENTS	REAPPRAISABLE TRANSFER DOCUMENTS
2003-04	72,281	10,300	8,802
2002-03	62,886	10,816	6,137
2001-02	51,502	11,570	6,210
2000-01	54,316	13,077	6,381
1999-00	56,542	11,679	5,606

The number of documents received from the recorder has increased from around 56,500 in 1999 to just over 72,000 in 2003, averaging about 59,500 annually. For the most recent five years, the reappraisable transfer documents account for just over 11 percent of all documents the assessor receives.

We found that the assessor has an effective deed processing program to aid him in the discovery of changes in ownership. We found that *Preliminary Change of Ownership Reports* (PCOR's) and *Change of Ownership Statements* (COS's) were effectively tracked and penalties were applied pursuant to sections 482 and 483.

### Transfer List

Section 408.1 requires the assessor to maintain a list, available to the public, showing property transfers that have occurred within the preceding two years. This section provides that the list be divided into geographical areas and must include the transferor and transferee, if available, assessor's parcel number, address of the transferred property, date of transfer, date of recording and recording reference number, and the consideration in money paid if it is known by the assessor.

The assessor makes available for public inspection a hard-copy list of real property transfers that occurred in the preceding two-year period and that the list conforms to the requirements of section 408.1. The confidentiality provisions of section 481 are observed.

### Parent/Child and Base-Year Value Transfer Exclusions

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer, on or after November 6, 1986, of the principal residence and the first one million dollars of full cash value of other real property between parents and children when a claim is timely filed. Subsequently, the voters modified the Constitution to include an exclusion for qualifying purchases or transfers from grandparents to their grandchild or grandchildren.

Section 69.5 allows qualified homeowners 55 years of age or older, or qualified homeowners who are severely and permanently disabled, to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within two years of the sale of the original property and located in the same county, provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Subsequently, section 69.5 was amended to allow counties to adopt ordinances to allow transfers of base year values from properties located in other counties. Butte County has not adopted an intercounty transfer ordinance.

Butte County has granted 2,549 section 63.1 exclusions from 1999 through 2002. As of December 2003, 742 exclusions have been granted. The assessor has granted 62 section 69.5 claims from 1999 to 2003. We found that the assessor's staff is verifying eligibility, tracking, and processing section 63.1 and section 69.5 claims effectively.

### Legal Entity Ownership Program (LEOP)

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

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

The assessor receives and utilizes the BOE generated list of legal entity transfers. We found that properties owned by legal entities listed on the BOE's LEOP listing were reappraised in a timely manner.

### Improvement Bonds

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

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The

assessor can overcome this presumption by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration.

In Butte County, there are around 600 parcels encumbered by 1915 Act bonds with an outstanding principal balance. Most of the parcels are in the Chico area.

**RECOMMENDATION 4:** Value properties subject to improvement bonds in accordance with section 110(b).

The assessor adds improvement bond indebtedness to the selling price of real property without a formal study of comparable sales to support the adjustments. Whether the buyer chooses to assume the cost of the improvement bond and pay it off over time, or pays it off at the time of purchase, the assessor adds the cost of the bond to the sales price.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration.

The assessor has not completed a study or documented any evidence to overcome the presumption provided in section 110(b). By adding the outstanding principal balance of the improvement bonds to the sales price without any evidence, the assessor has not overcome the presumption in section 110(b) and is overassessing the property.

### ***New Construction***

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

Rules 463 and 463.5 clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 73 through 74.7 address these exclusions.

### **Discovery**

Most new construction activity in Butte County is discovered from building permits. The assessor receives permits from six permit issuing agencies: the County of Butte; the Department

of Environmental Health; and the cities of Oroville, Gridley, Chico, and Paradise. The assessor uses newspaper articles, business property statements, and field inspections to discover non-permitted new construction.

The assessor does not have a self-reporting program. All building permits received are forwarded to the appropriate appraiser for review and valuation. It is the responsibility of each appraiser to determine if a cost questionnaire needs to be sent to the property owner. The majority of permits are field checked. However, for construction events that cost from \$2,000 to \$5,000, if the owner's reported costs appear reasonable, the reported costs may be enrolled without a field review.

### Permit Processing

The permits from the issuing agencies are received in hard copy form by the assessor's office, twice weekly. The permits processed at the assessor's main office in Oroville include the County of Butte, Department of Environmental Health, and cities of Oroville and Gridley. The assessor's district offices located in Chico and Paradise receive and process permits from their respective city in a similar manner. An appraisal specialist is responsible for grouping the permits by assessor's parcel number for distribution to individual appraisers. All permits, without exception, are forwarded to the appraisers for value screening (to identify permits that generate value for data entry). The permits that require data entry go to the assessment clerk who enters the permit information in the system, which creates the valuation worksheet. The building file with the worksheet and permit is then forwarded to the appraiser for valuation. After valuation, the appraiser forwards the file for data entry. The values are entered and a supplemental notice is generated.

Each month, the assessor receives a computer disk with notices of completion (final) from the county building department. The city building departments also provide the assessor with paper lists of finals on a monthly basis. The notices of completion are inputted into the computer system, which generates a hard copy of the notice for assignment to the appraisers.

The assessor follows specific procedures to ensure proper processing of all permits. The processing procedures are thorough and provide for effective retrieval of information upon which an appraiser may make informed decisions.

### New Construction Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. Several cost sources are used in valuing the new construction, including: the Assessors' Handbook Section 531, *Residential Building Costs*; the owner's actual cost; the *Marshall Valuation Guide*; and locally developed costs.

We reviewed several new construction appraisal records and found the appraisal files to be well documented. The assessor's program for assessing new construction complies with all statutory requirements.

## Construction in Progress

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is completed, at which time the completed new construction is assessed at its fair market value and a base year value is assigned. We found no problems in the valuation of construction in process.

## Billboards

The discovery of billboards comes from business property statements submitted by outdoor advertising companies or building permits. All permits received by the assessor for outdoor billboards are forwarded to the business property staff for review and assessment.

In our prior survey, we recommended that the assessor establish procedures for processing sign permits. Two companies own all billboards in the county and their assessment is the responsibility of two auditor-appraisers. The permits appear to be well monitored between the two auditor-appraisers, who use a cost approach for valuing billboards. The assessor's current practice is efficient and in compliance with proper assessment procedure, as conveyed in Letters To Assessors No. 2002/078, *Guidelines for the Assessment of Billboard Properties*.

## **Declines in Value**

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

Discovery of value declines in commercial, industrial, residential, and agricultural properties is accomplished through several means. One such method is by appraiser familiarity with his/her assigned geographic area and specialty. The appraisers are expected to be familiar with value trends within their areas of responsibility. In addition, taxpayer requests for review and assessment appeals trigger reviews for value declines. When such activity occurs, a review then encompasses not only the property in question, but also other properties with similar value attributes.

All properties experiencing declines in value are tracked and specially coded in the computer system so that the annual inflation factor will not be applied. Also, property records are tagged so they can be easily identified for annual review.

Due to a strengthening of the local real estate market, the number of properties experiencing a decline in value below their FBV has dropped significantly, as indicated by the following table:

ROLL YEAR	PROPERTIES AT LESS THAN FBV <sup>11</sup>
2003-04	130
2002-03	125
2001-02	591
2000-01	1,077
1999-00	1,444

In our prior survey, we recommended that the assessor develop a mass appraisal program to review the assessments of residential properties for declines in value. Although the assessor does not have a mass appraisal program, appraisers do monitor the assessed values of properties in the same or similar neighborhood to timely alert the assessor of market trends. We believe that the assessor's procedure of monitoring assessed values is reasonable and do not repeat this recommendation.

We reviewed several decline-in-value assessments for the 2003-04 assessment roll and found them to be well documented, complete, and reasonable. As of the 2003 lien date, some of the residential property records of properties with decline-in-value assessments had a comparable sales listing included in their folders. Although most of the appraisals lack a narrative or any valuation comments, the sales used in the decline-in-value analysis are included on each of the affected property records.

Overall, the assessor's program for identifying decline-in-value properties, reviewing their values annually, and documenting the appraisals and reviews is effective.

### **Supplemental Assessments**

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

We reviewed the assessor's supplemental assessment procedures for compliance with statutory and regulatory requirements. The assessor's policy is to issue supplemental assessments whenever there

<sup>11</sup> Numbers represent the Chico area only.

is a change in ownership or completed new construction. The supplemental assessments are computer-generated and are electronically forwarded to the auditor-controller, who issues the supplemental tax bills. The total supplemental assessment process, from appraisal event date to issue of a supplemental bill, takes approximately two to three months for transfers and one to two weeks for new construction. The following table shows the number of supplemental notices mailed for the last four years:

<b>FISCAL YEAR</b>	<b>NUMBER OF VALUES KEYED</b>	<b>SUPPLEMENTAL NOTICES MAILED</b>
2003-04 (thru Oct.)	12,933	10,817
2002-03	18,609	10,561
2001-02	12,978	9,607
2000-01	15,392	10,996

It is the assessor's policy to enroll all supplemental assessments, regardless of amount. However, the county auditor will cancel supplemental tax bills that are \$10.00 dollars or less. Our review found the assessor's supplemental assessment program to be current and reflect accurate value calculations.

***California Land Conservation Act Property***

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

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

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

For the 2003 assessment roll, Butte County had a total of 212,941 acres under CLCA contract with 314.43 acres in nonrenewal status. The total assessed value for land and living improvements was \$260,226,464 or 2.2 percent of the total secured and unsecured 2003 roll value of \$12,024,024,522.

Three real property appraisers in the Oroville office are responsible for the valuation of all CLCA properties. The CLCA valuation program is completely automated (the variable items inputted are the capitalization rate and income). In Butte County, the current market value is rarely the lowest value indicator and usually sets the upper limit of value. Therefore, the computer program calculates the restricted values and compares the restricted values with the factored base year value to determine the taxable value.

Most of the rural parcels in Butte County consist of grazing lands, field crops, tree fruit, timber, and nursery stock. The biggest dollar crops are rice, almonds, walnuts, dried plums, and timber.

When valuing CLCA property, section 423(a)(1) requires the assessor to capitalize an annual income determined from market rents. The rural staff estimates production and expenses for CLCA properties based on information from the following sources: the Agricultural Crop Reports from Butte, Tehama, and Madera counties; the US Department of Agricultural; the National Agricultural Statistics; the Farm Credit Bureau in Yuba City; the publication, *Trends in Agricultural Land & Lease Values*; the Prune Bargaining Association; and the larger growers in the county. The agricultural production questionnaires have not been used for two years and are not considered a viable tool for collecting data due to the poor response from farmers.

In our prior survey, we made the recommendation that the assessor include a charge for property taxes and maintenance expenses in the income stream for nonliving improvements. The assessor has implemented this recommendation. However, we did find one additional issue that needs to be addressed.

**RECOMMENDATION 5:** Correctly compute the capital replacement allowance for irrigation wells.

Wells are classified as land for property tax purposes and a return on investment is part of the land income to be capitalized at the prescribed open-space rate. However, because wells are depreciating assets, a return of the investment must be accounted for in the income stream.

We found the irrigation well charge was incorrectly calculated when determining the charge to be deducted from gross income to land. The well charge used by the assessor does allow for a return of the investment as required by section 423. However, in determining the factor to use to calculate the well charge, the assessor incorrectly includes a property tax component in the factor, which increases the well charge deducted from the income stream. The resulting income is then converted into value by using a capitalization rate that has the property tax rate as one of its components. This results in the underassessment of the restricted land by deducting for property taxes twice.

The proper method for arriving at a charge for irrigation wells can be found in Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521).

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

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11

provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

The value of taxable government-owned land must be the lowest of: (1) the restricted value, (2) the current fair market value, or (3) the factored base year value (FBYV). Improvements that were taxable when acquired by the government agency, or replacements for such improvements are assessable at the lowest of: (1) the current market value, (2) the factored base year value, or (3) the highest value ever used for taxation. New construction, with the exception of new improvements that replace previously taxable improvements, is exempt.

There are now four taxable government-owned properties enrolled in Butte County. Since our last survey, many of the taxable government-owned properties have been annexed by the county and are now exempt from taxation. Their total assessment for the 2003 roll year (land and improvements) is \$113,436. All transfers to and from a government agency are forwarded to the real property appraiser for base year valuation. After the appraiser sets the base year value, those transfers are forwarded to the assessment systems and standards officer for review and assessment. The assessor annually updates the restricted value and the FBYV for comparison with the market value on the appraisal record, enrolling the lowest value.

In our prior survey, we recommended the assessor review the nonassessed property list to discover taxable government-owned properties. The assessor has initiated investigations to determine the status of these parcels. We do not consider this to be an ongoing problem. However, we did uncover one problem that needs to be addressed.

**RECOMMENDATION 6:** Establish base year values for taxable government-owned properties acquired after March 1, 1975, in accordance with BOE guidelines.

We found that the assessor does not establish base year values for taxable government-owned properties properly. At the time of acquisition, the assessor enrolls the lower of the market value or the restricted value. However, the assessor considers the market value to be the base year value, even though the restricted value is enrolled.

The BOE issued guidance in Letter To Assessors No. 2000/037 regarding the assessment of taxable government-owned land and improvements. These guidelines provide, among other things, that base year values for taxable government-owned properties acquired after March 1, 1975, should be established at the lower of full cash value as of the date of change in ownership, or the restricted value as of that date. In subsequent years, the base year value is to be adjusted for inflation by the California Consumer Price Index pursuant to article XIII A. Factored base year values determined in this BOE-recommended manner will generally be lower than either the current market value or the restricted value.

The consequence of the assessor's failure to establish a base year value, in accordance with the guidelines issued in LTA 2000/37, for each taxable government-owned property, is that these properties are overassessed.

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

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property ("TPZ value") is determined by its appropriate per-acre site value (section 434.5) plus the current market value of any compatible, nonexclusive uses of the property (section 435). Assuming that TPZ lands are not also under CLCA contract, the annual taxable value of TPZ lands is the lowest of (1) TPZ value, (2) current market value, or (3) factored base year value.

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

Butte County has 531 TPZ parcels comprised of 160,837 acres with an assessed value of \$16,710,809. All TPZ parcels are forested with mixed conifer trees, Site Class I.

We found that the assessor has correctly valued land zoned as TPZ according to the BOE-prescribed values for the 2003 lien date. The records we reviewed contained pertinent information and showed that residences and other structures had been properly valued.

In our prior survey, we recommended that the assessor send out an annual questionnaire to all TPZ landowners to obtain information on nonexclusive compatible uses of their land. Since this is not a statutory requirement and since we did not discover any escaped compatible uses, we do not repeat this recommendation.

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

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

The Butte County Assessor's program for discovering possessory interests includes an annual polling of all government entities in the county requesting information on agreements with private parties. Staff appraisers annually contact approximately 30 public agencies by letter or in person to request current information on new or changed tenancies and rents. There are currently 250 taxable possessory interests assessed in Butte County with a total value exceeding \$62 million. Possessory interest appraisals are assessed on the unsecured roll and are the responsibility of one appraiser in the Oroville main office and two appraisers in the Chico branch

office. The assessor has a comprehensive program for enrolling taxable possessory interests. However, we did note some incorrect procedures.

**RECOMMENDATION 7:** Improve the possessory interest assessment program by: (1) assessing all taxable possessory interests at the county fairgrounds, (2) annually determining the market value of a possessory interest based on the stated term of possession as required by rule 21, and (3) implementing a tracking system for possessory interest accounts to flag reassessable events.

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

In our previous survey report, we recommended that the assessor review all private uses at the Butte County fairgrounds for possible assessments as PIs. In our current survey, we found that the assessor has enrolled only four PI assessments at the Silver Dollar Fair in Chico. We obtained a list of commercial and food vendors for the past three years from the Butte County Fair Association and found a number of the users with ongoing and beneficial use at the fairgrounds.

Section 107 and rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide private benefit. There are a number of private uses of the fairgrounds that appear to have these characteristics. The repeated use of the fairground facilities by the same person or entity over a number of years should be investigated to see whether it constitutes a taxable possessory interest. Noncompliance with this statutory requirement could result in loss of tax revenue to the county.

**Annually determine the market value of a possessory interest based on the stated term of possession as required by rule 21.**

We found that the assessor does not use the stated term of possession when determining the market value of a possessory interest for each lien date. It is the assessor's practice to not recompute the market value using a declining premise; instead, the FBV is enrolled until the expiration of the contract term of possession or until there is a change in ownership.

Rule 21 provides that a contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee anticipate that a different term is appropriate. Rule 21 also provides that the stated term of possession for a taxable possessory interest is the remaining period of possession. Thus, the stated term of possession of a possessory interest declines on each lien date, which may have a material effect on the market value of the possessory interest. For this reason, the assessor must estimate the market value of a possessory interest on the lien date (based on the remaining term of the contract), compare this value with the factored base year value, and enroll the lesser of the two.

Failing to use a declining term when valuing possessory interests may overstate the taxable value of the possessory interest.

**Implement a tracking system for possessory interest accounts to flag reassessable events.**

In our prior survey, we recommended that the assessor incorporate a tracking system that would notify the appraiser when a term of possession expires and a reappraisal is required. Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable PI is a change in ownership for property tax purposes. However, section 61(b)(2) provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest by the assessor does not result in a change in ownership until the end of that reasonably anticipated term of possession. Under this provision, it is important that the assessor establish a tracking system of the reasonably anticipated term of possession to indicate when a possessory interest has changed ownership and is subject to reappraisal.

This recommendation has not been implemented. In our review of several possessory interest appraisal records, we discovered that the assessor had failed to revalue several possessory interests at the end of their stated terms of possession.

By failing to identify the expiration date of a PIs term of possession to signal a reassessable event, the assessor's practice may result in under- or overassessments and is contrary to statutory provisions.

***Historical Property***

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

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

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and,
- A component for amortization of the improvements.

Butte County has only one historical property on the assessment roll. The 2003-04 assessed value of this property is \$255,000. The appraisal file contains a copy of the contract with the local governments, income data, worksheets, and appropriate ordinances establishing a historical preservation district and the historical preservation zone. We found that the assessor is not calculating the value of the historical property according to section 439.2.

**RECOMMENDATION 8:** Value historical property according to section 439.2.

In processing the income stream to arrive at the net operating income to be capitalized, the assessor is deducting property taxes as an expense item. The assessor is then capitalizing this residual income with a rate that includes a property tax component to arrive at the value to be enrolled.

According to section 439.2(a)(3), expenditures shall not include depletion charges, debt retirement, interest on funds invested in the property, property taxes, corporation income taxes, or corporation franchise taxes based on income. According to section 439.2(b)(3) and (c)(3), a component for property taxes is to be included in the capitalization rate.

The assessor's method of valuation allows a deduction for property taxes twice, once in the income stream and once in the capitalization rate. The result is that the historical property in Butte County is being under-assessed.

### ***Leasehold Improvements***

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

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

When real property is reported on Form BOE-571-1, *Business Property Statement (BPS)*, coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

Commercial, industrial, and other income producing properties require constant monitoring by assessors. First-time tenants and changes in tenants often result in assessable new construction in the form of new tenant improvements. Tenant improvements may be properly classified as either structures or fixtures. Actual ownership of such improvements rests with the owner of the land

(landlord) unless there is an agreement to the contrary or if the owner requires removal of the improvements.

When new construction by a tenant adds value to a property, the assessor must review those changes and reflect them in a property's assessed value. Attempts to assess this new construction include identifying tenant improvement construction permits, sending new construction questionnaires to tenants, examining rent rolls to look for tenant changes and rent changes, and coordination between the business property and real property staff. The business property statement, an annual filing requirement of many business owners, is a useful source for discovering tenant improvements.

A determination should be made as to whether or not they are structure items, fixtures, or non-assessable expenses such as maintenance, repairs, or remodel. Proper classification of leasehold improvements as structure items or fixtures is important because fixtures are treated differently than structures. Fixtures are a separate appraisal unit when measuring declines in value; in certain cases, fixtures are not subject to supplemental assessments. Additionally, fixtures and personal property are components in the value criteria for qualification of a mandatory audit.

In our prior survey, we recommended that the assessor ensure coordination between the business property and real property staff to discover changes in ownership of the land where a billboard is constructed. The assessor has implemented this recommendation. All tenant improvement information, including information on billboards, is forwarded to the real property staff. In addition, the business property staff forwards the business property statement to the real property staff for review and coordination when necessary.

We found that the Butte County Assessor properly classifies reported structural improvements and fixtures on the unsecured roll.

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

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

In Butte County, the assessor assesses both private water companies regulated by the California Public Utilities Commission and municipal water systems. In the prior survey, a recommendation was made to annually review county and state water inspection reports to discover assessable water company properties. The assessor at that time was not receiving any of the reports to ensure that he was assessing all water company properties. The assessor still does not receive the water reports from the Butte County Department of Public Health, Division of Environmental Health, or the State Office of Drinking Water. We obtained a list of all water supply sources annually inspected by the Butte County Department of Environmental Health, the California State Department of Health Services' Drinking Water Field Operations Branch, and the California Public Utilities Commission (CPUC), and did not find any unassessed water company properties. Therefore, we do not repeat this recommendation.

## Private Water Companies Regulated by the California Public Utilities Commission

Regulated water companies are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the California Public Utilities Commission (CPUC). The CPUC regulates the rates charged by private water companies, limiting profits to a return based on the companies' outstanding investment. Because the assessed values of these properties are tied directly to regulated rates, current market value may be less than a water company's factored base year value, making it necessary to periodically determine its taxable value as of the lien date. The market value of regulated water company property is often close to the Historical Cost Less Depreciation (HCLD) indicator when the income from the property is regulated by law and is based on the company's book cost less depreciation.

Butte County has two water companies regulated by the CPUC. Our examination of the appraisal records for the two regulated water companies indicates that the assessor correctly assesses properties owned by these water companies using the historical cost less depreciation (HCLD) method.

In our prior survey, we recommended that the assessor correlate the income, sales comparison, and HCLD approaches to value the property of regulated water companies. Because there are very few, if any, sales of regulated water companies in Butte County to perform a sales comparison and because the value indicated by the income approach should almost be the same value as the HCLD approach, we do not repeat this recommendation.

## Municipal Water Systems

The California Constitution exempts from taxation property owned by a local government that is located within its boundaries. This includes property owned by city water departments or water districts located within city limits or district boundaries. When a municipal water system owns property located outside of the agency's boundaries, however, the property located outside the boundaries is taxable if it was taxable at the time it was acquired by the city or district.

In Butte County, we found that parcels owned by municipal water systems located within city limits or district boundaries are correctly exempted from taxation. In our prior survey, we recommended that the assessor review real property owned by government-owned water systems to discover property assessable pursuant to section 11 of article XIII of the California Constitution. The assessor is correctly assessing land and improvements or municipal water systems located outside of their boundaries according to article XIII, section 11 of the California Constitution as taxable government-owned land. We do not repeat the recommendation.

## **Mineral Property**

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

*Geothermal Properties.* These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties, and are specific to mineral properties only.

In our prior survey, we recommended that the assessor obtain petroleum property appraisal records from the assessor's former consultant, adjust the factored base year value of petroleum properties for changes in the reserves, and assess mining properties as an appraisal unit. The assessor is now in possession of the prior year's appraisal records; however, the assessor has not implemented the other two recommendations, which are repeated in this survey.

Butte County has a small number of gas wells. A senior property appraiser is responsible for assessing all gas wells in Butte County. The assessor values these properties by using a discounted cash flow analysis model. In addition, Butte County has a number of sand and gravel quarries. The assessor uses the royalty method to determine the value of the mineral rights in these properties.

We noted the following areas in the assessor's mineral property assessment program that need improvement.

**RECOMMENDATION 9:** Revise the mineral property assessment program by:  
(1) modifying the cash flow analysis template for gas well properties to comply with rule 8, (2) adjusting the factored base year value of gas well properties for changes in the reserves according to rule 468, and (3) assessing mining properties as an appraisal unit according to rule 469.

**Modify the cash flow analysis template for gas well properties to comply with rule 8.**

The assessor uses a cash flow template that allows deductions from the income stream for items not allowed in the valuation of gas well properties for property tax purposes. In using the template, the assessor incorrectly included deductions for royalties and property taxes in the cash flow analysis.

Rule 8(c) specifically provides that gross outgo does not include rents and royalties payable by the assessee for the use of the property, property taxes, corporation net income taxes, and corporation franchise taxes. Deducting these items from the income stream reduces the net income and understates the value determined by the cash flow analysis.

**Adjust the factored base year value of gas well properties for changes in the reserves according to rule 468.**

In valuing gas well reserves, the assessor does not adjust the factored base year value of the reserves according to rule 468. Because gas well reserves are depleting assets, the factored base year value must be adjusted each year to reflect depletion and additions of the reserves.

According to rule 468, the proper method of calculating the current year's lien date taxable value of reserves is to deduct the base year value of removed reserves from the existing factored base year values and then add the current market value of any new reserves. Reserve additions as a

result of economic or operational improvements need to be reflected in the factored base year value. For each roll year, the combined value of the adjusted factored base year value for depletion plus any additions should be the taxable value of the reserves. Without tracking the factored base year value the assessor cannot know whether the factored base year value or current market value is the lower value.

**Assess mining properties as an appraisal unit according to rule 469.**

The Butte County Assessor separates the appraisal of mining properties into two separate components, real property and business property. The real property staff appraises the land and mineral rights, while the business property staff appraises the improvements and fixtures that are associated with the property. Except for changes in ownership and new mining properties, each appraisal is done separately and independently of the other. There is no coordination between the two staffs to determine the value of the total appraisal unit. The assessor determines the lower of the market value or factored base year value of the real property, determines the market value of the business property, then adds these two values together for the value of the appraisal unit.

For purposes of measuring declines in value, rule 469(e)(2)(C) provides that declines in the value of the mineral property shall be recognized when the current market value of the appraisal unit, (i.e., land, improvements including fixtures, and reserves), is less than the factored base-year value of the same unit. In other words, the current market value of the land, improvements including fixtures, and reserves needs to be compared with the factored based base year value of the land, improvements including fixtures, and reserves. The lesser of these two values should be enrolled as the assessed value. Failure to determine the total appraisal unit value can result in the mineral rights being enrolled at the factored base year and the fixtures and equipment enrolled at the current market value.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

### **Audit Program**

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

The assessor's business property staff is composed of three full-time certified auditor-appraisers, one staff services systems specialist, two assessment clerks, and one supervising auditor-appraiser. The following table shows the total number of audits completed by the assessor from 1999-00 through 2002-03:

FISCAL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2002-03	70	45	25	\$27,356,971
2001-02	72	44	28	\$15,853,961
2000-01	69	49	20	\$5,571,712
1999-00	78	48	30	\$10,889,035

In our prior survey, we recommended that the assessor timely audit all mandatory accounts, and obtain signed waivers of the statute of limitations from the taxpayer when a mandatory audit could not be completed timely. The assessor has not implemented either recommendation and they are repeated below.

**RECOMMENDATION 10:** Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469, and (2) obtaining signed waivers of the statute of limitations whenever a mandatory audit cannot be completed timely.

**Audit the books and records of professions, trades, or businesses pursuant to section 469.**

We found that the assessor was not completing his mandatory audits within the four-year time period. We found that there are still a substantial number of audits carried over from prior years. Additionally, we found that the assessor does not audit any exempt organizations that meet the mandatory audit threshold established in section 469.

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more for four years. The staff has a total workload of approximately 200 mandatory audit accounts, or an average of about 50 audits per year to complete.

By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to permanently escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

**Obtain signed waivers of the statute of limitations whenever a mandatory audit cannot be completed timely.**

The assessor has many mandatory audits that could not be started or completed within the statutory time frame defined in section 532. In most instances, a waiver of the statute of limitations was not requested.

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

The use of a waiver can protect the owner's right to a refund of taxes paid for additional years, and also allows the assessor to enroll additional escape assessments if appropriate.

When the statute of limitations on an assessment year is allowed to expire, the assessor cannot assess any escape assessments or refunds discovered for that year and any revenue is lost.

***Business Property Statement Program***

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of

the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

The Butte County Assessor receives business property data from taxpayers on the business property statement (BPS). Statements are mailed annually to taxpayers having more than \$100,000 in assessable business property pursuant to section 441. Rule 172 provides that property statements must be signed by the assessee, a partner or duly appointed fiduciary or authorized agent. The assessor may reject a property statement not filed pursuant to rule 172.

The business property staff provided the following information regarding business statement processing and workload for lien date 2003:

STATEMENT TYPE	NUMBER OF STATEMENTS	ASSESSED VALUE
General Business	5,382	\$673,948,923
Agricultural	1,466	Inc. in Gen. Business
Vessels	2,963	\$26,802,910
Aircraft	244	\$15,438,913
TOTAL	10,055	\$716,190,746

In our prior survey, we recommended that the assessor return incomplete business property statements to the taxpayers to be completed. At that time, it was discovered that the assessor was accepting statements where the taxpayer had failed to answer questions that could alert the assessor to possible changes in ownership, new leasehold improvements, remodeling, or changes in location for the taxpayer and the records. In our current review, we found that the assessor has implemented this recommendation. We found no other problems with the business property statement program.

### **Business Equipment Valuation**

#### **Commercial, Industrial, and Agricultural Equipment**

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

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

In our prior survey, we recommended that the assessor use a uniform approach to value similar property types, specifically, billboards. In our current survey, we found that the assessor is using the State of California's Department of Transportation's valuation schedule to assess all billboards in the county. Department of Transportation's valuation schedule is based on replacement cost new less depreciation. Therefore, the recommendation is not repeated.

In our prior survey, we recommended that the assessor use the AH 581 as intended. The assessor has not implemented this recommendation, and is repeated in this report.

**RECOMMENDATION 11:** Use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The Butte County Assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices and percent good factors parallel the factors in the AH 581, with the exception that the CAA tables provide minimum percent good factors for older equipment and untrended valuation factors for specific types of office equipment.

Because the assessor uses the CAA tables, he employs unsupported minimum percent good factors for older equipment. Beginning with the 2003 lien date, assessors are prohibited from using minimum percent good factors that are determined in an unsupported manner. The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good. The assessor has no supporting evidence for using such minimum factors; hence, his minimum percent good factors are not supported as required by section 401.16.

Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA is not supported by a study.

### ***Leased Equipment***

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

Taxpayers are required to 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.

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

We found that the leased equipment program is well managed with staff doing an excellent job in the discovery, processing, tracking, and assessing of leased equipment.

## **Manufactured Homes**

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

For the 2003-04 roll, there were 7,410 manufactured homes in Butte County with an assessed value of \$172,220,681. About one-half of them are located in 106 mobilehome parks, with the remainder on land owned by the manufactured home owner.

The assessor has assigned the appraisal of manufactured homes located in mobilehome parks to one senior appraiser and two appraisal specialists. Manufactured homes not located in a mobilehome park are assigned to the appraiser responsible for that geographic area.

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, field discovery, referrals from other counties, and dealer's reports of sale.

In our prior survey, we recommended four changes in the assessor's program for assessing manufactured homes. We recommended that the assessor consider the value in recognized value guides as required by section 5803. We found that the assessor is now using the *Kelley Blue Book Manufactured Housing Used Value Guide* to value manufactured homes.

We recommended that the assessor classify and enroll manufactured homes as personal property as required under section 5801. Since then, the assessor has converted to a new computer system in which all manufactured homes are now properly classified as personal property.

Our third recommendation was that the assessor supplementally assess only manufactured homes that change ownership after the initial enrollment. Our review indicates the assessor is not enrolling the fair market value of the manufactured home on the regular roll until the lien date following conversion, thereby implementing our recommendation.

Our fourth recommendation was for the assessor to annually review manufactured homes for declines in value on each lien date. Currently, we found that the assessor is now periodically reviewing manufactured home assessments for declines in value. The assessor is now in compliance with our recommendation.

## **Aircraft**

### **General Aircraft**

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to

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

Butte County assessed 242 general aircraft for the 2003 lien date with a total assessed value of \$15,438,913.

In our prior survey, we recommended that the assessor adjust the value of general aircraft indicated by the *Bluebook* as recommended by BOE. Currently, we found that the assessor used the *Bluebook* in valuing general aircraft and made the proper adjustment as recommended in the prior survey.

We also recommended that the assessor contact those airport owners and managers who do not return the airport manager's report. The assessor is now requiring all airport managers to file and return the airport manager's report. The assessor has an effective program in place for the valuation of general aircraft; however, we did find a problem with the assessor's aircraft property statement.

**RECOMMENDATION 12:** Reference the correct statutory provisions on the aircraft property statement.

The assessor's aircraft property statement requests information from aircraft owners by incorrectly referencing sections 441 and 445. Sections 441 and 445 apply to property statements other than aircraft property statements. The correct reference for the aircraft property statement is section 5365. Section 5365 requires the owner of an aircraft to file an annual statement providing aircraft assessment information to the assessor.

### **Certificated Aircraft**

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

The Butte County Assessor assesses one air taxi and one cargo freight carrier. We found that the county values certificated aircraft according to the procedures specified in section 401.15.

### **Historical Aircraft**

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2)

any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

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

The assessor granted three historical aircraft exemptions for the 2003-04 assessment roll. We found no problems with this program.

**Vessels**

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

The Butte County Assessor assessed 2,953 vessels on the 2003-04 assessment roll, with a total assessed value of \$26,802,910.

The following table shows the assessor's vessel data for the last five years:

ROLL YEAR	PLEASURE VESSELS	
	NUMBER	ASSESSED VALUE
2003-04	2,953	\$26,802,910
2002-03	2,924	\$25,782,580
2001-02	3,054	\$24,210,590
2000-01	3,179	\$27,774,320
1999-00	3,554	\$25,146,140

The assessor uses the *ABOS, New Boat & Motor Price Guide Blue Book*, to value vessels. In certain instances, other sources may be used such as internet resources and local manufacturer sales. If the reported purchase price falls within the indicated value range established by the price guide, the sales price is enrolled. Sales tax is correctly added to the indicated value of the vessels by price guides.

In our prior survey, we recommended that the assessor use a market-derived procedure to assess pleasure vessels and contact marinas that did not return a harbormaster's report. Our current review indicates that the assessor has not corrected either problem. We repeat both

recommendations. However, the first part of the recommendation has been restated to more accurately address the issue.

**RECOMMENDATION 13:** Revise the vessel assessment program by: (1) annually assessing vessels at market value, and (2) sending the marina report form to all marinas.

**Annually assess vessels at market value.**

After the initial assessment, the assessor continues to annually apply a fixed depreciation adjustment to all vessel assessments. While the practice of using a fixed depreciation adjustment simplifies the assessment process for the auditor-appraiser responsible for valuing vessels, it may or may not reflect market value. In addition, there is no study or research supporting this adjustment.

A more valid valuation method, described in Assessors' Handbook Section 576, *Assessment of Vessels*, Chapter 3, would be to first categorize all vessels into two major groups (new and used) and, in each group, six subgroups (cruiser/powerboat, sailboat, inboard, onboard, inboard/outboard, and jet ski). Second, calculate depreciation rates for these subgroups by comparing a sample of each subgroup in published boat valuation guides for the current year and previous year. Finally, apply the depreciation rates to all vessels within each subgroup.

**Send the marina report form to all marinas.**

In our prior survey, we recommended that the assessor contact marinas that did not return a harbormaster's report. In our current review, we found that the assessor was not mailing the marina report forms to the marinas. The assessor has a procedure in place to send the marina report form to marinas, but due to a breakdown in communications, no forms were mailed out for the last few years. We found several vessels berthed in marinas in Butte County on January 1, 2003 that were not being assessed.

Section 601 requires the assessor to discover and inventory all property within the county. By not sending a form to help discover assessable vessels, some vessels escaped assessment and tax revenue was lost.

## **APPENDICES**

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

#### ***Butte County***

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

Mickie Stuckey

***Survey Program Director:***

Benjamin Tang

Principal Property Appraiser

***Survey Team Supervisor:***

Arnold Fong

Supervising Property Appraiser

***Survey Team Leader:***

Ronald Louie

Senior Specialist Property Appraiser

***Survey Team:***

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Robert Donay

Associate Property Appraiser

Robert Rossi

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Pamela Bowens

Associate Property Auditor-Appraiser

Raymond Tsang

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

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

### **Government Code**

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

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

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

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

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

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

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

**15642. Research by board employees.**

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

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

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

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

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

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

**Revenue and Taxation Code**

**75.60. Allocation for administration.**

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

(b) For purposes of this section:

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

**Title 18, California Code of Regulations**

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

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
  - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

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

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

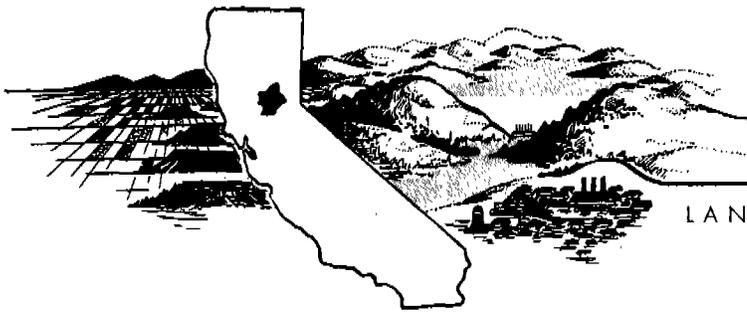
- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and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

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

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

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

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



# Butte County

LAND OF NATURAL WEALTH AND BEAUTY

KENNETH O. REIMERS  
ASSESSOR  
25 COUNTY CENTER DRIVE  
OROVILLE, CALIFORNIA 95965-3382

Telephone: (530) 538-7721  
Fax: (530) 538-7991

May 10, 2005

Mickie Stuckey, Chief  
State Board of Equalization  
Property Taxes Department  
P.O. Box 94279  
Sacramento, CA 94279-0063

RECEIVED  
MAY 16 2005  
County Property Tax Division  
State Board of Equalization

Subject: Butte County Assessment Practices Survey Response

Dear Ms. Stuckie,

Enclosed is my response to the recommendations in the State Board of Equalization Assessment Practices Survey of Butte County. This response was prepared in accordance with Section 15645 of the California Government Code.

I would like to express appreciation to Mr. Arnold Fong and the survey team for the professional manner in which the survey was conducted. Obviously, an independent periodic survey of Assessors' assessment practices can be a valuable reminder and management tool that will be utilized to enhance our office policy and procedures.

I would be remiss in not thanking and acknowledging my staff's commitment to public service. They are constant reminders of a staff that is committed to constant improvement – I continue to receive comments (unsolicited) from the public, relating how helpful they have found my staff, in helping them resolve an issue or simply answer a question.

Sincerely,

Kenneth O. Reimers  
Butte County Assessor

# ASSESSOR RESPONSE TO SURVEY RECOMMENDATIONS

**Recommendation One:** Update the section on disaster relief in the assessment information packet available at the front counter: The form has been amended to a minimum qualifying loss of \$10,000.

**Recommendation Two:** Review the low-value property print-out to discover unqualified low-value properties: Do to an oversight, we inexplicably failed to respond to values exceeding the \$2,000 limit. Obviously, we would not produce the list if it were not our intention to check out apparent errors. We will emphasize the review this year.

**Recommendation Three:** Revise the form-procedures by (1) using only the current version of BOE-prescribed forms, and (2) ensuring locally-developed forms reflect the correct assessment appeals annual filing deadline: (1) We are using up the old forms in a waste-saving measure. We have ordered the new forms; (2) Our supplemental assessment forms now have the correct application filing deadline on them. We will review other forms that might reflect the incorrect September 15<sup>th</sup> deadline.

**Recommendation Four:** Value subject to improvement bonds in accordance with section 110(b): We have been adding the bond indebtedness to the selling price as reflected in the market. This is based upon two things. First, we feel a knowledgeable buyer realizes that the total price they pay for the property includes bonded debt. Second, market value sales of similar properties with and without bonds reflect the bond debt. We have not done a detail formal study; however, the true issue here seems to center around “preponderance of evidence”. We have never had this raised by a taxpayer in an assessment appeal. We believe that the improvement bonds affect sale price and is self-evident in the market especially in the case where the improvements are already installed on site.

**Recommendation Five:** Correctly compute the capital replacement allowance for irrigation wells: We will change the formulation so that property taxes are not (in effect) deducted twice. We believe this may be a Megabyte template error, so it may affect other counties as well.

**Recommendation Six:** Establish base year values for taxable government-owned properties acquired after March 1, 1975, in accordance with BOE guidelines: I believe we now have two of these properties. We will establish the base year value in accordance with Letter 2000-37. We will then factor this value forward in any forthcoming tax rolls if it is lower than either current market value or the restricted value.

**Recommendation Seven:** Improve the possessory interest assessment program by: 1) assessing all taxable possessory interests at the county fairgrounds, (2) annually determining the market value of a possessory interest based on the stated term of possession as required by rule 21, and (3) implementing a tracking system for possessory interest accounts to flag reassessable events: We will pursue possessory interests at the county fairgrounds as time and resources allow; (2) although philosophically opposed to the current interpretation of Rule 21, we will develop a template that can annually reassess possessory interests based upon the reduced term of possession: and (3) we will implement a spreadsheet that tracks reassessable possessory interest events.

**Recommendation Eight:** Value historical property according to section 439.2: We will remove the deduction for property taxes (on our one historical property) as an expenditure.

**Recommendation Nine:** Revise the mineral property assessment program by: (1) modifying the cash flow analysis template for gas well properties to comply with rule 8, (2) adjusting the factored base year value of gas well properties for changes in the reserves according to rule 468, and (3) assessing mining properties as an appraisal unit according to rule 469: (1 & 2) The recommendation of eliminating deductions for royalties and property taxes will be heeding in our future assessments. We have valued mineral right assessments using the Royalty Appraisal Technique as described in AH560. It is employed because it is “simple, straightforward, and unencumbered by the necessity of collecting income and expense data”. The income considered in this technique is a royalty payment made from the mine operator directly to the land owners. The appraisal unit concept groups “... property which persons in the market place normally buy and sell as a unit ...” For mineral properties this would be preferred when valuing an operation which had a site for production and a second site necessary for processing. One would create a cash flow based on the income of the overall operation, discount this cash flow and then allocate values to each of the components of the unit which produce the cash flow. In relation to (3) we will continue to attempt to coordinate the business division and the real property division in lien date reviews of unit value for tax rolls subsequent to changes in ownership and new mining properties.

**Recommendation Ten:** Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469, and (2) obtaining signed waivers of the statute of limitations whenever a mandatory audit cannot be completed timely: (1) Having lost an auditor appraiser since this audit was completed; we will still make an attempt to catch up on audits pursuant to section 460; and (2) we will also attempt to get signed waivers.

**Recommendation Eleven:** Use Assessor's Handbook Section 581, Equipment Index and percent Good Factors, as intended: Assessor's working through the California Assessors' Association (CAA) have spent a significant amount of time reviewing business property percent good factors on an annual basis. A key task of the CAA Business Property Subcommittee has been to convene Business Division Chief Appraisers from throughout the state. The purpose of the meetings are to review audit results, assessment appeal information, and any other data to determine appropriateness of property lives, replacement cost data, and loss of value (percent good) tables. The point here is we utilize the best information available to properly value all property. Until the State identifies a recommended economic life for most California business property assets, we don't have much confidence in AH 581 percent good tables.

Our decision to use untrended tables on certain types of equipment is a matter of appraisal judgment. With technology as it is, the cost new of some assets is actually less than the cost of the original asset when it was new. Regarding the minimum percent good, in some cases we actually go below the 125% guideline. I believe the CAA is current working toward a more supportable minimum percent good policy.

**Recommendation Twelve:** Reference the correct statutory provisions on the aircraft property statement: It is likely we will use the SBE approved Aircraft Property Statement for 2006, since it has been revised to include the information that we need. If we choose not to use it, we will correct the code section on our aircraft form for 2006.

**Recommendation Thirteen:** Revise the vessel assessment program by: (1) annually assessing vessels at market value, and (2) sending the marina report form to all marinas: (1) We have utilized the depreciation schedule model in past years primarily due to lack of time and resources. We recently had our assessment standards officer retire (he had done our boats for years). We have reassigned that program to our business division chief and expect to give it the attention it deserves for this upcoming assessment year. (2) We are currently sending the marina reports to all marinas and storage facilities. Last years' problem was indeed due to a lack of communication.