

COLUSA COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2004

CALIFORNIA STATE BOARD OF EQUALIZATION

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December 31, 2004

TO COUNTY ASSESSORS:

COLUSA COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2004/083

A copy of the Colusa 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 E. Dan O'Connell, Colusa 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 Colusa 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 September 2003 through February 2004. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. O'Connell 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 Colusa 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 Colusa 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 E. Dan O'Connell, Colusa 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 Code¹ section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Colusa County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Colusa County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2003-04 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

¹ 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 2001 Colusa County Assessment Practices Survey, we made 30 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented 19 of the recommended changes, partially implemented one recommendation, and did not implement 10 recommendations.

In the area of general administration, we noted that Colusa County has participated in the State-County Property Tax Administration Program (PTAP) since its inception. The Colusa County Auditor-Controller has verified the assessor meeting the contract requirements each year. Several administrative components of the assessor's programs have room for improvement:

- The assessor granted the religious exemption for vacant undeveloped land owned by a church, but not currently used for church or religious purposes.
- The county's disaster relief ordinance is outdated and the assessor's disaster relief claim form does not reflect current statutory provisions.
- The assessor did not submit the final prints of the BOE-prescribed forms for approval as required by rule 171.²

In real property assessment, the assessor has effective programs for change in ownership, new construction, supplemental assessment, California Land Conservation Act property, restricted historical property, and leasehold improvements. However, we noted the following deficiencies in his real property program:

- The assessor does not document his decline in value assessments.
- The assessor does not assess a number of taxable government-owned properties.
- The assessor does not assess all taxable possessory interests (PIs) at the county fairgrounds and is not using the contract term of possession as required by rule 21 in the valuation of taxable PIs.
- The assessor does not determine the current market value of real property owned by private water companies.

In the area of business property assessment, the assessor has an effective leased equipment assessment program, leasehold improvements program, and animals and racehorse assessment programs. However, we noted the following deficiencies:

- The assessor is not completing mandatory audits in a timely manner and does not obtain waivers of the statute of limitations for unfinished mandatory audits.
- The assessor reduces the value guide estimate for aircraft without documentation and adjusts the value guide estimate for reported condition problems without documentation.

² All rule references are to California Code of Regulations, Title 18, Public Revenues.

- Subsequent to the initial assessment, the assessor applies an unsupported depreciation factor for vessels each year.
- The assessor does not review manufactured home assessments for declines in value.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

The Colusa County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2003-04 assessment roll indicated an average assessment ratio of 99.79 percent, and the sum of the absolute differences from the required assessment level was 0.29 percent. Accordingly, the BOE certifies that Colusa County is eligible to continue receiving reimbursement 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.

RECOMMENDATION 1: Verify qualifying uses before granting the religious exemption.13

RECOMMENDATION 2: Revise the disaster relief procedures by: (1) requesting that the board of supervisors amend the county's disaster relief ordinance to reflect the current requirements of section 170, and (2) revising the application form to comply with section 170.15

RECOMMENDATION 3: Submit final prints of the BOE-prescribed forms for approval as required by rule 171.17

RECOMMENDATION 4: Document decline-in-value assessments.25

RECOMMENDATION 5: Identify and assess all taxable government-owned property.26

RECOMMENDATION 6: Revise the PI assessment procedures by: (1) assessing all taxable PIs at the county fairgrounds, and (2) annually reappraising PIs with a stated term of possession using the remaining contract term as required by rule 21.27

RECOMMENDATION 7: Assess all water company properties at the lower of their factored base year value or their full cash value.28

RECOMMENDATION 8: Revise the mandatory audit procedures by: (1) completing all mandatory audits as required by section 469, and (2) obtaining signed waivers of the statute of limitations when a mandatory audit will not be completed within the limitations period.31

RECOMMENDATION 9: Revise the aircraft assessment procedures by: (1) annually assessing general aircraft at market value, and (2) documenting aircraft condition adjustments.36

RECOMMENDATION 10: Annually assess vessels at market value.....37

RECOMMENDATION 11: Review all manufactured homes for decline in value.....37

RESULTS OF 2001 SURVEY

Disaster Relief

We recommended the assessor accept only timely filed disaster relief applications and restore the assessed value of properties granted disaster relief in accordance with section 170(e). The assessor has changed his disaster relief program and is in compliance.

Assessment Roll Change Procedures

We recommended the assessor cite the proper notation required by section 533. However, section 533 was recently amended by Chapter 200, Statutes of 2004 (SB 1880), to remove the requirement that a notation of escape assessment be entered on the assessment roll. Therefore, this recommendation is not repeated.

Religious and Church Exemptions

We recommended the assessor grant church and religious exemptions only for property used for qualifying purposes. Since the assessor continues to exempt property that does not qualify for the church and religious exemption, we repeat our recommendation.

Change in Ownership

We recommended the assessor document the appraisal records of properties that transfer without reported selling prices. Documentation has been improved and we consider the recommendation implemented.

New Construction

We recommended the assessor obtain building permits from all issuing agencies and document new construction assessments on appraisal records. The assessor has complied with these recommendations.

Declines in Value

We recommended the assessor document decline-in-value assessments on appraisal records. Since the assessor still does not document decline-in value assessments, we repeat this recommendation.

Supplemental Assessments

We recommended the assessor enroll all supplemental assessments, regardless of value. The assessor now enrolls all supplemental assessments.

California Land Conservation Act Property (CLCA)

We recommended the assessor recognize and capitalize all compatible use income of CLCA properties pursuant to section 423. The assessor has revised his program so that he is now in compliance with the requirements of section 423.

Taxable Government-Owned Property

We recommended the assessor identify and assess all taxable government-owned properties that were located outside the agency's boundaries. Since the assessor has not implemented this recommendation, it is repeated in this survey report.

Taxable Possessory Interests (PI)

We recommended that the assessor: (1) identify the specific agencies controlling government-owned parcels, (2) reappraise taxable PIs in accordance with section 61(b)(2) when the anticipated term of possession used by the assessor has expired, (3) use the correct present worth factor when valuing PIs, and (4) ensure that PI appraisal records contain supporting documentation. The assessor has implemented these recommendations.

In addition, we recommended the assessor identify and assess qualifying private uses of fairground facilities. The assessor still does not assess uses of the fairground that have a value greater than \$50,000. We are repeating this recommendation.

Mandatory Audits

We recommended the assessor: (1) complete all mandatory audits required by section 469, (2) adopt minimum audit guidelines, and (3) obtain signed waivers of the statute of limitations when a mandatory audit will not be completed on time. The assessor has only implemented the second recommendation. We are repeating the other two recommendations.

Equipment Valuation Factors

We recommended the assessor: (1) use the appropriate percent good factors when valuing agricultural and mobile construction equipment, (2) discontinue use of arbitrary minimum percent good factors, and (3) assess computers using the BOE's recommended factors. The assessor has implemented these recommendations.

Vessels

We recommended the assessor annually assess vessels at market value. Since the assessor has not changed his vessel assessment program, this recommendation is repeated.

Aircraft

We recommended the assessor: (1) annually assess general aircraft at market value, (2) use the edition of the aircraft valuation guide that best approximated lien date values, reducing those values by 10 percent, (3) document aircraft condition adjustments, and (4) require an annual aircraft property statement from aircraft owners whose aircraft cost \$100,000 or more. The assessor has implemented the second and fourth recommendations. We repeat the other two.

Manufactured Homes

We recommended the assessor: (1) classify manufactured homes as personal property, (2) consider value estimates listed in recognized manufactured home value guides, and (3) annually review all manufactured homes for declines in value. The assessor has implemented the first and second recommendations. The third recommendation has not been implemented and is repeated in this report.

OVERVIEW OF COLUSA COUNTY

Colusa is one of 27 original California counties created in 1850. The City of Colusa, which was incorporated in 1868, serves as the center for county government. The only other incorporated area is the City of Williams, incorporated in 1920.

Colusa County is located in the northern part of California's Central Valley. The county is bordered by Glenn County to the north, Yolo County to the south, Butte and Sutter counties to the east, and Lake County to the west.

Colusa County contains 1,156 square miles, of which 5.7 square miles are within incorporated areas. Approximately 42,000 acres are contained within a national wildlife refuge. Much of the land area in Colusa County is devoted to agriculture. Employment in Colusa County is predominantly oriented toward agribusiness.

The following table illustrates the county's total employment by industry based on the percentage of employment:

INDUSTRY	PERCENTAGE OF EMPLOYEES
Agriculture	29.5%
Government	25.1%
Retail Trade	14.5%
Manufacturing	10.7%
Services	8.3%
Wholesale Trade	4.8%
Transportation & Public Utilities	3.6%
Finance, Insurance & Real Estate	2.2%
Construction & Mining	1.2%

ADMINISTRATION

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

Budget, Workload, and Staffing

Budget

To enable the assessor to perform his duties, the county board of supervisors annually funds the office through the county's general fund. The allotted funds are provided so that the assessor can produce a timely roll of all properties subject to local assessment, 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.

The assessor's budget for the last five years is illustrated in the following table:

FISCAL YEAR	ACTUAL BUDGET	PERCENT CHANGE
2002-03	\$794,853	6.8%
2001-02	\$744,561	13.6%
2000-01	\$655,341	5.0%
1999-00	\$624,148	6.4%
1998-99	\$586,617	

The above figures do not represent money provided by the State's Department of Finance through the Property Tax Administration Program (PTAP). This funding is addressed in a separate section of this survey report.

Workload

The assessor produced a local assessment roll for 2003-04 consisting of 14,297 assessment parcels (12,619 on the secured roll and 1,678 on the unsecured roll). This assessment roll had a gross taxable value of \$1,748,607,161, which was an increase of 3.918 percent over the 2002-03 roll total of \$1,682,686,789.

The 2002-03 real property workload consisted of approximately 406 changes in ownership and approximately 250 assessments of new construction. The roll included slightly more than 40 manufactured homes, nearly 70 taxable possessory interests, 342 California Land Conservation Act contracts, and approximately 310 decline-in-value assessments. The assessor also completed a business property workload that included processing approximately 1,700 business property statement reviews (both secured and unsecured), over 390 vessel assessments, and 99 aircraft

assessments. The assessor was unable to provide any total numbers of audits (mandatory and non-mandatory) completed. Each topic is discussed elsewhere in this report.

Staffing

The assessor's office has 12 budgeted full-time positions, including the assessor. In addition, from time-to-time, the assessor employs an auditor-appraiser to help with the more complex audits.

The assessor has produced a local roll (secured and unsecured assessment rolls) that has increased slightly in size, as the following table illustrates:

ROLL YEAR	NO. OF ASSESSMENTS	TOTAL ROLL VALUE	% INCREASE
2003-04	14,297	\$1,748,607,161	3.92%
2002-03	14,119	\$1,682,686,789	0.40%
2001-02	14,016	\$1,675,932,626	5.30%
2000-01	14,321	\$1,591,570,917	0.15%
1999-00	13,236	\$1,589,170,979	---

State-County Property Tax Administration Program (PTAP)

In 1995, the legislature established the State-County Property Tax Administration Program (PTAP). This program, later designated the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for 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 elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTAP loan was considered repaid if the county satisfied agreed upon performance criteria set forth in the contract. 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 replace an 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.

Colusa County has participated in the PTAP program every year since its inception. For the latest contract, June 17, 2003, the State and county agreed to funding of \$53,957. This contract expires on June 17, 2004. Throughout the program, the assessor has maintained his staffing at the minimum level (10 positions) or higher, and gross budget appropriation of \$500,301 or higher as required by the contract.

The following table illustrates the 2002-03 projected goals and the units completed by the assessor using PTAP funding to qualify for the new contract:

CATEGORY	GOAL	UNITS COMPLETED
Non-Mandatory Audits	10	7
Proposition 8 Reviews	150	165
Photo Review for Non-Permitted Work	50	76
Business Property Canvass	110	121
Assessment Appeals - Consultant services	5	5

The Colusa County Auditor-Controller's Office has verified the assessor's performance of the contract requirements.

Appraiser Certification

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid appraiser's certificate issued by the BOE. The assessor's office has a total of five employees who are required to hold an appraiser's certificate. At the time of our survey, there was one appraiser position vacant. Further, section 670 requires that any person who performs section 469 audits (i.e., audits of businesses, required every four years, that have assessable trade fixtures and tangible personal property in excess of \$400,000) must meet additional qualifications.

Based on data obtained from the BOE Training Unit and the assessor's records, we confirmed that the assessor and his staff possess the required certificates. Four staff members have been issued the advanced appraiser's certificate. The contract auditor-appraiser also holds a valid appraiser certificate and meets the requirements of section 670.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This provision, implemented by section 206, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and necessarily required for church parking is exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for church-owned property as well as leased property meeting the requirements in section 206.1.

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

religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship and school purposes.

Four church exemption claims and 49 religious exemption claims were processed for the 2002-03 assessment roll. The following table illustrates religious and church exemption data for the 1998-99 through 2002-03 assessment rolls:

ROLL YEAR	RELIGIOUS		CHURCH	
	Number	Exempt Value	Number	Exempt Value
2002-03	49	\$6,122,444	4	\$394,438
2001-02	49	\$6,001,101	2	\$301,124
2000-01	50	\$5,903,495	2	\$295,221
1999-00	51	\$5,692,841	2	\$289,434
1998-99	51	\$5,581,217	2	\$283,759

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

Sections 255 and 256 require claimants for the church exemption to file an annual claim. In the claim files reviewed, the claimants had filed Form BOE-264-AH, *Church Exemption* annually. We found the assessor's church exemption program to be well documented and properly administered.

In Colusa 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 claimant is contacted by telephone to re-establish the religious exemption. If the assessor is unable to contact the claimant by telephone, he conducts an onsite inspection to verify exempt activity.

In our prior survey, we recommended the assessor grant exemptions only as authorized by the California Constitution. Specifically, we found that several churches received total religious exemptions from property tax even though large portions of those parcels were vacant or unused. Our current review indicates that the assessor has not corrected this problem and we therefore repeat the recommendation.

RECOMMENDATION 1: Verify qualifying uses before granting the religious exemption.

The assessor has granted the religious exemption to vacant undeveloped land owned by the church which is not currently used for church or religious purposes. Two examples involve a 7,000 square-foot church on a 4.94 acre parcel, and a 9,500 square-foot church on 3.66 acres. An inspection of the properties indicated that the land on these parcels is still not being used in a qualifying manner.

The religious exemption is limited to property used exclusively for religious worship, worship-related activities, and parking for these religious activities. It should not be granted to

vacant, unused, or excess property. The consequences of the assessor's practices are that non-qualifying properties have been improperly exempted.

Welfare Exemption

The welfare exemption from local property taxes is available for property of organizations formed and operated exclusively for qualifying purposes (religious, hospital, scientific, or charitable), which use the property 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 is responsible for determining whether an organization itself is eligible for the welfare exemption and issues *Organizational Clearance Certificates* to qualified nonprofit organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and approves or denies exemption claims without review by the BOE. Prior to the change in administration, exemption claims were reviewed by both the county assessor and BOE in order to determine eligibility for exemption.

The assessor may not grant a welfare exemption claim unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may 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 the number of welfare exemptions and the respective exempted values taken from the 1998-99 through 2002-03 assessment rolls:

ROLL YEAR	WELFARE	
	Number	Exempt Value
2002-03	16	\$10,347,942
2001-02	18	\$10,915,377
2000-01	15	\$10,732,502
1999-00	11	\$10,669,573
1998-99	12	\$10,814,353

Our review indicates the assessor's portion of the welfare exemption process is well administered. Accordingly, we have no recommendations in this area.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance that provides property tax relief to assessees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any qualifying misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

In our prior survey, we recommended that the assessor accept only timely filed disaster relief applications. The assessor has complied with this recommendation. The assessor processes approximately seven applications for disaster relief each year.

We also recommended the assessor restore the assessed value of properties granted disaster relief in accordance with section 170(e). The assessor has implemented this recommendation and is tracking the progress of repairs or replacement of improvements that have been damaged or destroyed.

The assessor currently receives fire reports from the California Department of Forestry and two other fire departments in the county. The assessor's alternative methods of discovering misfortune or calamity include weekly reviews of the county newspaper, field observations, review of building permits for demolition or repair of property damaged or destroyed, and information from taxpayers. Our review indicates that this office has an adequate discovery program.

On April 5, 1983, the Colusa County Board of Supervisors passed Ordinance No.430, granting the assessor the authority to provide tax relief on properties damaged by misfortune or calamity. However, the ordinance has not been updated to reflect the most recent amendments to section 170.

RECOMMENDATION 2: Revise the disaster relief procedures by: (1) requesting that the board of supervisors amend the county's disaster relief ordinance to reflect the current requirements of section 170, and (2) revising the application form to comply with section 170.

Request that the board of supervisors amend the county's disaster relief ordinance to reflect the current requirements of section 170.

Ordinance No. 430 provides that the application for misfortune or calamity relief must be delivered to the assessor within 90 days of the misfortune or calamity. The ordinance provides that the property must have suffered \$5,000 in damage and that the applicant may appeal the proposed reassessment within 14 days of the date of mailing of the notice of the proposed reassessment.

Chapter 407 of the Statutes of 2001 (Senate Bill 1181) made various amendments to section 170. The period for filing an application for assessment relief has been extended from 6 months to 12 months or the time specified in the ordinance, whichever is later. Additionally, the amendment provides that the amount of property damage necessary to qualify for assessment relief is increased from \$5,000 to \$10,000 and, the period for filing an application of the assessor's proposed valuation is increased from 14 days to 6 months.

We recommend that the assessor request the board of supervisors revise the local ordinance to reflect the current provisions of section 170.

Revise the application form to comply with section 170.

The assessor's *Application For Reassessment of Damaged or Destroyed Property* states that the damage must be in excess of \$5,000 and the property owner must file the application within six months after the occurrence of the damage.

For the same reasons stated above, the assessor's application for assessment relief should be revised to comply with the current provisions of section 170.

Low-Value Property

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

Resolution No. 98-54 was passed and adopted by the Colusa County Board of Supervisors on September 22, 1998. It provided that all vessels and all unsecured personal property and business trade fixtures having an assessed value of \$2,000 or less would be exempt from property taxation.

Additionally, a resolution exempting from taxation certain possessory interests with a base year value of \$50,000 or less was also passed and adopted by the board of supervisors on October 24, 2000. This resolution provided that all temporary and transitory possessory interests held in a publicly owned fairground, fairground facility, convention facility, or cultural facility having a total base year value or a full value of \$50,000 or less shall be exempt from taxation.

For the 2003-04 roll year, the assessor identified about 90 properties that qualified for the low-value property exemption. We found only one area in which we believe the county's low-value property exemption has been misapplied. This matter is discussed in more detail in the possessory interest section of this report.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.³ The BOE currently prescribes 76 forms for use by county assessors and one form for use by the county's assessment appeals board. Generally, the assessor has the option to change the appearance (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 a form provided 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 checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which

³ Also sections 480(b), 480.2(b), 480.4, and rules 101 and 171.

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

Of the 76 BOE-prescribed forms, the Colusa County Assessor indicated that he will use 41 for the 2003-04 assessment year. The assessor timely filed the BOE checklist of forms that he intended to use. He also indicated that he would not rearrange any forms that would be used for assessment purposes.

RECOMMENDATION 3: Submit final prints of the BOE-prescribed forms for approval as required by rule 171.

For the 2003 lien date, the assessor did not submit the final prints of the forms that he intended to use for this specific lien date. Rule 171 requires the assessor to annually submit to the BOE a final printed copy of each form for approval no later than February 10. Without obtaining BOE approval, the assessor may be requesting taxpayers to report using forms that are not legally required and not in compliance with current statutes.

Assessment Roll Changes

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

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

The Colusa County Assessor processed the following number of roll changes in the last three years: 281 (2002), 335 (2001), and 225 (2000). For purposes of comparison, the number of assessments for the above three-year period averaged just fewer than 14,000 per year.

In our prior report, we recommended that the assessor cite the proper notation required by section 533 when enrolling escape assessments. The assessor's policy for roll change notations on the local roll has not changed. However, section 533 was recently amended by Chapter 200, Statutes of 2004 (Senate Bill 1880), to remove the requirement that a notation of escape assessment be entered on the assessment roll. Therefore, this recommendation will not be repeated.

Assessment Appeals

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

In Colusa County, the assessment appeals board consists of the five elected members of the board of supervisors and meets as an assessment appeals board when assessment appeals are scheduled by the clerk of the board.

The clerk of the board receives and reviews assessment appeal applications, and forwards a copy to the assessor. The assessor reviews the applications and assigns the appeal to the chief appraiser who reviews the assessment. The chief appraiser also represents the assessor at the scheduled hearings.

The assessor maintains a spreadsheet to track the progress of assessment appeals. The following table illustrates the assessment appeals workload for the last five years as of April 2003:

Year	Total Appeals	Withdrawn	Resolved by Stipulation	Total Resolved	Carried Over To Next Year
2002-03	9	5	4	9	0
2001-02	15	1	12	13	2
2000-01	7	0	1	1	6
1999-00	15	6	9	15	0
1998-99	9	1	8	9	0

Except to hear stipulations, the board of supervisors has not convened as the assessment appeals board for the last five years.

Overall, the assessor's portion of the assessment appeal program is well administered. The assessor is experienced, well prepared, and works well with the assessment appeals board. We found no problems with the assessor's assessment appeals program.

ASSESSMENT OF REAL PROPERTY

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

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

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

In our prior survey, we recommended that the assessor document the appraisal records of properties in which no sales price was reported. The assessor has made a concerted effort to verify, analyze, value, and document the assessment of properties that transfer without reported selling prices. The basis for the value has been clearly documented with comparative sales analysis sheets. Property records were properly annotated with notes, remarks, and/or comments relating to the value change.

Document Processing

One of the assessor's main functions is to identify and value properties that have changed ownership. The California Constitution requires real property to be assessed at its full cash value on the 1975 lien date, or thereafter, whenever a change in ownership has occurred. Section 110.1 defines "full cash value" as the "fair market value" of the property. The assessed value on the 1975 lien date or the value that results from a change in ownership or new construction is referred to as its base year value. The base year value is adjusted annually to reflect inflation as measured by the California Consumer Price Index. The inflation factor cannot exceed 2 percent. The resulting compounded or indexed value is known as the factored base year value. The assessed value for each subsequent year is the lower of the current market value or the factored base year value.

The assessor and the recorder have an excellent working relationship. Documents are recorded, examined, and indexed into the recorder's system upon receipt; and those documents that relate to a change in ownership can be retrieved electronically by the assessor's staff.

The assessor's title and mapping section reviews and analyzes all changes in ownership received by the county recorder. Deeds are coded, grouped by date and sorted from each day's recordings. The title and mapping section analyzes the validity of the transfer, identifies the physical property involved, identifies the parties involved and their relationships, and assigns the appropriate percentage transferred. Parcel splits, lot line adjustments, and parcel combinations are sent first to mapping to be assigned new parcel numbers and then returned to the title and mapping section for processing.

Deeds are cross-referenced with the *Preliminary Change of Ownership Report (PCOR)*, Form BOE-502-A, and then forwarded to the appraisers for valuation. The transfer analyst examines the relationships of the parties and sends out parent/child transfer exclusion claim forms to potential applicants. Pending applications for exclusion are tracked by event date (actual mailing date) to allow time for the claims to be received and processed. The appraisal staff examines the financing information on the PCOR and makes any necessary cash equivalency adjustments, and analyzes the real estate market to determine the effect on market value.

Change of Ownership Statements

Deeds unaccompanied by PCOR's are specially coded and a Form BOE-502-AH, *Change of Ownership Statement (COS)*, is sent to the transferee. The assessor has a 98 percent return rate on change of ownership statements. If a COS is not returned, the assessor contacts the transferee. A total of 20 COS were mailed out for the 2002-03 assessment year.

The following table shows the number of recorded documents reviewed annually and the number of parent/child transfers processed for the past four years:

YEAR	NUMBER OF DOCUMENTS	NUMBER OF PARENT/CHILD TRANSFERS
2002-03	1,261	195
2001-02	940	165
2000-01	821	334
1999-00	1,063	109
1998-99	794	137

Valuation

Appraisers are assigned geographic areas of responsibility. They develop their own strategy for handling their workloads. Appraisers have a hard copy of the PCOR or COS in the appraisal records as well as access to all related information regarding the transfer. To perform the appraisals they are assigned, the appraisers use a comparable sales database system available on their computers. The system is very flexible and allows parameters to be adjusted for wide degree of variables.

Section 69.5 Base Year Value Transfers

Applications for base year value transfers pursuant to section 69.5, allowing the transfer of the base year value of one dwelling to another for a person over age 55 or disabled, are available at the assessor's office. Applications are received, assigned an identification number, and logged into the assessor's computer system. The application is checked against a database to determine whether there has been any prior exclusion.

The transfer analyst is responsible for the section 69.5 base year value transfer program. A package is assembled for each application, documenting the applicant's birth certificate, ownership, and assessment data for the original residence; the factored base year value for the original residence; ownership and assessment data on the replacement residence; and an approval checklist to ensure that all criteria are met. The taxpayer becomes aware of an approval or denial of their claim by the receipt of a *Notification of Assessment Change*. An approval/denial letter for these base year value transfers is also being developed.

The assessor granted only one base year value transfer exclusion for the 2003 assessment year and no applications were denied. Colusa County does not accept inter-county base year value transfers.

Public Transfer List

Section 408.1 requires all assessors in counties with populations exceeding 50,000 people, as determined by the 1970 federal census, to maintain for public inspection a list of transfers of any interest in property, other than undivided interests, within the county which have occurred within the preceding two-year period. The list must include certain information and is to be updated quarterly. The assessor may require the payment of a nonrefundable fee in the amount necessary, to reimburse the county for administrative costs incurred, or \$10, whichever is less. Colusa County has a population of only about 20,000 but still maintains a transfer list as a service to the taxpayer.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation (with example) of section 64 changes in ownership or control and applicable exclusions. Discovery of such a change in ownership is difficult because ordinarily there is no recorded notice of the transfer.

The BOE's LEOP Unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, the assessor's parcel number, or how many parcels they own. The LEOP Unit advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised. Between January 1, 1998 and January 1, 2003, the BOE notified the Colusa County Assessor of 9 LEOP transfers involving 27 individual parcels.

The assessor may also become involved in the discovery of corporate changes in control while examining business property statements or while corresponding with property owners. Sometimes, corporate officers will initiate the process by contacting the assessor's office to report changes in ownership.

The assessor's title and mapping section is charged with the processing of the LEOP notifications from the BOE. Additionally, field appraisers and other staff also notify this section about other possible corporate changes in control, as they become aware of potential transfers. The title and mapping section identifies the parcels involved in the corporate transfer from the notification list or correspondence with the entities owning property within Colusa County. The title and mapping section updates the assessor's computer system so that the field appraiser who is responsible for the valuation of the parcels can access all necessary information.

New Construction

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Clarification of statutory requirements for defining and valuing new construction is found both in rule 463 and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

In our prior survey, we recommended that the assessor obtain building permits from all issuing agencies, and that he document new construction assessments on appraisal records. The assessor has implemented both recommendations.

Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives permits from four permit-issuing agencies. The agencies are the cities of Colusa and Williams, Colusa County Building Department, and the County Department of Health Services. Other discovery sources include newspaper articles, business property statements, and field canvassing. The assessor receives copies of building permits or a list of all building permits issued on a monthly basis.

The following table illustrates the number of building permits received by the assessor and the number of building permits that created a change in value between 1999 and 2002:

ASSESSMENT YEAR	TOTAL PERMITS RECEIVED	NUMBER OF VALUE CHANGES	% OF PERMITS CREATING VALUE CHANGE
2002-03	671	250	37.26%
2001-02	568	271	47.71%
2000-01	666	188	28.23%
1999-00	544	293	53.86%

Permit Processing

All pertinent data is entered into the assessor's computer system for all building permits. Permits that are strictly for mechanical, plumbing, and electrical work are also logged in, but are not placed on the listing of building permits to be worked.

The appraiser who receives the building permit list is responsible for the determination of the value added by the new construction. The real property section notifies the business property section of any building permit activity indicating leasehold improvements or the addition of personal property items. When property values are changed because of new construction, the new value is entered into the assessor's computer system.

Owner's Self-Reporting Program

For all building permits that are determined to represent new construction, the assessor sends a *New Structure Questionnaire* to the property owner. Using the questionnaire, the property owner can provide the size and cost of construction, the status of work, the contractor name, and miscellaneous comments. The assessor estimates that property owners return approximately 95 percent of the questionnaires. In addition, the assessor generally performs a field review of all new construction. The questionnaires are used as supporting data for the final value determination.

Valuation

The assessor uses several cost sources to value new construction, including unit cost factors published in Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), the owner's actual cost, or locally developed market costs for rural and residential properties. The value of new construction of commercial, industrial, and special use properties is estimated using the sales comparison approach, the income approach, the replacement cost approach, or a combination of the three valuation approaches.

Supplemental Assessments

Sections 75 et seq. require the assessor to appraise property at its full cash value on the date the property changed ownership or upon completion of new construction and issue a supplemental assessment. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated assessment (the supplemental assessment) that covers

the portion of the fiscal year remaining after the date of change in ownership or completed new construction. Clarification of statutory requirements for supplemental assessments resulting from the completion of new construction is published in rule 463.500.

In our prior survey, we recommended that the assessor enroll all supplemental assessments, regardless of value, unless he obtained the board of supervisors' authorization to cancel small value supplemental assessments as provided by section 75.55(b). Since, the county has not adopted such an exemption, the assessor is required to enroll all supplemental assessments.

The recently installed computer system automatically processes supplemental assessments when new values for changes in ownership and new construction are inputted. Supplemental assessments are made and sent as an adjunct to the currently enrolled value or to the assessment roll being prepared. In this way, supplemental assessments are processed in a timely manner.

The total supplemental assessment process takes approximately one month from reappraisal event date to enrollment. The following table shows the number of supplemental assessments processed by the assessor for the last five years:

ASSESSMENT YEAR	NO. OF SUPPLEMENTAL ASSESSMENTS
2002-03	1,010
2001-02	703
2000-01	689
1999-00	198
1998-99	890

We found the assessor's supplemental assessment processing program to be current and in compliance with existing law. We found no deficiencies in the supplemental assessment program.

Declines in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its current market value. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.

There were 307 properties under decline-in-value review in Colusa County for assessment year 2003-04. Each of the assessor's appraisers is responsible for the discovery, reappraisal, and review of all declines in value within their assigned area.

The following table shows the number of parcels that were enrolled each calendar year with a value less than the factored base value for the last four years:

YEAR	PARCELS
2003-04*	307
2002-03	254
2001-02	296
2000-01	307

*Through September 11, 2003

RECOMMENDATION 4: Document decline-in-value assessments.

We reviewed nine parcels that were enrolled for 2002-03 assessment year with a value that was less than the factored base value. Most contained no information as to how the taxable value was determined, but merely concluded that the value remained the same or the newly enrolled value was less than the factored base value. Some appraisal records had attached sales comparisons, but this appears to be the exception rather than the rule. The assessor cited time constraints and staffing limitations as reasons for the lack of documentation.

All appraisals should include the comparable sales or other market data used to determine the opinion of value to facilitate review and provide a sufficient basis for the value conclusion. As in our prior survey, we recommend that support for decline-in-value assessments be documented.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value (FBYV). Sections 421 through 430.5 prescribe the guidelines for assessing 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.

In Colusa County, for the 2003 lien date, there were 313,366 acres encumbered by 342 CLCA contracts. This includes 195,492 acres of grazing land and 663 acres in non-renewal status. The total taxable value of the land under CLCA contract was \$147,134,395. In addition, the county had 55,611 acres under Farmland Security Zone contracts, which are more restrictive but provide greater valuation benefits CLCA contracts.

In our prior survey, we recommended the assessor recognize and capitalize all compatible use income of CLCA properties pursuant to section 423. The assessor did recognize compatible uses as defined in county Resolution 85-91, Exhibit B; however, the income derived from hunting

rights was not valued as outlined in AH 521. Income derived from all compatible uses on CLCA land must be capitalized as prescribed by section 423. The assessor has corrected the CLCA program and implemented this prior recommendation.

The assessor utilizes an annual questionnaire requesting income, production, and expense information on grazing lands. The assessor's questionnaire requests information relating to land use, lessor expenses, income from compatible use, and information about land that has been taken out of production.

The assessor properly tracks the restricted values, adjusted base year values, and market values of CLCA properties for purposes of enrolling the lowest of the three values, as required by law. We found that the assessor has an effective and thorough CLCA program.

Taxable Government-Owned Property

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

In our prior survey, we recommended that the assessor identify and assess all taxable government-owned properties. We repeat this recommendation.

RECOMMENDATION 5: Identify and assess all taxable government-owned property.

The assessor has not enrolled any taxable government-owned properties since our prior survey recommendation. We compared the assessor's ownership listing to the present tax-rate area codes and found three parcels owned by government agencies located outside their boundaries, and which may be assessable as taxable government-owned properties.

Article XIII, section 11 of the California Constitution provides that real property owned by a local government agency that is located outside the local government agency's boundaries is taxable if the property was taxable when acquired. Generally, taxable government-owned properties located in counties other than Inyo and Mono Counties are assessed at the lowest of (1) the current fair market value, (2) the factored base year value, or (3) the restricted value.

We recommend that the assessor identify and assess all taxable government-owned property.

Possessory Interests

A taxable possessory interest (PI) is a possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. In the case of privately owned property, a property tax assessment is based on the fee simple value of the property. In the case of a taxable PI, the assessment is based on the value of the rights actually held by the possessor.

The Colusa County Assessor's primary sources for discovering PIs are reports from government agencies, field inspections, and recorded leases and agreements.

The assessor annually sends letters to five public agencies requesting information on current tenancies. After the information is returned, the assessor values any new PI, makes appropriate remarks on the appraisal record, and enrolls the PI value on the unsecured roll. The assessor enrolled 68 PI assessments on the 2003-04 assessment roll, totaling \$2,059,839 in taxable value. The majority of these PIs are cabins on United States Forest Service land, or hangars at the county airport.

In our prior survey, we recommended that the assessor (1) identify the specific agencies controlling government-owned parcels; (2) assess taxable PIs on fairground facilities; (3) reappraise taxable PIs in accordance with section 61(b)(2); (4) use the correct present worth factor when valuing PIs; and (5) ensure that PI appraisal records contain supporting documentation that clearly identifies the PI. The assessor has implemented all, but the second recommendation. We are repeating that recommendation along with another recommendation in this survey report.

RECOMMENDATION 6: Revise the PI assessment procedures by: (1) assessing all taxable PIs at the county fairgrounds, and (2) annually reappraising PIs with a stated term of possession using the remaining contract term as required by rule 21.

Assess all taxable PIs at the county fairgrounds.

The assessor has not assessed the taxable PIs of one user at the fairgrounds. In our two previous surveys, we recommended that the assessor assess the taxable PIs of major fairground users. The assessor responded that a low-value property exemption resolution had been implemented, and that he would assess any properties in excess of \$50,000 taxable value. However, there is at least one user whose value appears to exceed the \$50,000 limit.

The user entered into a five-year agreement with the 44th District Agricultural Association for the right to use association premises during the annual fair. Under the terms of the agreement, the user must pay the association a percentage of the gross revenue and an established amount for certain concessions. The agreement also includes a guaranteed minimum rent.

Capitalizing the minimum guarantee for five years produces a value that far exceeds the county's \$50,000 low-value property limitation. In addition, the gross revenue of the user exceeded the minimum guarantee for the 2003 operation. By not assessing the property rights possessed by the user, the assessor has allowed taxable property to escape assessment.

Annually reappraise PIs with a stated term of possession using the remaining contract term as required by rule 21.

The assessor does not use the contract term of possession in determining the market value of the taxable PIs as required by rule 21.

Rule 21 provides that the stated 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 have reached a mutual understanding or agreement, such that the reasonably anticipated term is longer or shorter than the stated term. Thus, in determining the current market value of the PI, the term of possession will decline each year. Since the assessor is required to enroll the lesser of the

factored base year value or the current market value on each lien date, where there is a specified contract term the assessor should usually enroll the current market value.

The effect of the assessor's practice of not declining the term of possession each year will generally result in the overassessment of PIs that have a specific term of possession.

Water Company Property

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

Mutual Water Companies

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

When mutual water company shares are appurtenant to the land, the value of the mutual water company property is typically reflected in the value of the property being served and to which the shares are attached. In such cases, we recommend a token value be assigned to mutual water company lands, improvements, and delivery systems in order to avoid double assessments. We reviewed one mutual water company located within Colusa County and found no problems with the assessor's assessments.

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 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, the current market value may be less than a water company's factored base year value, making it necessary to periodically reappraise the company's property as of the lien date. The market value of regulated water company property is often close to the Historical Cost Less Depreciation approach indicator when the income from the property is regulated by law and is based on the company's book cost less depreciation.

RECOMMENDATION 7: Assess all water company properties at the lower of their factored base year value or their full cash value.

The assessor enrolls the factored base year value of the real property owned by regulated private water companies, adjusted for additions or deletions after the base year. The assessor does not determine a current market value for the real property. The property should be assessed at the lower of current market value or factored base year value.

The CPUC regulates the rates charged by private water companies, and the profits of such companies are limited to a return based on the companies' outstanding investment. The current

market value of the real property is thus directly related to the regulated rates, and the current market value may be less than its factored base year value. This makes it necessary to annually determine the current market value each lien date.

The assessor's practice of not determining a current market value for the real property may lead to overassessments. In order to properly assess this type of property, the assessor must estimate its market value on each lien date, compare this value with the property's factored base year value, and enroll the lower of these two values.

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.

In our prior survey, we recommended the assessor: (1) bring his mandatory audit program current; (2) adopt minimum audit guidelines; and (3) obtain signed waivers of the statute of limitations when a mandatory audit will not be completed on time. Currently, we found that the assessor has only adopted minimum audit guidelines. Based on our findings during this review, we are repeating the other two recommendations.

Audit Quality

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

In our prior survey, we recommended that the assessor adopt minimum audit guidelines. The assessor's audit working papers lacked (1) a reconciliation between asset account balances and reported original cost figures, (2) an analysis of expense accounts to discover non-capitalized assets and/or leased equipment, (3) a fully completed audit checklist indicating areas of audit coverage and pertinent questions, (4) summary sheets showing a reconciliation between the reported and audited figures, and (5) any notation that the place of business or equipment had been physically inspected.

In the course of the current review, we found that, of the audits completed, the detail of the audits was good and was supported by a comprehensive audit checklist defining the areas of investigation. The assessor has complied with our previous recommendation; and, therefore, we are not repeating it.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures that have a value of \$400,000 or more.

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

RECOMMENDATION 8: Revise the mandatory audit procedures by: (1) completing all mandatory audits as required by section 469, and (2) obtaining signed waivers of the statute of limitations when a mandatory audit will not be completed within the limitations period.

Complete all mandatory audits as required by section 469.

The assessor is not completing mandatory audits in a timely manner. He was unable to provide us with any statistics regarding the number of mandatory audits completed or not completed. Pursuant to section 469 and rule 192, the assessor is required to audit all taxpayers reporting assessable business tangible personal property and trade fixtures valued at \$400,000 or more for four consecutive years.

Obtain signed waivers of the statute of limitations when a mandatory audit will not be completed on time.

Even though the assessor informed us that he is still not current in completing mandatory audits, we found no instances in which a waiver of the statute of limitations had been obtained by the assessor.

Section 532 provides that an escape assessment, discovered by an audit, must be made within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete a mandatory audit within the prescribed time limit, he or she may request from the taxpayer an extension of time to avoid possible loss of revenue. This can be accomplished by having the taxpayer sign a waiver to extend the statute of limitations, as authorized by section 532.1.

Waivers protect the legal rights of both the assessor and the taxpayer. Without a waiver, the assessor and the taxpayer lose their legal recourse to correct any assessment errors beyond the four-year statute of limitations. Typically, most audits result in the discovery of taxable property escaping assessment. Without a waiver, the tax dollars derived from any escape assessments beyond the four-year statute of limitations are lost permanently. Similarly, the taxpayer's interests in correcting prior year overassessments cannot be addressed.

Business Property Statement Program

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

statement with the assessor; and any other person must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including commercial, industrial, agricultural, boats, and certificated aircraft.

Processing

The Colusa County Assessor receives reported taxable business property data from taxpayers that file a variety of *Business Property Statements* (Form BOE-571). In accordance with section 441, statements are mailed annually to taxpayers who have more than \$100,000 in taxable personal property, excluding manufactured homes. The assessor also uses this form to collect information from taxpayers that are not required to file an annual property statement, except upon request of the assessor. The number of business property statements processed by the assessor has increased in each of the last three years: 1,704 (2003), 1,685 (2002), and 1,656 (2001).

We randomly selected several taxpayer files to determine if the assessor's policies and procedures are correctly applied to the processing of business property statements. In our sampling of taxpayer files, we reviewed a cross section of business property statements. In each case, the assessor reviewed the business property statement for completeness. If the statements were not complete, the taxpayer's account was tagged for follow-up with the taxpayer by either a telephone call or a written request.

For taxpayers who fail to file a business property statement, section 501 requires the assessor to estimate the value of property based on information in the assessor's possession. Additionally, section 463 provides that a penalty of 10 percent of the assessed value of the unreported taxable property shall be added to the assessed value; and, section 506 mandates that interest be added to the tax on the assessment roll. The assessor does apply penalties and interest when taxpayers fail to file a business property statement pursuant to section 501.

Discovery

Means of discovery of assessable business property include reviews of business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories, referrals from other counties, and BOE notifications. There is little or no field canvassing. However, due to the small business area within the county, the assessor quickly learns of new businesses operating in Colusa.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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

The number of assessments of business property, excluding vessels and aircraft on the local assessment roll for 2003-04 for Colusa County was comprised of the following data:

CATEGORY	SECURED	UNSECURED	TOTAL
BUSINESS	266	551	817
AGRICULTURE	436	251	687
TOTAL	702	802	1,504

The assessed value of business property, excluding vessels and aircraft, on the local assessment roll for 2003-04 for Colusa County was comprised of the following data:

CATEGORY	SECURED	UNSECURED	TOTAL
FIXTURES	\$ 144,866,146	\$ 27,877,613	\$ 172,743,759
PERSONAL PROP.	\$ 67,768,463	\$ 67,994,303	\$ 135,762,766
TOTAL	\$ 212,634,609	\$ 95,871,416	\$ 308,506,525

Full Value Factors

The assessor's office uses a full value factor when valuing business property. A full value factor is a value factor developed by multiplying a replacement cost new index factor by a percent good factor. The full value factor is applied to costs reported on the *Business Property Statement* in order to arrive at a value estimate for assessment purposes. In our prior survey, we recommended that the assessor discontinue using an arbitrary minimum valuation factor for agricultural construction equipment and mobile construction equipment. We also recommended that the assessor use the appropriate percent good factor table when valuing agricultural and mobile construction equipment. In our review of several business property files, we discovered that the assessor has complied with both recommendations, so they are not repeated in this report.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In AH 581 Table 6: Computer Valuation Factors, the BOE provides valuation factors for use when valuing computer equipment. We made a prior recommendation that the assessor use the BOE's recommended factors when valuing computer equipment. We found that the assessor is now properly applying the AH 581 computer valuation factors when valuing computer equipment.

Leased Equipment

The business property section is responsible for the discovery, valuation, and assessment of leased equipment. This type of property can be difficult to assess correctly. Common problems include taxable situs, reporting errors by the lessees or lessors, taxability, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double assessments 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*.

The assessor has the responsibility to discover and assess all taxable leased equipment located within his county. Lessees of leased equipment 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 the lessee reports leased equipment on the business property statement, the assessor updates the lessor's property file that identifies the lessee. This ensures that the lessor and lessee account files are properly cross-referenced, the business property is correctly assessed, and the proper assessee is identified.

The assessor sends property statements to all known lessors and lessees and reconciles all information submitted. The assessor then determines assessees that are subject to mandatory audit. It is the assessor's general policy to assess the lessors for leased equipment, including propane tanks.

The assessor also pays particular attention to whether the actual lease document is a lease or something other than a lease, such as a conditional sales contract. If a conditional sales contract exists, the purported lessee is assessed as a fee owner.

When the assessor receives business property statements from leasing companies and other known lessors in the county, he verifies whether any items have gone off-lease (expired lease) and may be escaping assessment for the current year. He accomplishes this by comparing lessee and lessor business property statements for common equipment in the current and previous year and searching all business property reporting categories on the lessee's statement for the off-lease equipment. Often times, off-lease equipment is purchased by the former lessee and, as such, must be reported by the former lessee. The assessor is diligent in seeing to it that all leased and previously leased equipment is accounted for.

We reviewed the procedures for assessing leased equipment; some business property files of lessors and lessees for compliance with office procedures; communications with the responsible real property appraiser; and, compliance with statutory law. We found that the program is well managed, and the assessor is doing an excellent job in the discovery, processing, tracking, and assessing of leased equipment and related issues.

Leasehold Improvements

Leasehold improvements are structural or fixture improvements made to rented or leased premises and are typically installed and paid for by the tenant/lessee. Improvements installed by the tenant/lessee can be assessed to the landlord on the secured roll or to the tenant on the unsecured 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 alter the original improvements in a number of ways. Examples include additions, removals, or possibly both, often resulting in a changed use of the property. These changes must be reflected in the property's assessment if they qualify as new construction.

In particular, when real property items are reported on the business property statement, the reported costs should be jointly examined by an appraiser and an auditor-appraiser.

Determinations must be made as to whether costs are for repair and maintenance and are, therefore, not assessable, and whether additions are properly classified as a structure or fixture improvements, and should be enrolled. For this reason, coordination between the real property and business property divisions of the assessor's office is very important.

Most tenant improvements are found during review of the annual business property statements and while reviewing new building permits. Additionally, in the course of the real property appraiser fieldwork of property having a change in ownership or new construction, the real property appraiser informs the auditor-appraiser of any tenant improvements that are found. The coordination and communication between the staff is very good, and we found the assessment process for leasehold improvements to be satisfactory.

Aircraft

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

The 2002 assessment roll includes 99 general aircraft with total assessed values of \$5,550,550.

Historical Aircraft

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

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

The assessor granted two historical aircraft exemptions for the 2002 assessment roll totaling \$59,000.

Valuation

In our prior survey, we recommended that the assessor use the correct edition of the value guide for aircraft appraisal. The assessor is now using the proper edition, therefore, we do not repeat this recommendation. We recommended that the assessor document aircraft condition

adjustments. The assessor is not documenting aircraft adjustments, therefore, we are repeating this recommendation.

Also, previously we recommended that the assessor require an annual aircraft property statement from aircraft owners whose aircraft cost \$100,000 or more. The assessor has complied with this recommendation and it will not be repeated in this report. However, we found the following problems with his aircraft assessment program.

RECOMMENDATION 9: Revise the aircraft assessment procedures by: (1) annually assessing general aircraft at market value, and (2) documenting aircraft condition adjustments.

Annually assess general aircraft at market value.

The assessor uses the appropriate aircraft value guide, the prior year winter edition of the *Aircraft Bluebook Price Digest* to appraise aircraft, but not in the manner as directed by the BOE. Although the assessor appropriately adjusted the appraisals downward by 10 percent, he "depreciated" the aircraft an additional undocumented 15 percent to 25 percent. The adjustments were made due to a perceived lower value of all aircraft situated in Colusa County. We saw no such evidence of significant deterioration of aircraft values in the county. LTA 97/03 directs that retail values, less 10 percent, be used to provide reasonable estimates of fair market value for aircraft in average condition on the lien date. Variances, from the values indicated by use of the recommended guide, must be based on reasonable evidence and should be well documented.

Document aircraft condition adjustments.

We found that the assessor's aircraft assessment records lack documentation to support values that differ from the aircraft value guides' indicated value. In our 2001 survey, we recommended that the assessor document aircraft condition adjustments. The assessor's aircraft assessment records still contained no evidence to support adjustments made to aircraft valuations (i.e., picture of damaged aircraft or a field inspection report).

When using the *Aircraft Bluebook Price Digest* or the alternate guide, *Vref Aircraft Value Reference*, the values therein should be adjusted for the overall condition of the aircraft, equipment installed, hours since major overhaul, and total airframe hours. The assessor is encouraged to make any other adjustments necessary to achieve fair market value. Value determinations, other than those in the recommended guides, must be based on reasonable evidence and should be documented.

Vessels

The Colusa County assessor assessed more than 392 vessels on the 2002-03 assessment roll, with a total assessed value of \$2,928,880. The primary discovery sources are Department of Motor Vehicle reports, marina lists, vessel statements, and referrals from other counties. Recreational vessels, such as runabouts, inboard/outboards, and jet skis, are valued by use of a valuation guide, *New Boat & Motor Price Guide Blue Book*.

RECOMMENDATION 10: Annually assess vessels at market value.

The assessor's policy is to appraise vessels initially based on the appropriate current year value guide. After the initial valuation, a fixed percentage of depreciation is applied in subsequent years. Vessels are depreciated by 15 percent if they were new when purchased. Vessels between one and two years old when purchased are annually depreciated by 10 percent the second year and thereafter. Other vessels, greater than two years old when purchased are given a 5 percent reduction the second year and thereafter.

According to Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), the use of valuation factors should be supported by a recognized sampling method. To use sampling, assessors must develop and use recognized methods that will be accepted with confidence by the BOE and assessees. There is no discernible empirical evidence to support the depreciation factors developed by the assessor.

While the assessor's policy simplifies the assessment process, it assumes a fixed depreciation rate for all vessels, regardless of classification, that may or may not reflect market rates. The fixed depreciation rate method for vessel appraisals is an administrative convenience, but not a substitute for actual market value appraisals.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation.

A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Manufactured homes must be classified as personal property and enrolled on the secured roll

In Colusa County, there are approximately 40 manufactured homes subject to property tax assessment. The total value for 2002-03 is approximately \$698,000.

In our prior survey, we recommended the assessor classify manufactured homes as personal property as required by section 5801(b)(2). The assessor has implemented this recommendation. We also recommended the assessor consider value estimates listed in recognized manufactured home value guides. We found that the assessor considers the Assessors' Handbook section 531, *Residential Building Costs*, in the valuation of manufactured homes. Therefore, this recommendation is not repeated.

Our third recommendation was that the assessor annually review all manufactured homes for decline in value. The assessor has not complied with this recommendation and we repeat it below.

RECOMMENDATION 11: Review all manufactured homes for decline in value.

In Colusa County, once a base-year value for a manufactured home is established, it is factored by the inflation factor each year. We found no indication that the assessor evaluates manufactured homes for possible declines in value. It is not unusual for manufactured homes to decline in value as they age.

After the base year value of a manufactured home is determined, section 5813 provides that its taxable value for succeeding lien dates is the lesser of its base year value adjusted annually by an inflation factor, as defined in section 51, or its market value, as defined in section 5803.

Animals

Colusa County has very few assessable animals. Most animals are reported on Form BOE-571-F, *Agricultural Property Statement*. Assessable animals in the county include a small number of show horses. Other discovery methods include inter-county communications of transfers, newspaper articles and advertisements, telephone yellow pages, business directories, and self reported assessable animals on agricultural property statements. The assessor properly discovers, identifies, and appraises assessable animals. Exemptions for animals include the pet exemption and business inventory exemption. The program is well administered.

APPENDICES

Colusa County Assessment Practices Survey

A. County Property Tax Division Survey Group

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:

James Lovett

Senior Specialist Property Appraiser

Survey Team:

Ken King

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Ancil Aydelott

Associate Property Auditor-Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁴ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁵
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁴ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁵ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

- b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
 - c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may 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 assessor's response begins on the next page. The BOE has no comments on the response.

E. DAN O'CONNELL
ASSESSOR
COUNTY OF COLUSA

547 MARKET STREET, SUITE 101
COLUSA, CALIFORNIA 95932
PHONE (530) 458-0450
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RECEIVED
NOV 29 2004
County Property Tax Division
State Board of Equalization

November 22, 2004

State Board of Equalization
Mr. Arnold Fong
450 N Street, Mic: 62
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Fong:

Pursuant to Section 15640-15646 of the California Government Code, the following report represents the Assessor's response to the Assessment Practices Survey conducted by the State Board of Equalization on the 2003-2004 Assessment Roll and office procedures.

The effective administration of any operation is vitally important to all levels of local government, as well as the property owners of Colusa County. It is for this reason, I welcome an independent evaluation of the assessment practices in Colusa County and I am pleased to note that the survey reported that the Colusa County assessment program is substantially in compliance with the law. I was also equally pleased that Colusa County was within all legal and statistical limits as required by Section 75.60 of the Revenue and Taxation Code and Section 15640 of the Government Code.

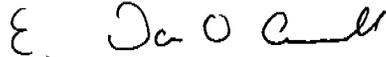
These findings can be directly attributed to the competent, dedicated staff of the Assessor's Office and the support of the Board of Supervisors and County management.

You will note in my response to the survey report that I am in agreement with all of the State Board's recommendations. With regard to those recommendations, I appreciate the support and endorsement of the State Board.

I would also like to express my appreciation to the State Board of Equalization Survey Team for the professional manner in which the survey was conducted.

And finally, I especially want to acknowledge the employees of the Assessor's Office for their commitment to excellence. The accomplishments of the past years could not have been achieved without the dedicated efforts of the members of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Dan O'Connell". The signature is written in a cursive style with a large initial "E" and a long, sweeping underline.

E. Dan O'Connell
Colusa County Assessor

RECOMMENDATION #1: Verify qualifying uses before granting the religious exemption.

RESPONSE: We agree and will comply. In reviewing the religious exemptions for 2004-2005 roll, only qualifying portions of property were exempted.

RECOMMENDATION #2: Revise the disaster relief procedures: (1) requesting that the board of supervisors amend the county's disaster relief ordinance to reflect the requirements of Section 170, and (2) revising the application form to comply with Section 170.

RESPONSE: We agree and will comply. The assessor's office is in the process of amending the language in County Ordinance 430 relating to Disaster Reassessment Relief to comply with the language set forth in SBE Section 170.

RECOMMENDATION #3: Submit final prints of the BOE-prescribed forms for approval as required by rule 171.

RESPONSE: We agree and will comply.

RECOMMENDATION #4: Document decline-in-value assessments.

RESPONSE: All value determination is supported by data from the appraisers working file. If there is a special type of property or appraisal problem, you will find supporting documentation/data for that value attached to the record.

RECOMMENDATION #5: Identify and assess all taxable government-owned property.

RESPONSE: We agree and will comply. Now that we have identified these parcels, they will be included on the tax roll.

RECOMMENDATION #6: Revise the PI assessment by: (1) assessing all taxable PIs at the county fairgrounds, and (2) annually re-appraising PIs with a stated term of possession using the remaining contract term as required by rule 21.

RESPONSE: We agree and will comply. The county fairgrounds have been reviewed and the assessable PI has been identified and assessed.

RECOMMENDATION #7: Assess all water company properties at the lower of their factored base year value or their full cash value.

RESPONSE: We agree and will comply. We will immediately address this problem.

RECOMMENDATION #8: Revise the mandatory audit procedures by: (1) completing all mandatory audits as required by Section 469, and (2) obtaining signed waivers of the statute of limitations when a mandatory audit will not be completed within the limitations period.

RESPONSE: We agree and will comply. The Colusa County Assessor's Office has recently hired a new auditor/appraiser. Budget restraints did not allow the county assessor to fill this position until recently. The Colusa County Assessor's Office will make every effort to comply with requirements set forth in SBE Section 469.

RECOMMENDATION #9: Revise the aircraft assessment procedures by: (1) annually assessing general aircraft at market value, and (2) documenting aircraft condition adjustments.

RESPONSE: We agree and will make every effort to comply. Due to budget restraints the Colusa County Assessor's Office will continue to value aircraft in the same manner until such time as budget allows for additional staff.

RECOMMENDATION #10: Annually assess vessels at market value.

RESPONSE: We agree and will make every effort to comply. Due to budget restraints the Colusa County Assessor's Office will continue to value vessels in the same manner until such time as budget allows for additional staff.

RECOMMENDATION 11: Review all manufactured homes for decline in value.

RESPONSE: We agree and will comply. We will immediately address this problem.