

DEL NORTE COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2007

CALIFORNIA STATE BOARD OF EQUALIZATION

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July 31, 2007

TO COUNTY ASSESSORS:

No. 2007/034

DEL NORTE COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the [Del Norte 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. Louise Wilson, Del Norte 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 Del Norte County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from March through April 2006. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Both the retired assessor, the Honorable Gerald D. Cochran, and the current assessor, the Honorable E. Louise Wilson, 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/Lynn Bartolo for

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:tl
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 Del Norte 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 Del Norte County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable E. Louise Wilson, Del Norte County Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) 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 a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.²

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

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

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

EXECUTIVE SUMMARY

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

In our 2001 Del Norte County Assessment Practices Survey, we made 14 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented ten of the recommended changes. The recommendations that were not implemented, or that were implemented only in part, are repeated in this report.

Many of our recommendations concern portions of programs that are currently effective but need additional improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

The assessor is effectively managing most portions of the administration program, including budgeting and staffing, appraiser certification, and assessment appeals. It should be noted that the Del Norte County roll value increased 25 percent between fiscal years 2001-02 and 2005-06, while staffing levels have remained constant over the same period. It should also be noted that the assessor has recently upgraded the office's information management system. However, in some areas there are procedures that should be revised; we make recommendations to help improve these portions of the assessment program.

In the area of administration, we noted that the assessor fails to assess taxable property owned by two veterans' organizations and inappropriately exempts portions of taxable property owned by a third veterans' organization.

In the area of real property assessment, the assessor effectively manages the major aspects of the program, change in ownership and new construction. In the area of special use properties, however, we make several recommendations for improvement.

The areas of most concern are in the valuation of taxable government-owned property and taxable possessory interests. The assessor fails to enroll the lower of the factored base year value, restricted value, or market value for taxable government-owned properties. With respect to taxable possessory interests, the assessor incorrectly assesses taxable possessory interests in personal property, fails to periodically review taxable possessory interests with a stated term for declines in value, and uses gross income rather than net income when making value determinations.

Overall, the business property program is well managed. The assessor is current in her mandatory audits, properly classifies equipment, and has effective practices for the assessment of business personal property and leased equipment. Of the recommendations made to improve the assessor's business property program, all are relatively minor.

We found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Del Norte County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Del Norte County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling.

RECOMMENDATION 1: Revise disaster relief procedures by: (1) revising the application for disaster relief; (2) processing only completed disaster relief claims; and (3) including the correct appeals filing period in the notice of proposed reassessment as required by section 170.....10

RECOMMENDATION 2: Improve processing of assessment roll changes by: (1) notifying the assessee that an escape assessment has been enrolled as required by section 534, and (2) entering penalties on the assessment roll as required by Rule 261(a).12

RECOMMENDATION 3: Comply with the low-value property exemption resolution.13

RECOMMENDATION 4: Improve the welfare exemption program by: (1) identifying and assessing all taxable property of veterans' organizations, and (2) granting the veterans' organization exemption only to property used exclusively for charitable purposes.16

RECOMMENDATION 5: Improve the use of assessment forms by: (1) submitting final prints of all forms for approval; (2) using correct assessment forms; and (3) omitting property statement cover sheets.17

RECOMMENDATION 6: Classify land improvements as land.23

RECOMMENDATION 7: Consider the factored base year values for all taxable government-owned properties.24

RECOMMENDATION 8: Improve the taxable possessory interest assessment program by: (1) assessing taxable possessory interests only in real property; (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; and (3) valuing taxable possessory interests based on net income to the lessor.26

RECOMMENDATION 9: Inform the taxpayer of the right to appeal the results of an audit as required by Rule 305.3.31

RECOMMENDATION 10: Use the proper percent good factors for valuing mobile construction and agricultural equipment.33

RESULTS OF 2001 SURVEY

Roll Changes

We recommended the assessor include the section 463 notation on the assessment roll as required by Rule 261. This was also a recommendation in our 1995 survey. The assessor still has not implemented this recommendation; it is repeated in this report.

Disaster Relief

We recommended the assessor revise the office's written policies and procedures on disaster relief to more accurately reflect the provisions of section 170. The assessor has implemented this recommendation.

New Construction

We recommended the assessor classify land improvements as land. The assessor has not implemented this recommendation; it is repeated in this report.

Declines in Value

We recommended the assessor document decline-in-value assessments more carefully on appraisal records. The assessor has implemented this recommendation.

Taxable Government Owned Properties

We recommended the assessor enroll the lowest of factored base year value, current market value, or restricted value when valuing taxable government-owned property. The assessor has not implemented this recommendation; it is repeated in this report.

Audit Program

We recommended the assessor bring the mandatory audit program to current status and audit all years within the statute of limitations when a discrepancy or irregularity is found. We also recommended the assessor consistently cite section 531.8 when notifying taxpayers of proposed escape assessments. The assessor has implemented these recommendations.

Equipment Valuation

We recommended the assessor correct math and transcription errors in the valuation tables used to value equipment. The assessor has implemented this recommendation.

Vessels

We recommended the assessor send Forms BOE-576-D and BOE-576-E under separate cover letters due to the forms' different filing requirements. The assessor has not complied with this

recommendation. While this issue is again the subject of a recommendation, in this report we focus on the assessor's practice of including locally-developed cover letters with BOE-prescribed forms.

General Aircraft

We recommended the assessor use the correct edition of the *Aircraft Bluebook Price Digest* when valuing general aircraft. The assessor has implemented this recommendation.

Manufactured Homes

We recommended the assessor classify manufactured homes as personal property and recognize declines in value for manufactured homes. The assessor has implemented both recommendations.

Business Property Valuation

We recommended the assessor properly classify service station improvements. The assessor has implemented this recommendation.

OVERVIEW OF DEL NORTE COUNTY

Located in the Northwest corner of California, Del Norte County is bounded on the north by the state of Oregon; on the east by Siskiyou County; on the south by Humboldt County; and on the west by the Pacific Ocean. Del Norte County lies 366 miles north of San Francisco, via Highway 101. Crescent City, the only incorporated city in the county, is the county seat. Del Norte County's population is approximately 27,850, of whom approximately 7,300 reside in Crescent City. Del Norte County encompasses 683,547 acres, or 1,068 square miles.³

The following table displays information pertinent to the 2005-06 assessment roll as provided by the assessor:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	11,311	\$910,767,120
	Commercial/Industrial	865	\$214,878,333
	Agricultural	190	\$32,595,962
	Manufactured Homes	1,088	\$18,954,956
	Other Secured	1,340	\$79,095,915
	Total Secured		14,794
Unsecured Roll	Personal Property & Fixtures	2,272	\$40,471,081
	Total Assessment Roll	17,066	\$1,296,763,367

The next table illustrates the growth in assessed values for recent years as provided in the BOE's annual reports:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2005-06	\$1,328,970,000	8.8%	11.1%
2004-05	\$1,221,630,000	5.6%	8.3%
2003-04	\$1,156,846,000	3.4%	7.3%
2002-03	\$1,119,136,000	4.6%	7.3%
2001-02	\$1,070,290,000	N/A	N/A

³ www.northerncalifornia.net

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, assessment appeals, disaster relief, assessment roll changes, the low-value property exemption, other exemptions, and assessment forms.

Budget and Staffing

The assessor's budget has grown from \$331,149 in 2001-02 to \$361,104 for 2005-06. The following chart shows the assessor's increased budget over recent years:

BUDGET YEAR	GROSS BUDGET ⁴	INCREASE	PERMANENT STAFF
2005-06	\$361,104	0.83%	9
2004-05	\$358,124	6.29%	9
2003-04	\$336,940	0.87%	9
2002-03	\$334,037	0.87%	9
2001-02	\$331,149		9

Staffing

Del Norte County Assessor's Office has a staff of nine full-time employees and one part-time retired annuitant. The full-time employees includes the assessor, the chief appraiser, the chief administrative officer, two real property appraisers, one auditor-appraiser, two account clerks, and one transfer/mapping technician.

Staff Property Procedures

We reviewed property records to determine if the assessor has proper procedures in place to ensure that staff does not value their own properties for property taxation purposes. We found that for any employee-owned property an appraiser makes the initial valuation, which is then reviewed and approved by the chief appraiser. We did not find any instances where an appraiser was involved in the assessment of any property that he or she owned or in which he or she had an interest.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are a total of

⁴ County of Del Norte Budget Unit Financing Uses Detail.

four certified appraisers on staff, all of whom possess the required certificates. The assessor does not use contract appraisers.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the assessment appeals process, including the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted Rules 301 through 326 to regulate the assessment appeals process.

The Del Norte County Board of Supervisors sits as the local board of equalization. The following table illustrates the appeal workload for recent years:

APPEALS	FISCAL YEAR				
	2005-06	2004-05	2003-04	2002-03	2001-02
Total Appeals:					
Applications Received	3	2	13	10	7
Carried Over	0	0	3	0	0
Total	3	2	16	10	7
Resolution:					
Hearing-reduced	0	0	0	0	1
Hearing-increased	0	0	0	0	0
Hearing-upheld	0	1	0	0	0
Stipulation	1	0	0	4	0
Withdrawn	0	0	12	1	3
Other*	0	1	4	2	3
Total resolved	1	2	16	7	7
Carried over to next year	Pending	0	0	3	0

* Includes Board denials for hearing and applicant's failure to appear

All assessment appeals are filed with the clerk of the board of supervisors, who reviews them before forwarding date-stamped copies of the applications to the assessor. The appraiser within whose area the property under appeal is located prepares and presents the assessor's case at the hearing. The assessor, chief appraiser, and county counsel attend each hearing.

There were no appeal hearings scheduled during our review period. However, we found evidence in the property files that the assessor prepares adequate appraisals of the properties under appeal.

In addition, every appeal is heard within the required two-year time frame. We conclude that the assessor is properly administering the assessment appeals program.

Disaster Relief

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

To obtain relief under an ordinance, assesses must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment.

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

The assessor discovers instances of disaster or calamity by reviewing newspaper articles and building permits, field canvassing, and taxpayer-initiated contacts.

The Del Norte County Board of Supervisors passed a disaster relief ordinance in 1975 (No. 75-6) and amended it in 1999 (No. 99-003). This ordinance applies to a misfortune or calamity involving any taxable property, both real and personal.

In our 2001 survey, we recommended the assessor revise the written policies and procedures governing disaster relief to reflect the current provisions of section 170. The assessor has implemented this recommendation. However, in our review of the assessor's disaster relief program, we did find some other problems.

RECOMMENDATION 1: Revise disaster relief procedures by: (1) revising the application for disaster relief; (2) processing only completed disaster relief claims; and (3) including the correct appeals filing period in the notice of proposed reassessment as required by section 170.

Revise the application for disaster relief.

The current application for reassessment of property damaged by misfortune or calamity does not meet the requirements of section 170(a). Section 170(a) provides that disaster relief may be claimed by any person whose property was damaged without his or her fault. Section 170(a)(3) provides in part that the application must show the condition and value of the property

immediately after the damage or destruction and the dollar amount of the damage. The application must be executed under penalty of perjury or, if executed outside of the State of California, verified by affidavit.

The current application form is not in compliance with section 170(a) because it does not provide for an affirmation by the claimant that the damage or destruction was not his or her fault.

Process only completed disaster relief claims.

We found no completed applications for reassessment of property damaged by misfortune or calamity for properties granted the relief. Although the assessor has an application form for claiming disaster relief, it is office policy not to require a completed application from the property owner.

Section 170(a) and Del Norte County Ordinance 99-003 specify that an application for tax relief must be filed with the assessor and the application must be executed under penalty of perjury. The county's disaster relief ordinance also requires the application be delivered to the assessor within 30 days of the misfortune or calamity.⁵ Since the assessor's policy is to not require an application, it was not possible to determine whether a claim for relief was filed within the 30-day period required by the county's disaster relief ordinance. The assessor's policy does not comply with statute or the county disaster relief ordinance.

Include the correct appeals filing period in the notice of proposed reassessment as required by section 170.

The assessor's notice of proposed reassessment due to a misfortune or calamity does not inform the owners of their proper assessment appeal rights as required by section 170(c). The current notice sent to the taxpayer provides that the taxpayer has 30 days to discuss the assessment with the assessor's office, after which time the new assessment will be processed.

Section 170(c) provides that the notice must state that the applicant may appeal the proposed reassessment to the local board of equalization within six months of the date of mailing the notice.

The assessor's practice does not properly inform property owners of their appeal rights.

Assessment Roll Changes

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

⁵ Current provisions of section 170(a)(3) provides for the later of the time specified in the ordinance or within 12 months of the misfortune or calamity.

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

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

ROLL YEAR	ROLL CHANGES
2004-05	715
2003-04	600
2002-03	534

Roll changes may be initiated by any staff member for properties within their area of responsibility and expertise. The auditor-appraiser may initiate roll corrections for business property and appraisers may initiate roll corrections for real property. Clerical staff may initiate roll changes, such as changes necessitated by clerical reasons for homeowners', veterans', or welfare exemptions, that do not involve judgmental adjustments of property value. Adjustments and explanations are noted in both computer and hard copy files.

All roll changes are submitted to the account clerk who inputs data for changes on the roll and electronically forwards this information to the county auditor. The assessor forwards all escape data to the auditor; however, the auditor may, pursuant to statute, elect not to send a tax bill for small amounts of tax.

In the case of an escaped assessment, a *Notice of Proposed Escape Assessment* is sent notifying the assessee that there may be additional taxable value. This notice meets the requirements of section 531.8. We reviewed documentation for several recent assessment roll changes completed in 2005 and 2006. We found that roll changes are well documented and enrolled timely. However, we also found two problem areas that should be addressed.

RECOMMENDATION 2: Improve processing of assessment roll changes by:
 (1) notifying the assessee that an escape assessment has been enrolled as required by section 534, and (2) entering penalties on the assessment roll as required by Rule 261(a).

Notify the assessee that an escape assessment has been enrolled as required by section 534.

The assessor does not properly notify taxpayers that an escape assessment has been enrolled as required by section 534. The assessor believed that the tax bill served as that notice. However, section 534(c)(3) provides that the county board of supervisors must first adopt a resolution providing that the tax bill serves as the notice of enrolled escaped assessment before the tax bill can serve as notice which has not been adopted by Del Norte County. In addition, the tax bill must contain the appeals information required by section 534(c)(3). Since the county has not adopted such a resolution, the tax bills do not satisfy the requirements of section 534.

In counties like Del Norte, where the county board of supervisors has not adopted a resolution to allow the tax bill to serve as notice, section 534(b) requires the assessor to send a notice both before and after enrolling an escape assessment. By not sending a notice after enrollment, the assessor is not following the provisions of section 534.

Enter penalties on the assessment roll as required by Rule 261(a).

This recommendation is essentially the same recommendation made in our last two assessment practices surveys of Del Norte County. The assessor does not add penalty information to the assessment roll. Rule 261(a) provides that a penalty imposed under sections 463, 503, or 504 shall be entered on the local roll. Rule 261 then lists three methods of adding penalty information to the tax roll.

By not showing penalties on the assessment roll, the assessor is not following Rule 261.

Low-Value Property Exemption

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

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

In Del Norte County, the board of supervisors concluded that the low-value threshold for cost-effective assessments was \$2,000. As a result, on June 28, 1994, the board adopted Resolution No. 94-68, exempting from property tax all real property with a base year value, and all personal property with a full value, of less than \$2,000.

RECOMMENDATION 3: Comply with the low-value property exemption resolution.

We found that the assessor does not exempt from taxation any low-value properties. All assessments, regardless of value, are enrolled and forwarded to the auditor.

The tax collector cancels tax bills that amount to less than \$10 (about \$1,000 in assessed value) on both the secured and unsecured rolls. Because the assessor is not exempting property according to the low-value resolution, some taxpayers (owners of property with assessments between \$1,000 and \$2,000) are receiving tax bills on property that should be exempt. To eliminate the taxation of low-value property and to comply with the county's low-value resolution, we recommend the assessor exempt all qualifying low-value real and personal property.

Exemptions

Church and Religious Exemptions

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

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

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

No claims for the church exemption were filed in Del Norte County during the period of our fieldwork; rather, all religious organizations filed claims for either the religious or welfare exemption. In Del Norte County, religious and welfare exemption claims are processed by the retired annuitant. This staff member relies for guidance on Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (October 2004), advisory Letters To Assessors issued by the BOE that deal with exemption issues, and a workbook prepared for a BOE welfare exemption workshop conducted in 2004.

Field inspections of properties for which the church, religious, or welfare exemption is claimed are conducted by the auditor-appraiser, sometimes accompanied by the real property appraiser assigned to the area where the property is located. The assessor has well-organized religious exemption files that contain the original religious exemption claim, all of the annually filed termination notice cards, and an annually prepared exemption worksheet for calculating exempt amounts of value.

The following table presents the number of properties and the amount of assessed value exempted under the religious exemption for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE
2005-06	50	\$13,163,640
2004-05	48	\$12,451,614
2003-04	47	\$11,864,539
2002-03	47	\$11,393,813
2001-02	46	\$10,318,444

The assessor maintains an effective program for administering religious exemptions. We found only a few minor clerical errors, which the assessor investigated and resolved during our fieldwork. We have no recommendations in this area.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

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

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

The following table summarizes welfare exemptions granted for recent years:

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2005-06	44	\$44,447,362
2004-05	45	\$40,664,852
2003-04	46	\$40,446,578
2002-03	45	\$37,955,756
2001-02	43	\$39,077,031

We reviewed a variety of welfare exemption claims on file at the assessor's office. The claims covered such diverse uses as art and cultural exhibits, a food bank, a counseling center, a wildlife and environmental protection organization, a rehabilitation workshop and thrift store, a historical preservation organization, a senior citizens' center, a youth hostel, an animal rescue organization, a community center, and veterans' organizations. We found that the assessor requires the annual filing of a claim before granting an exemption and consistently employs a worksheet to ensure correct allocation of exempt and taxable portions of property.

We found two areas of the assessor's welfare exemption program that need attention.

RECOMMENDATION 4: Improve the welfare exemption program by: (1) identifying and assessing all taxable property of veterans' organizations, and (2) granting the veterans' organization exemption only to property used exclusively for charitable purposes.

Identify and assess all taxable property of veterans' organizations.

There are three veterans' organizations located in Del Norte County. One organization owns land, building, and personal property. This organization has been granted an exemption for all of its property. The other two organizations use a publicly owned facility and likely have taxable possessory interests in the facility; however, the assessor made no assessment for the rights to use this facility.

The assessor should investigate the use of the public facility by these veterans' organizations. If these uses involve the necessary independence, durability, exclusivity, and private beneficial use, they warrant assessment as taxable possessory interests. The issue of eligibility for exemption should be addressed only after assessments have been made of these rights.

Grant the veterans' organization exemption only to property used exclusively for charitable purposes.

For the veterans' organization that owns its land and building, the assessor has exempted all of the organization's property, including portions used for social and fraternal purposes that do not qualify for exemption (such as a bar, meeting room, kitchen, game room, and locker room).

Section 215.1 provides that only property owned and used exclusively for charitable purposes by a veterans' organization is exempt from taxation. Typically, the office area used exclusively to counsel veterans concerning employment or government benefits is the only portion of the premises that qualifies for exemption.

The assessor has inappropriately exempted taxable property.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. For the 2006 lien date, BOE prescribed 80 forms for use by county assessors and one form for use by assessment appeals boards. Generally, the assessor has the option to change the appearance (e.g., size, color, or layout) of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form provided the assessor submits that form for BOE approval.

Assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, no penalty may be imposed upon a property owner for failure to file such a form or questionnaire.

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

According to the checklists returned to the BOE by the Del Norte County Assessor, the assessor's office uses 71 of the 80 BOE-prescribed forms. The checklists were submitted timely, although the final prints of the assessor's forms were not received timely.

RECOMMENDATION 5: Improve the use of assessment forms by: (1) submitting final prints of all forms for approval; (2) using correct assessment forms; and (3) omitting property statement cover sheets.

Submit final prints of all forms for approval.

The assessor did not submit final prints of nine forms for approval and is using seven forms that the assessor indicated to the BOE she would not be using.

Rules 101 and 171 require the assessor to submit to the BOE by February 10 final prints of the forms he or she intends to use for the coming roll year. The assessor has not complied with applicable regulations.

Use correct assessment forms.

Two of the forms the assessor used for the 2006 lien date were outdated versions. The assessor also has a locally developed form, *Change of Ownership Statement-Death of Real Property Owner*, which appears to be used in lieu of the BOE-prescribed form.

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

Using outdated versions of forms and locally developed forms in lieu of BOE-prescribed forms could mislead property owners and create confusion about current procedures and filing requirements.

Omit property statement cover sheets.

The assessor attaches a locally developed cover sheet to business property statements and to one mineral production report sent to taxpayers. The cover sheet provides additional instructions for completing the statement as well as a requirement for the taxpayer to indicate whether the business has been sold, changed location, or closed. In addition, the assessor uses a cover sheet for two vessel forms, Forms BOE-576-D and BOE-576-E, which references a single due date when in fact there are two different due dates.

Section 452 and Rule 171 provide for the content and specific wording in BOE-prescribed forms to be used by all assessors. By including a locally-developed cover sheet to a BOE-prescribed form, the assessor has made an unapproved addition to the form. Such an addition is contrary to both statute and rule, and may lead to incorrect filing procedures and requirements.

ASSESSMENT OF REAL PROPERTY

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

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

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

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

Document Processing

To further the assessor's discovery of changes in ownership of real property, the county recorder's office electronically forwards all newly recorded documents (except those documents pertaining to vital statistics) to the assessor's office daily. For the 2005 calendar year, the Del Norte County Assessor received 9,743 recorded documents pertaining to 2,450 parcels. The recorder also forwards to the assessor all *Preliminary Change of Ownership Reports*, Form BOE-502-A (PCOR). These reports are assigned the same recorder's number as the corresponding grant deed.

In the assessor's office, the chief administrative officer and an account clerk separate new incoming transfer documents from non-transfer documents. The recording date written on the PCOR is taken from the corresponding grant deeds. Transfer information is verified and then manually entered into the assessor's computer system.

Any letters or forms requesting additional transfer details are sent to the transferee. This includes a *Change of Ownership Statement*, BOE-502-AH (COS), for transfers without a filed PCOR. When the requested information is received, the corresponding recorder's document number and assessor's parcel number are placed on the COS. The incoming information is then entered into the computer system and the COSs physically placed into the appraisal file.

All transfers are coded based on document and property types, and forwarded electronically to the appraisal staff. Approximately 95 percent of the deeds received from the recorder have PCORs attached.

Generally, the time period for processing documents to enrollment is four to six weeks, with a slightly longer lag time typical for transfers needing additional documentation. A history of the number of changes in ownership in recent years is as follows:

ROLL YEAR	RECORDED DOCUMENTS	PARCELS TRANSFERRED
2005-06	9,743	2,450
2004-05	9,566	2,759
2003-04	9,544	2,250
2002-03	7,649	1,951
2001-02	6,663	2,125

Homeowners' exemptions are automatically removed following a change in ownership. Partial transfer deeds for properties with this exemption are directed to the chief administrative officer to determine if the exemption should be retained. When a valuation notice is sent to a new homeowner, a homeowners' exemption claim is included in the mailing.

Section 69.5 Transfers

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner is at least 55 years of age, the owner files a claim timely, and the properties are within the same county. The chief administrative officer prepares the section 69.5 quarterly reports to the BOE as mandated by section 69.5(b)(7).

Section 63.1 Exclusion

Section 63.1 excludes from the definition of change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first \$1 million of other real property between parents and children. Subsequent amendments to section 63.1 also exclude certain transfers from grandparents to their grandchildren. The following table lists section 63.1 claims by calendar year:

CALENDAR YEAR	SECTION 63.1 CLAIMS
2005	134
2004	145
2003	134
2002	155
2001	110

The chief administrative officer prepares the quarterly reports to the BOE as provided in section 63.1(f). We found that section 63.1 applications are properly processed and that this program fully complies with the provisions of section 63.1.

Improvement Bonds

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

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

The assessor has determined there is no evidence in the marketplace to justify the addition of bond amounts to sale prices. The assessor has properly implemented section 110(b).

Upon reviewing records for changes in ownership, we found that files were well documented and supplemental assessments were issued properly and timely. Overall, the assessor's change in ownership program is well administered, and we have no recommendations.

New Construction

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

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

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

The assessor discovers new construction activity from building permits, business property statements, and field canvassing. The assessor receives copies of all building permits issued by three permit-issuing agencies: the Building Inspection Division of the Del Norte County Community Development Department, the Crescent City Building Department, and the Del Norte County Department of Health and Human Services. The total number of building permits the assessor received increased from 677 in calendar year 2001 to 1,098 in calendar year 2005. The assessor does not track either the number of building permits that result in assessable new construction or the number of new construction assessments resulting from a review of business property statements or by field canvassing.

An account clerk receives the building permits and ensures that the assessor's parcel number on the permit corresponds with the address where the work is to be performed. She enters all building permit data into the computer system before forwarding a copy to the appraiser within whose work area the construction will be performed.

For every building permit issued, the assessor logs the permit number, the date issued, and a brief description of the work to be performed on the property's building record. The assessor also sends a self-reporting questionnaire to most permittees.

Valuation

The assessor typically values new residential construction using the cost approach. The assessor utilizes the reported cost in conjunction with the cost estimate developed by Assessors' Handbook Section 531, *Residential Building Costs*, or by the *Marshall Valuation Service* cost guide, to develop a cost indicator for the value of the new construction. Commercial new construction is often valued using the cost approach, although if income data is available the assessor will also develop a value indicator by the income approach. Letters are sent informing the permittee that a supplemental assessment may be forthcoming.

When a construction project is in progress over two or more lien dates, the assessor annually updates the replacement cost estimate. If a taxpayer makes no progress on a project for 24 months, the assessor establishes a base year value for the work that has been completed. Any subsequent new construction is treated as construction in progress on each lien date until the project is completed, at which time the additional construction is given its own base year value.

Overall, the assessor's new construction program is well administered; however, there is one area where improvement can be made.

RECOMMENDATION 6: Classify land improvements as land.

In our 2001 survey, we recommended the assessor value wells and well casings as land improvements. It is still the assessor's policy to enroll the total value of the well, casing, pump, and pressure system on residential property as structural improvements.

Rule 124 provides that wells are land. To bring the program for valuing new construction into compliance with statute, we recommend that the assessor enroll wells and well casings as land.

Declines in Value

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

Like many other California counties, Del Norte County has experienced notable increases in property values in recent years. Consequently, the assessor has removed many properties from decline-in-value status. There were only 137 properties with assessed values below their factored base year level on the 2005-06 roll. The following table illustrates the total number and roll value of properties that had a decline in value in recent years:

ROLL YEAR	TOTAL COUNT	FACTORED BASE YEAR VALUE	CURRENT MARKET VALUE
2005-06	137	\$44,177,047	\$33,823,408
2004-05	206	\$53,191,692	\$40,076,097
2003-04	304	\$89,309,886	\$65,811,952
2002-03	340	\$98,396,686	\$70,896,046

The assessor's office has no written policies, procedures, or forms dealing with declines in value. The assessor reviews each decline-in-value property annually to determine whether its factored base year value should be restored. Properties currently in decline-in-value status are tracked on the assessor's computer system which allows staff to print a list of properties needing annual review for their assigned work area.

Upon review, if the assessor determines that the market value of the total property has declined below its factored base year value, the market value is enrolled. To determine current market value, the assessor relies primarily on the income approach for commercial properties and the comparable sales approach for residential properties.

The assessor does not have a formal program for discovering declines in value. Instead, discovery is dependent on taxpayer requests for appraisal review and the appraisers' knowledge

of their assigned areas. If the appraiser is aware that a downward value adjustment is warranted, the appraiser will make the adjustments without requiring the taxpayer to request a review of the value.

When returning a property either in whole or in part to its taxable value under article XIII A of the California Constitution, the assessor sends notification to the property owner stating the property's factored base year value, its current market value, and information about assessment appeal procedures. The assessor's notice provides all the information required by section 619.

The assessor's office meets all provisions of law applicable to declines in value.

Taxable Government-Owned Properties

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

There are 11 taxable government-owned properties on the assessment roll in Del Norte County. All parcels are owned by the City of Crescent City. The total assessed value of taxable government-owned properties on the 2005-06 assessment roll was \$58,287.

To verify that all properties owned by the City of Crescent City are assessed correctly if situated outside that agency's boundaries, we reviewed properties assessed as taxable government-owned properties. We also reviewed government-owned properties with a zero roll value to confirm that the properties located outside that agency's boundaries were assessed correctly.

In our 2001 survey, we recommended the assessor revise valuation procedures to annually enroll the lowest of the restricted value, the factored base year value, or the current market value for taxable government-owned real property. In our current review of the assessor's records, we found no indication that consideration was given to anything but the restricted value. The assessor does not consider the three-pronged value comparison. Therefore, we will repeat our recommendation in this survey as part of the recommendation to consider the factored base year values for all taxable government-owned properties.

RECOMMENDATION 7: Consider the factored base year values for all taxable government-owned properties.

The assessor does not consider the factored base year value of any taxable government-owned property. Instead, the assessor considers only the restricted value for these properties.

Letter To Assessors 2000/037, dated June 23, 2000, provides that the value limitations prescribed by article XIII, section 11 of the California Constitution are applicable to taxable government-owned properties acquired both before and after March 1, 1975. This letter also

explains that base year value for a taxable government-owned property acquired prior to March 1, 1975, is the lower of: (1) the 1967 assessed value multiplied by the 1975 restricted factor, or (2) the 1975 market value. For each lien date, the assessor should review the restricted value, the factored base year value, and the current market value, and enroll the lowest of the three values.

By failing to consider the factored base year values for taxable government-owned properties, the assessor may have overassessed some of these properties.

Timberland Production Zone Properties

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

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

Del Norte County has 635 TPZ parcels comprising approximately 121,300 acres. For the 2005-06 assessment year, the total assessed value of TPZ lands was \$31,580,643.

Our review of 25 randomly selected records showed that the assessor properly follows the BOE's valuation schedule for the various site classes of TPZ parcels. The assessor updates TPZ values annually based on the site class values provided by the BOE. There are no TPZ parcels in rezoning status pursuant to Government Code section 51120 and only one TPZ parcel in nonrenewal status. All of the land zoned as TPZ is identified on the assessment roll with the notation "TP" (Timber Preserve) in conformance with section 433.

The assessor accurately identifies and assesses improvements and compatible uses on TPZ properties at the lower of factored base year or current market value. The assessor does not issue supplemental assessments for restricted TPZ parcels upon change in ownership.

Our review of TPZ lands in Del Norte County indicates that the assessor is in compliance with all applicable statutes.

Taxable Possessory Interests

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

the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For the 2005-06 fiscal year, the assessor enrolled 305 taxable possessory interests with a total assessed value of \$9,547,307.

Discovery

The assessor discovers taxable possessory interests by reviewing reports from government agencies and from field inspections. Each lien date, the assessor mails to each government agency in the county a summary of the taxable possessory interests the agency reported for the prior year. The assessor requests that each agency add to the list any new users and delete those who are no longer using their property, and usually asks that the agency send copies of any new rental agreements. The staff calls or visits any agency that does not respond to this request for information.

Valuation

The assessor values taxable possessory interests based on their contract rents only when those rents are representative of market rent. Estimates of current market value are typically derived using the direct income method. The chief appraiser annually determines the appropriate discount rate to be applied in the income approach for each type of property.

RECOMMENDATION 8: Improve the taxable possessory interest assessment program by: (1) assessing taxable possessory interests only in real property; (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; and (3) valuing taxable possessory interests based on net income to the lessor.

Assess taxable possessory interests only in real property.

We found a number of instances where government employees were assessed for their interest in government-owned manufactured homes on publicly-owned land. The assessor valued these interests based on market rents which represented a composite of the rental value of the manufactured home and the site. After capitalizing the income into a total property value, the taxable possessory interest value is allocated between land and the manufactured home.

Rule 20(b) defines taxable possessory interests as possessory interests in publicly-owned real property. Section 5801(b) provides that a manufactured home shall not be classified as real property. As a result, there cannot be a taxable possessory interest in a manufactured home.

The assessor's practice of assessing taxable possessory interests in manufactured homes results in inappropriate assessments.

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

We found that in some instances, for lien dates subsequent to the establishment of the base year value, the assessor does not determine the market value of a taxable possessory interest with a stated term of possession. Instead, the factored base year value is enrolled until the contract term of possession expires or there is a change in ownership.

Section 51 requires the assessor to assess real property, including taxable possessory interests, at the lesser of the base year value (adjusted annually for inflation by no more than 2 percent) or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term of possession, Rule 21 provides that the stated term of possession must be used unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term.

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

Value taxable possessory interests based on net income to the lessor.

When applying the income approach, the assessor values taxable possessory interests based on the projected gross income to the lessor rather than on projected net income.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that in the direct method of the income approach, it is appropriate for the appraiser to estimate the value of the taxable possessory interest by discounting either: (1) the estimated economic rent less allowed expenses paid by the public owner, or (2) that portion of the estimated future net operating income attributable to the taxable possessory interest.

A public owner will always incur some management expense with each taxable possessory interest. Other lease agreements may require the lessor to pay for additional items, such as insurance, maintenance, or utilities.

By estimating the fair market value of taxable possessory interests based on gross income rather than net income to the lessor, the assessor is inflating the value indicated by the income approach and is overassessing these properties.

Water Company Properties

Water company properties assessed on local tax rolls may be either municipal or district water systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies subject to regulation by the California Public Utilities Commission (CPUC), private water systems that do not sell water and are therefore not subject

to CPUC regulation, or mutual water company associations. Each type presents different assessment challenges. There are no private water companies regulated by the CPUC in Del Norte County.

Municipal Water Systems

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. Such property includes both property owned by city water departments and located within city limits and property owned by water districts and located within district boundaries. When a local government entity owns property located outside of the government agency's or district's boundaries, this exemption does not apply. There are no municipal water systems within Del Norte County with property located outside of their municipal boundaries.

There are several county-owned water systems in Smith River, Crescent City, and Klamath that are inside their respective county service areas. We found the parcels owned by the municipal water systems located within the city limits or district boundaries were correctly exempted from taxation under article XIII, section 3(b) of the California Constitution.

Mutual Water Companies

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

We identified one mutual water company in Del Norte County. This company does not deliver water to any outside entities for profit. We found that the value of the mutual water company property was correctly reflected in the assessments of the parcels served by the water system.

Private Water Systems Not Regulated by the CPUC

Unregulated private water systems are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated on a for-profit basis to supply water to commercial developments, such as mobilehome parks, resorts, and campgrounds. However, they do not sell water for profit to customers in the same manner as a regulated water company. There are 25 unregulated private water systems within Del Norte County. We reviewed several assessments of properties owned by these companies and found that the assessor correctly values these properties.

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.

As of February 2005, the assessor's staff assigned to the business property program consisted of one part-time auditor-appraiser assisting the office while the full time auditor-appraiser was on leave.

In this section of the survey report, we review the assessor's audit, business property statement processing, business equipment valuation, leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, and vessels.

Audit Program

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

The following table shows the total number of audits completed during recent years.

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS
2005-06	0	0	0
2004-05	13	12	1
2003-04	13	13	0
2002-03	14	14	0
TOTALS	42	41	1

In our 2001 survey report, we recommended the assessor consistently cite the section 531.8 heading when notifying the taxpayer of a proposed escape assessment. We found that the assessor has implemented this recommendation. Also, we recommended the assessor audit all years within the statute of limitations period when a discrepancy or irregularity is found in the

year of the audit, as required by Rule 193. We found that the assessor has implemented this recommendation.

Mandatory Audits

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

The assessor has an average workload of 13 mandatory audit accounts per year for the years of 2002 to 2004. Although she recently lost an auditor-appraiser due to a job transfer and was unable to conduct audits during 2005, audits were current for years 2002-04. Further, the assessor hired an employee to fill the auditor's position and expects to once again be current with audits in the near future.

Nonmandatory Audits

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

The assessor has performed very few nonmandatory audits. Although nonmandatory audits are not required by statute, we encourage the assessor to perform these audits.

Statute of Limitations

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

The waiver allows the assessor additional time to complete audits that were in process at the end of the assessment year. The advantage to the taxpayer is to allow additional time to review any escape assessments or overassessments.

We found that the assessor did not use the waiver of the statute of limitations in the year 2005-06. In discussions with the chief appraiser, we pointed out that the current mandatory audit workload must be completed by June 30, 2006. We suggested using the waivers to provide additional time for the auditor-appraiser to complete the required mandatory audits.

Audit Quality

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

analysis of depreciation and obsolescence factors that may affect the value of the business property.

We reviewed a sample of 10 mandatory audits in detail. Our review verifies how the assessor reviews and verifies leased equipment, enrolls construction in progress, accounts for supplies, and classifies equipment, among other things. In all cases, the mandatory audits were supported by an audit checklist defining the areas of investigation. However, we found a problem with how the taxpayers are notified of their right to appeal the results of the audit.

RECOMMENDATION 9: Inform the taxpayer of the right to appeal the results of an audit as required by Rule 305.3.

In Del Norte County, taxpayers are not notified of their right to appeal audit findings when the audit discloses property subject to an escape assessment but the assessor does not change the previously enrolled assessment. The assessor sends a letter to the taxpayer indicating that the audit resulted in no change to his or her assessment. However, there is no mention of the taxpayer's right to appeal audit findings.

Section 469 generally provides that the assessor shall provide the taxpayer with the results of an audit in writing. In implementing section 469, Rule 305.3(d)(2) provides that the taxpayer must be informed of his or her appeal rights, and whether or not an escape is actually enrolled. When taxpayers are not advised of their appeal rights on a "no change" audit, they have no knowledge of their entitlement to equalization on the entire property for the year of such escape, regardless of whether the assessor actually enrolls an escape assessment.

Business Property Statement Program

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

Workload

The following table displays the assessor's workload of property statements for businesses, vessels, aircraft, and other property types for the assessment rolls of the 2005-06 year:

TYPE OF PROPERTY STATEMENTS	COUNT	SECURED VALUE (Includes R.P. Value)	UNSECURED VALUE	TOTAL ASSESSED VALUE
General Business	1,877	\$307,627,029	\$19,365,122	\$326,992,151
Boats, Aircraft & Other	423	0	\$6,209,602	\$6,209,602
Totals	2,300	\$307,627,029	\$25,574,724	\$333,201,753

We reviewed the assessor's business property statement program, including written processing procedures. We reviewed a sampling of business property statements to verify the use of BOE-prescribed forms, processing by noncertified staff, taxpayer interactions, completeness of the property statements, application of penalties, coordination with the real property staff, record storage, and retention. We found that the auditor-appraiser checks for completeness and a valid signature, and all statements are date-stamped when received. If a statement is unsigned, a copy is made and the original is returned to the taxpayer. If a statement is received late, a penalty is added as prescribed by section 463. If a statement reports any additions or deletions to real property items, those changes are referred to the real property staff for review.

Our review included verifying written authorization for agents to sign property statements on behalf of the property owners. We found that the assessor maintains the written authorizations in the business property files and that the business property statements were being processed properly.

Discovery

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate and current listings of assessable business properties. Discovery sources are building permits, business licenses, business directories, telephone directories, Form BOE-600-B, *Report of Locally Assessable Equipment Leased to State Assessee*, and tenant information from landlords.

The assessor has an adequate discovery program and maintains a list of taxpayers that have multiple penal assessments due to chronic failure to file business property statements. These taxpayers are contacted as part of staff's fieldwork assignments.

We found no problems with the assessor's business property statement program.

Business Equipment Valuation

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

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

In our 2001 survey, we recommended the assessor properly classify service station improvements. We also recommended the assessor review the valuation factors used in valuing equipment because the factors used showed a number of calculation and transcription errors. We found that the assessor has complied with these recommendations. However, we do have one minor recommendation concerning the valuation of mobile construction and agricultural equipment.

RECOMMENDATION 10: Use the proper percent good factors for valuing mobile construction and agricultural equipment.

Our review of business equipment valuation included the valuation of mobile construction and agricultural equipment. In AH 581, we recognize that the condition of the equipment affects the value of the equipment. Within the mobile construction and agricultural percent good tables, three columns of percent good factors, new, used, and average, are listed. Our review indicated an area of disagreement with the factors used by the assessor.

The assessor uses the average percent good factors to value mobile construction and agricultural equipment, even in instances where the taxpayer has provided information about the status of the equipment.

Section 401.16(a) requires the assessor to use the AH 581 "new" factors for new equipment and "used" for used equipment, with the exception that, if the information reported by the taxpayer does not indicate whether the property is new or used, then the assessor may use the average factors published in AH 581.

The assessor is not using BOE's tables for mobile construction and agricultural equipment as intended. This practice could result in erroneous assessments.

Leased Equipment

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

Taxpayers are required to report all taxable leased equipment that belongs to others on the annually filed business property statement. On the statement, the taxpayers report the name and address of the lessee or lessor, month and year of property acquisition, acquisition cost, location, and other relevant information such as sales taxes, freight, and installation costs.

When equipment is leased, both lessors and lessees should report the total equipment cost on their annual property statements. If the lessor is a bank or a financial institution, the assessment is made directly to the lessee as provided in section 235.

At the maturity of the lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease. When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the equipment. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

We reviewed several files of lessors and lessees for valuation methods, completeness of reporting, tracking of equipment, correct assessee designation, leased equipment reported by state assessee(s), and correct expired lease disposition, as well as correct processing procedures. The assessor has adequate procedures for tracking and cross-checking leased equipment. We found that the assessor properly distinguishes between leases and conditional sales contracts and follows the correct appraisal and assessment procedures. The leased equipment program is well managed.

Manufactured Homes

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

The assessor's primary method of discovering manufactured homes is through the State Department of Housing and Community Development's listing of transfers and dealer reports. The assessor also receives annual move-in and move-out reports from the managers of most mobilehome parks in the county. For assessment year 2005-06, the assessor enrolled 1,088 manufactured homes, of which 660 were located in mobilehome parks, with a total assessed value of \$18,954,956.

In our 2001 survey, we recommended the assessor classify manufactured homes as personal property. During our current review of manufactured homes we found the assessor typically classifies manufactured homes as personal property and enrolls their assessed values on the secured roll.

We also recommended the assessor recognize declines in value for manufactured homes. Our current review found that the auditor-appraiser who is responsible for valuing all manufactured homes in mobilehome parks annually reviews the manufactured homes for decline-in-value on each lien date. The valuation of all other manufactured homes is the responsibility of the appraiser within whose work area they are located.

A manufactured home within a mobilehome park is designated by the assessor's book number followed by a number in the 700 series, then the number of the space the home occupies within the park. For example, a home located in book 116 and occupying park space number 2 might be assigned parcel number 116-701-02.

We found that manufactured homes are properly assessed as personal property as provided by section 5801(b)(2). The assessor maintains an effective manufactured home assessment program.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2005-06 assessment roll, the Del Norte County Assessor enrolled 26 general aircraft for an assessment of \$1,529,385. The assessor discovers aircraft through airport operator reports, other counties' referrals, United States Department of Transportation Federal Aviation Administration reports, and physical inspections.

In our 2001 survey, we recommended that the assessor use the winter edition of the *Bluebook* when appraising general aircraft at lien date. We found that the assessor has complied with this recommendation.

An aircraft property statement is mailed each year to the known owner of each aircraft in the county. The statement requests a description of the aircraft, purchase price, description of any additions or deletions of equipment, engine hours since last major overhaul, date of last overhaul, and overall condition of the aircraft. If the aircraft has been sold since the last lien date, then information about the transfer is also requested.

Upon receipt of the aircraft property statement, the assessor incorporates adjustments for the overall condition of the aircraft, additional or special equipment, and engine hours since last major overhaul, to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

We found that the assessor has good assessment procedures in place and the estimates of value to be properly calculated. We have no recommendations in this area.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed solely at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

The assessor appraises the certificated aircraft owned by two commercial airline companies serving Del Norte County. For the 2005-06 assessment roll, the enrolled value for certificated aircraft was \$2,051,819. Certificated aircraft are assessed using the appropriate allocation formula provided in section 1152, which considers flight and ground time as well as arrivals and departures. This information, critical in determining the aircraft assessments, is routinely gathered from owners of certificated aircraft in the course of the assessor's audits or an exchange of information from other counties.

We found that the assessor has followed proper procedures and adequately administered the assessment of certificated aircraft.

Vessels

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

In Del Norte County, vessels are discovered through property statements, certificates of documentation issued by the United States Coast Guard, harbormaster's marina reports, field canvassing, referrals from other counties, and DMV reports.

For the 2005-06 assessment roll, the assessor enrolled 395 vessels with a total assessed value of \$2,628,398. This amount included 125 documented vessels that qualified for the 4 percent assessment as provided by section 227; these vessels had an assessed value of \$725,614.

The following table shows the vessels assessed in Del Norte County for recent years:

ROLL YEAR	PLEASURE VESSELS	ASSESSED VALUE	DOCUMENTED VESSELS	ASSESSED VALUE
2005-06	270	\$1,902,784	125	\$725,614
2004-05	267	\$1,939,120	130	\$1,071,960
2003-04	265	\$1,762,170	120	\$542,188
2002-03	298	\$2,047,906	N/A	N/A

Vessels entering Del Norte County are assessed based on reported purchase price, DMV values, or the *ABOS Marine Blue Book* (ABOS) valuation guide. Additional adjustments are made for sales tax, vessel condition, motor and motor condition, and accessories, with deductions for trailers, when appropriate. Owners of documented vessels are asked to file annually Form BOE-576-D, *Vessel Property Statement*, and Form BOE-576-E, *Affidavit for 4 Percent Assessment*. We reviewed a sample of the documented vessel accounts and found that they were being assessed properly.

All existing pleasure vessels are divided into four groups; each year one group receives Form BOE-576-B1, *Vessel Owner's Report*, for that year. Thus, over a four-year cycle, all owners will file this form. If a pleasure vessel is being reported for the first time, the owner is

sent Form BOE-576-D, *Vessel Property Statement*, and that vessel is added into the most current year's group.

Each year, for those vessels reported on a *Vessel Owner's Report* or a *Vessel Property Statement*, the assessor prepares value indicators based on ABOS. For the 75 percent of vessels not reported on a property statement each year, the assessor estimates market value by applying a single percent good factor to the prior year's enrolled value. The assessor develops this factor by comparing ABOS value trends from one year's value guide to the next for representative pleasure vessels in several classes.

All active vessel accounts receive a *Boat Assessment Notice* informing the taxpayer of the current assessed value. Those vessels that are below the minimum value are placed on inactive status. We sampled a number of pleasure vessel accounts to verify that they are being processed and valued correctly. We found a problem with the assessor's vessel statement procedures, which is addressed in the Assessment Forms section of this report.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Del Norte County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck

Supervising Property Appraiser

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

Wes Hill

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Larry Gee

Associate Property Auditor-Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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



COUNTY OF DEL NORTE

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May 30, 2007

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OFFICE OF THE ASSESSOR

Arnold Fong
Property and Special Taxes Department
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0062

RECEIVED

JUN 06 2007

County of Del Norte, California

Dear Mr. Fong:

In accordance with Section 15645 of the California Government Code, the following report is the Assessor's response to the 2005-06 State Board of Equalization Assessment Practice survey Report for Del Norte County.

Some of the recommendations made by the survey team have been implemented at this time. The remaining recommendations will be initiated as staff, computer capabilities, and time permits.

This office would like to thank the State Board of Equalization and its staff for the professional and conscientious manner in which the survey was conducted.

Sincerely,

LOUISE WILSON
Assessor
County of Del Norte

**DEL NORTE COUNTY
ASSESSMENT PRACTICES SURVEY**

My legal name is **E. Louise Wilson**. Over the years the E. had been misplaced as middle initial.

Correction to Staffing: Please change: one mapping technician to **one transfer/mapping technician**. Two assessment clerks to **two account clerks**.

Recommendation 1. Revise disaster relief procedures.

Response We concur with implementing the revision of the application for disaster relief and processing only completed disaster relief claims. We have also implemented the correct appeals filing period as required by section 170.

Recommendation 2. Improve processing of assessment roll changes

Response We have implemented 534 (c)(3) by sending the second notice stating the escape assessment has been enrolled, however, our computer system does not have the capabilities to add penalty information to the assessment roll. The tax bill does state if a penalty or interest has been added.

Recommendation 3. Comply with the low-value property exemption resolution

Response We are in the process of updating our low-value property exemption resolution.

Recommendation 4. Improve the welfare exemption program

Response We are in the process of reviewing the welfare exemption program on our veterans' organizations. One of the three organizations no longer exists.

Recommendation 5. Improve the use of assessment forms

Response Due to a constant turn over of office staff, we failed to properly submit all forms for approval for the final print. This has been corrected. The Change of ownership Statement-Death of Real Property Owner was picked up at a Change of Ownership workshop by a previous transfer clerk. We have not used this form and had no plans of using the form. We have since removed the form from our office.

Recommendation 6. Classify land improvements as land

Response Due to the low value of our residential wells, we have in the past classified our wells as improvements. As time prevails, we will implement segregating the value between land and improvements.

Recommendation 7. Consider the factored base year values for all taxable government-owned properties

Response In the past the factored base year had been enrolled on some taxable government-owned properties. Due to the turn over in the appraisal staff, this practice was not considered for the 2005-06 Roll. We have complied by using the three approaches to value in determining the lowest value to enroll.

Recommendation 8. Improve the taxable possessory interest assessment program

Response We concur and this has been corrected.

Recommendation 9. Inform the taxpayer of the right to appeal the results of an audit as required by Rule 305.3

Response We did not inform the taxpayer the right to appeal the results of an audit where there was no change in value. We have corrected this practice. The taxpayer is now informed of the right to appeal in all audits completed.

Recommendation 10. Use the proper percent good factors for valuing mobile construction and agricultural equipment

Response We concur and this has been corrected.