

DEL NORTE COUNTY ASSESSMENT PRACTICES SURVEY

AUGUST 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

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July 23, 2001

TO COUNTY ASSESSORS:

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 Gerald Cochran, 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 Property Tax Division from September through December 2000. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
Enclosure

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INTRODUCTION

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

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

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

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board of Equalization, the Senate and Assembly, and the Del Norte County Grand Jury. The 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 Gerald Cochran, Del Norte County Assessor, elected to file his initial response prior to the publication of our survey; that response is included in this report following the Appendices.

Management audit reports typically emphasize problem areas, with little said 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 performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60¹ requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in the Appendix.

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

This survey also included an assessment sample of the 2000-2001 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative costs of processing supplemental assessments. The sampling program is described in detail in the Appendix.

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

¹ All statutory references are to the Revenue and Taxation Code unless otherwise noted.

EXECUTIVE SUMMARY

This report presents several recommendations for improvement, but it also attempts to note those program elements that are particularly effective and efficient. It also highlights areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

- In our prior survey, we made 10 recommendations. The assessor implemented six of the changes we recommended and failed to correct three of the assessment problems we uncovered. One of our recommendations no longer applies.
- We found no problems in the assessor's administration of assessment appeals, low-value property exemptions, changes in ownership, possessory interests, and timberlands.
- The assessor fails to note the required section 463 notations on the assessment roll.
- The assessor should update the policies and procedures regarding the enrollment of restored properties.
- The assessor improperly classifies certain land improvements as improvements.
- The assessor fails to document decline-in-value assessments.
- The assessor fails to consider the current market value or the factored base year value of a property in his review of taxable government-owned properties.
- While progress has been made in the mandatory audit program, the assessor does not timely complete his mandatory audits because he tracks them by calendar year rather than fiscal year. In addition, when the assessor discovers a discrepancy or irregularity in a year selected for audit, he fails to audit all years within the statute of limitations as required by rule 193.
- The assessor does not always use the required section 531.8 headings when notifying taxpayers of proposed escape assessments.
- We found numerous math errors in the valuation factors used to value machinery and equipment.
- For commercial vessels, the assessor inappropriately included the *Vessel Property Statement* (BOE-576-D) and the *Affidavit for 4 Percent Assessment of Certain Vessel* (BOE-576-E) under the same cover letter and due date, even though they have separate due dates.
- The assessor used the fall edition of the *Aircraft Bluebook Price Digest* instead of the winter edition. The winter edition is the appropriate value guide for the January 1 lien date.
- The manufactured homes program needs improvement. The assessor should classify manufactured homes as personal property and review manufactured home assessments for declines in value.

- The assessor misclassifies service station personalty and fixtures.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- The county assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2000 assessment roll indicated an average assessment ratio of 100.50 percent, and the sum of absolute differences was 1.57 percent. Accordingly, the BOE certifies that Del Norte County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Include the required section 463 notations on the assessment roll. 8

RECOMMENDATION 2: Revise disaster relief written policies and procedures. 10

RECOMMENDATION 3: Classify land improvements as land..... 13

RECOMMENDATION 4: Document decline-in-value assessments on appraisal records. ... 14

RECOMMENDATION 5: Enroll the lowest of the Section 11 value, the factored base year value, or the current market value for taxable government-owned real property. 17

RECOMMENDATION 6: Bring the mandatory audit program to current status. 20

RECOMMENDATION 7: Audit all years within the statute of limitations period when a discrepancy or irregularity is found in the year of an audit as required by rule 193. 20

RECOMMENDATION 8: Consistently cite the section 531.8 heading when notifying taxpayers of proposed escape assessments. 21

RECOMMENDATION 9: Review the valuation factors used in valuing equipment. 22

RECOMMENDATION 10: Send Form BOE-576-D, *Vessel Property Statement*, under a separate cover letter. 23

RECOMMENDATION 11: Use the winter edition of the *Aircraft Bluebook Price Digest* value guide. 24

RECOMMENDATION 12: Classify manufactured homes as personal property..... 25

RECOMMENDATION 13: Recognize declines in value for manufactured homes..... 25

RECOMMENDATION 14: Properly classify service station improvements..... 25

RESULTS OF 1995 SURVEY

Declines in Value

We recommended that the assessor apply the annual inflation factor only to the base year value. The assessor was adjusting the prior years' decline-in-value assessments by the inflation factor. The assessor complied with our recommendation.

Assessment Roll Change Procedures

We recommended that the assessor enroll escape assessments for all applicable years required under the statute of limitations and include the required section 463 notations on the assessment roll for penalty assessments. The assessor has complied with the first recommendation, but he still is not including the required notations on the assessment rolls.

Possessory Interests

We recommended revising the possessory interest assessment program by not assessing government-owned manufactured homes, processing supplemental assessments for low-value possessory interests, and assessing all qualifying taxable possessory interests. The assessor has complied with our recommendation.

Taxable Government-Owned Properties

We recommended a number of procedural changes to improve the Section 11 program. Section 11 procedures are much improved. However, we found that taxable government-owned properties are assessed only at the Section 11 value and not the lowest of the Section 11 value, the factored base year value, or the current market value.

Audit Program

We made several recommendations concerning the audit program. With the addition of an auditor-appraiser, the assessor has improved his audit program. The assessor now maintains a cyclical mandatory audit list, obtains signed waivers of the statute of limitations on mandatory audits, and audits the records of non-filing business property owners.

Vessels

We recommended the assessor apply late-filing penalties only when using a BOE-prescribed vessel property statement. The assessor continues to apply penalties without using the BOE-prescribed statement.

OVERVIEW OF THE ASSESSOR'S OFFICE

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 28,500, of whom approximately 8,000 reside in Crescent City. Del Norte County encompasses 683,547 acres or 1,068 square miles.

Staffing

Currently, the Del Norte County Assessor's Office has a staff of nine employees. With the recent certification of a real property appraiser and the addition of an auditor-appraiser about two years ago, staffing has returned to previous levels.

The assessor's appraisal staff consists of a chief appraiser, a chief administrator, two real property appraisers, and an auditor appraiser. Other personnel consist of two account clerks and a drafting/transfer technician. Since 1993, the assessor's office has been budgeted for nine permanent staff positions as shown below.

Position	Total Staff Members
Assessor	1
Chief, Administrative Division	1
Auditor-Appraiser	1
Chief, Appraisal Division	1
Real Property Appraiser	2
Map Drafting/Transfer Technician	1
Account Clerk III	1
Account Clerk II	1
Total Personnel	9

Budget and Workload

For fiscal year 2000-01, the assessor prepared an assessment roll of about \$1,037,340,000 on an approved budget of \$661,484.² The roll contained 16,588 assessments, of which 15,214 were secured assessments with a roll value of \$996,248,000 and 1,374 were unsecured assessments with a roll value of \$41,092,000. The approved budgets for the 1998-99 and 1999-2000 are \$509,318 and \$525,699 respectively, and the roll data are:

² This amount includes extraordinary expenses for an office move and computer hardware.

	1998-1999		1999-2000	
	No. of Assessments	Roll Values	No. of Assessments	Roll Values
Secured	15,192	\$ 933,092,000	15,227	\$ 961,148,000
Unsecured	1,374	40,967,000	1,328	41,779,000
Total	16,566	\$ 974,059,000	16,555	\$ 1,002,927,000

The real property workload in recent years in Del Norte County has included the reappraisal of approximately 1,700 sales and other transfers of real property, and the processing of about 800 building permits resulting in enrollment of more than 400 items of assessable new construction.³ Business property assessments total about 2,000.

The county's decision to participate in the State-County Property Tax Administration Program (PTAP) made it eligible to apply for a loan from the State to improve and upgrade its assessment capabilities. The assessor's office received \$36,203 under that program for 1999-2000.

Since the 1990-91 roll year, the total value of county-assessed property on the assessment roll in Del Norte County has increased as follows:⁴

Year	Total Assessed Value (000)	Percent Increase	Statewide Percent Increase
91-92	\$686,041		
92-93	\$745,929	8.7	5.4
93-94	\$799,940	7.2	3.1
94-95	\$852,177	6.5	1.3
95-96	\$889,181	4.3	0.7
96-97	\$915,001	2.9	1.3
97-98	\$948,656	3.7	2.8
98-99	\$974,059	2.7	4.9
99-00	\$1,002,927	3.0	7.1
00-01	\$1,037,340	3.4	

³ Includes statistics for 1998, 1999 and the first half of 2000.

⁴ State Board of Equalization Annual Reports, Table 7

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and personal property assessment programs. Among other things, we examined the training and qualifications of appraisal staff; how the assessor handles corrections and changes to the completed assessment roll, disaster relief, exemptions, and the low-value property programs; how the assessor's office prepares and presents assessment appeals; and the county's participation in the State-County Property Tax Administration Program.

Assessment Roll Change Procedures

The assessor has a duty to complete the local assessment roll and deliver it to the county auditor by July 1 of each year. After delivery of the roll to the county auditor, the assessor cannot change an assessment unless authorized by statute or by the board of supervisors and the county counsel.

Escape assessments are assessments made after the assessor has certified that the local assessment roll was prepared pursuant to section 601. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penal assessment to the roll. Additionally, the assessor must cite the Revenue and Taxation Code section authorizing the escape assessment.

Section 463 requires the assessor to apply a penalty when a property statement is not filed in accordance with the filing requirements identified in sections 441 and 463, respectively. The penalty is applied to the unreported taxable tangible property and added to the assessment on the current roll.

RECOMMENDATION 1: Include the required section 463 notations on the assessment roll.

In our 1995 survey, we recommended that the assessor place a note on the assessment roll when section 463 penalties have been applied. The assessor still fails to note section 463 penalties on the assessment roll. Rule 261 requires the assessor to enter section 463 penalty assessments on the local roll in one of three ways:

- By adding appropriate penalties to the assessed value of each class of property to which the penalty is applicable and referencing the values to footnotes or entries in the remarks column which read: "Includes __% penalty added pursuant to Sec. _____, R & T Code."
- By inserting the amount to be added to the assessed value of each class of property below the assessed value and identifying the penalty by an entry on the same line but in another column or other columns which reads: "Penalty added pursuant to Sec. _____, R & T Code."

- By entering the amount to be added to the assessed value of each class of property in another part of the roll, together with the name and address of the assessee, the tax rate area code, the words "Penalty added pursuant to Sec. _____, R & T Code" and a cross reference to the place on the roll at which the assessed values are entered.

We repeat our prior recommendation that the assessor identify the penalties imposed by section 463 on the assessment roll.

Computer System

In order to use resources efficiently and effectively, an organization must dedicate a significant amount of its resources to updating and maintaining its computer systems.

The assessor's assessment program was computerized prior to 1975. The system was revised around 1983 to handle supplemental assessments. The last major revision was in 1999 to comply with Y2K requirements. The assessor's program is integrated with the building department and is in the process of being integrated with the recorder's office.

The central computer information center, located in the same building as the assessor's office, is responsible for maintaining the programs. The server is in a secure location. Work is backed up daily and the entire system is backed up monthly.

The computer system seems to work very well for the assessor and he is very satisfied with the effectiveness of the system.

Assessment Appeals

The assessment appeals function is authorized under article XIII, section 16, of the California Constitution. Sections 1601 through 1641.1 are the statutory provisions governing local assessment appeals board in the appeals function. In addition, Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. Pursuant to that mandate, the BOE has adopted rules 301 through 326 (Title 18, Public Revenue, California Code of Regulations) regarding assessment appeals.

The Del Norte County Board of Supervisors sits as the local board of equalization. Assessment appeals average five to ten per year. We found assessment appeals to be well prepared and documented. The assessor's assessment appeals procedures and methodology are in compliance with tax rules governing assessment appeals.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value and personal property with a full value so low that the total taxes, special assessments, and applicable subventions would amount to less than the cost of assessing and collecting them.

In determining the level of exemption, the board of supervisors must determine at what level the costs of processing assessments and collecting taxes exceed the funds collected, and establish the exemption level uniformly for different classes of property. The base year value or full value exempted may not exceed \$5,000, except that this limitation is increased to \$50,000 in the case of a possessory interest for a temporary and transitory use in a publicly owned fairground, fairground facility, convention facility, or cultural facility.

The Del Norte County Board of Supervisors has adopted a low-value property resolution. The authorizing resolution provides that all parcels of real and personal property of less than two thousand dollars (\$2,000) of full value are exempted from the property tax.

We found that the assessor administers the low-value exemption correctly.

Exemptions

Article XIII, section 4, subdivision (b) of the California Constitution, commonly referred to as the welfare exemption, grants the Legislature the authority to exempt certain property from taxation. Sections 214 and following set forth the specific requirements for the exemption.

We reviewed only the assessor's exemption of parsonages. Assessors' Handbook Section 267, Welfare, Church, and Religious Exemptions, October 1998 (revised August 2000), and Rule 137 provide guidelines to assist in determining whether housing is "reasonably necessary" for the primary purpose of a religious organization.

We found that the assessor effectively administers the welfare exemption for parsonages according to the guidelines contained in the assessors' handbook.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed through no fault of his or her own. The ordinance may be made applicable to a major misfortune or calamity within a region that has been declared a state of disaster. Relief occurs when a property suffers a calamity event in which the damage exceeds \$5,000. The assessor reduces the assessment based on a percentage of loss to the current roll value of the property.

In our 1995 survey we suggested the assessor request that county counsel rewrite the county's disaster relief ordinance to reflect the provisions of section 170. This was completed with the adoption of ordinance #99-003 dated February 23, 1999.

RECOMMENDATION 2: Revise disaster relief written policies and procedures.

The assessor's written policies and procedures governing disaster relief provide that, upon full restoration of the property, the value is enrolled on the lien date following the completion of the restoration. However, section 170 requires the use of the supplemental assessment process to

enroll a repaired, reconstructed, or restored property. Section 170(h)(1) provides that when a property is fully repaired, restored, or reconstructed, the assessor shall make an additional assessment or assessments in accordance with subparagraphs (A) or (B) upon completion of the repair, restoration, or reconstruction. Subparagraphs (A) or (B) refer to the use of the supplemental assessment process.

In fact, the assessor makes an additional assessment upon the completion of the restoration of a damaged property; it is the policies and procedures manual that is incorrect.

We recommend the assessor revise his written policies and procedures regarding disaster relief to reflect the provisions of section 170.

State-County Property Tax Administration Program

Section 95.31 established the State-County Property Tax Administration Program (PTAP). This program provides state-funded loans to eligible counties for the improvement of property tax administration. If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-upon performance criteria set forth in the contract. As a provision of the contract, a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's office's existing funding.

Presently, the BOE's only connection with the program is that a county's performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31. The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment. For most counties, the contract provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

Del Norte County participated in the PTAP during years 1995-96, 1996-97, 1997-98, 1998-99, and 1999-2000. During calendar year 2000, the county borrowed \$36,203. The county's required base funding and staffing levels for the assessor's office are \$376,429 and nine positions, respectively. The Del Norte County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment.

Del Norte County has used PTAP funds to reduce backlogs of mandatory audits, nonmandatory audits, escape assessments, assessment appeals, and decline in value reductions. Funds have also been used to purchase new information technology hardware, and related staff training, all designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax assessment program.

ASSESSMENT OF REAL PROPERTY

In Del Norte County, the assessor's real property appraisal staff consists of the chief appraiser and two real property appraisers responsible for the appraisal of approximately 15,200 residential, commercial, industrial, and agricultural parcels.

Change in Ownership

Change in ownership is defined in section 60 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 interest.

Change in Ownership Statement

Section 480 requires all transferees of real property to submit a Change in Ownership Statement (COS) upon a change in ownership of either real property or a manufactured home subject to local property taxation. Under section 482, failure to respond to a COS notice requires the assessor to apply a penalty of either one hundred dollars (\$100) or 10 percent of the tax applicable to the new base year, whichever is greater, but not to exceed two thousand five hundred dollars (\$2,500).

The assessor reviews recorded documents to determine whether a change in ownership has occurred. Over the last few years, the recorder's office forwarded between 6,500 and 8,500 documents to the assessor. Of these, about 1,700 were determined to be changes in ownership.

Legal Entity Ownership Program (LEOP)

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

The BOE's Legal Entity Ownership Program (LEOP) learns of changes in control through responses to questions appearing on corporate and partnership income tax returns filed with the State Franchise Tax Board. The LEOP staff passes information related to these transfers to assessors' offices by sending a listing to each assessor along with the corresponding property schedules of those entities that have reported a change in control. The listing includes the names of acquiring entities, the date control transferred, the parcels involved, and whether or not the properties were owned or leased on the transfer dates. Assessors are advised to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly appraised.

Since our 1995 survey, the LEOP unit has notified the Del Norte County Assessor's office of changes in control in 6 legal entities affecting 19 real property parcels in Del Norte County. We reviewed the appraisal records of all properties on the assessor's LEOP list and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor's staff is doing a good job processing LEOP notices, identifying changes in control, and reappraising properties subject to changes in control.

The assessor handles changes in ownership appropriately. We conclude that the assessor's change in ownership program is in compliance with recommended assessment standards and have no recommendations for this program.

New Construction

Section 70 defines "newly constructed" as any addition to real property, whether land or improvements (including fixtures), since the last lien date, and any alteration of land or improvements since the lien date which constitutes a major rehabilitation thereof or which converts the property to a different use. When real property undergoes new construction, section 71 requires the assessor to determine the added value of those improvements upon completion. This value is established as the base year value for those specific improvements and is added to the property's existing base year value. When new construction replaces existing improvements, the value attributable to those existing improvements is deducted from the property's base year value.

Building permits are the assessor's main source for the discovery of assessable new construction. To ensure that all qualifying new construction is assessed, the assessor must receive a copy of every approved building permit. Section 72(a) provides that a copy of any building permit issued by any city, county, or city and county shall be transmitted by each such entity to the county assessor as soon as possible after the date of issuance. Although some permitted new construction may be considered minor, the permits serve notice that some kind of construction activity is taking place. These permits may be a signal that other related construction activity is occurring or may soon begin.

The assessor correctly processes about 800 permits issued by two agencies. We found no problems with the assessor's processing of permits for new construction.

Classification

Classification is an important and required factor of the assessment function. Section 601 et seq. requires that land, improvements (including fixtures), possessory interests, personal property, and other properties must have separately assessed values on the roll.

RECOMMENDATION 3: Classify land improvements as land.

We found that the assessor did not classify land improvements as land. This is true for both single-family residences and large commercial projects. The costs of grading for building pads and of wells were assessed as building improvements.

Rule 121 provides that where there is a reshaping of land or an adding to land itself, that portion of the value relating to the reshaping or adding to the land is land. Rule 121 also provides that whenever an addition of materials is solely for drainage of land to render it arable or for the drainage or reinforcement of land to render it amenable to being built upon, the land, together with the added materials, remains land. Rule 124 gives examples of the classification of improvements that are considered to be land improvements. Among these examples are the grading and leveling of land, fill, and oil or water wells. As such, any value added for the grading, leveling or contouring of land and the installation of any well should be attributed to the land.

Accordingly, we recommend that the assessor enroll land improvements as land.

Declines in Value

Section 51 requires the assessor, when preparing the assessment roll, to enroll the lesser of either: (1) a property's factored base year value (FBYV) or (2) its current market value as defined in section 110. When a property's current market value falls below its FBYV on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's market value rises above the FBYV, then the assessor must re-enroll the FBYV.

For the 2000-01 tax year, there were 344 decline-in-value parcels on the Del Norte County assessment roll. This represents approximately 2.26 percent of the 15,214 parcels assessed on the secured roll.

Generally, the assessor discovers decline-in-value situations upon a taxpayer's request or field inspection resulting from transfers or new construction. All decline-in-value parcels are reviewed annually and adjusted if necessary.

RECOMMENDATION 4: Document decline-in-value assessments on appraisal records.

We found that the appraisers did not document decline-in-value assessments on the appraisal records. We found a number of appraisal records that contained no information as to how the taxable value was determined. Staff informed us that each appraiser maintains his or her own compilation of sales data within his or her assigned geographical area, updated continuously as current data become available.

It is standard appraisal practice to list or reference on the appraisal record the comparables used, along with any appropriate adjustments made to justify an appraiser's opinion of value. Doing so substantiates the value determined, facilitates review, prevents unnecessary delays in answering any questions that may arise, and eliminates any appearance of impropriety.

We recommend that the assessor document decline-in-value assessments on the appraisal records.

Supplemental Assessments

Sections 75 through 75.80 require a supplemental assessment upon a change in ownership or upon completion of new construction. The additional assessment is made on a supplemental roll for the balance of the fiscal year in which the qualifying event occurs. If the event occurs on or after the lien date and on or before May 31, a supplemental assessment is also levied for the upcoming year.

In our 1995 survey, we recommended the assessor request that the board of supervisors adopt an ordinance allowing the assessor to cancel supplemental assessments meeting the requirements of section 75.55. Without this ordinance the assessor must enroll all supplemental assessments, no matter how small. In lieu of obtaining the ordinance pursuant to section 75.55, the assessor elected to process all supplemental assessments, including all low-value assessments.

During our examination of supplemental assessment procedures, we reviewed a number of property files that had undergone new construction or a change in ownership during the 2000-01 year and found that all had been handled correctly. Those that had an event occur on or after the lien date and on or before May 31 had two supplemental bills issued, and all supplemental assessments were enrolled, including amounts less than \$20. All were prorated correctly and issued in a timely manner. The assessor's supplemental program is accurate and in compliance with all applicable provisions of law.

Taxable Possessory Interests

A taxable possessory interest exists whenever a private entity has the exclusive right to the beneficial use of real property owned by a public agency. Possessory interest assessments attempt to capture value of a private possessor's right to use tax-exempt public property. Section 107 and rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide private benefit.

Discovery

Assessors have three primary possessory interest discovery sources: reports from government agencies, field inspections, and recorded leases and agreements. Every lien date, the Del Norte County Assessor mails a summary of the prior year's possessory interests to each government agency in the county. From that information, the assessor requests that the agencies add any new users and delete those who are no longer users of real property. For new possessory interests, the assessor requests that the agency send a copy of the lease or license agreement stating the details of the interest held, the term, a description of the leased property, and the amount of rent. Typically, government agencies are cooperative and responsive. However, agencies that do not respond receive telephone calls and/or personal visits to request the information.

Valuation

Rule 25 provides that a taxable possessory interest may be valued by one or more of the following approaches: comparative sales, income, or cost. Rule 25 requires that when using the income approach, the possessory interest is valued either (1) by directly capitalizing all future net income that the possessory interest is capable of generating under typical management during the term of possession (direct method), or (2) by first capitalizing the net income to estimate the value of the possessor's rights as if perpetual and then deducting the present worth of those rights for the period subsequent to the term of the possessory interest (indirect method).

The assessor values possessory interests using the direct income method. In applying this method, the assessor directly capitalizes the current annual payment into a value indicator. Important components in valuing possessory interests are the income to be capitalized, the term of possession, and the selection of a yield rate.

We have no recommendations for the assessor's possessory interest program.

Native American Lands

In Del Norte County there are three officially designated Native American holdings: two rancherias and one reservation. Elk Valley and Smith River Rancherias are located close to Crescent City. The Yurok Reservation is located along the Klamath River corridor at the south end of Del Norte County. Aside from some timberlands along the Klamath River, each of the rancherias and the reservation has only a casino and small businesses focused primarily on tourism, along with some residential housing. We reviewed the following areas:

- Reservation/rancheria lands held in trust by the U. S. Government.
- Sites outside of reservation/rancheria boundaries held in trust by the U. S. Government for charitable low-income Native American housing.
- Fee simple parcels on reservation/rancheria lands held by Native Americans and non-natives.

The assessor groups reservation/rancheria lands with other U. S. Government lands (U. S. Forest Service, BLM, ATF seizures, etc.) by tax classification. As a result, it is difficult to isolate workload units specific to Native American lands.

The assessor appears to be in compliance with applicable law and we have no recommendations.

Taxable Government-Owned Property

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

In 1995, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to Section 11 properties.⁵ The Court's ruling means that such properties must be assessed using the lowest of the current fair market value, the Section 11 restricted value, or the factored base year value.

Improvements located on the property at the time of acquisition may not be valued by use of the Section 11 factor. If taxable when acquired, improvements are valued at their current fair market value or their factored base year value, whichever is lower. Construction of improvements that replace original improvements must be assessed at the lowest of the current full cash value, factored base year value, or the highest full value ever used for taxation of any improvements that have been replaced. By contrast, any new improvements (not replacements) constructed on Section 11 land after acquisition by a government agency are exempt from property taxation.

In our 1995 survey, we recommended that the assessor make a number of procedural changes to his Section 11 program. We found that the assessor has complied with that recommendation.

RECOMMENDATION 5: Enroll the lowest of the Section 11 value, the factored base year value, or the current market value for taxable government-owned real property.

We found that all taxable government-owned properties are assessed at the Section 11 value. No consideration was given to the current market value or the factored base year value. Each government-owned property reviewed indicated that the factored base year value was lower than the current enrolled value.

We recommend that the assessor enroll the lowest of the current market value, the Section 11 restricted value, or factored base year value for taxable government-owned properties.

⁵ *City and County of San Francisco v. County of San Mateo*, (1995) 10 Cal.4th 554.

Timberland Production Zone

Land zoned Timberland Production Zone (TPZ) is assessed in accordance with special TPZ site classifications that exclude the value of the standing timber. The assessed value of TPZ land each year must be its appropriate site value plus the current market value of any existing, compatible, nonexclusive uses of land. The special assessment limitations do not apply to structures on TPZ lands or to reasonable site values for such structures. In other words, structures and supporting lands are subject to the same assessment guidelines as other real property. Land zoned as TPZ that is not under a California Land Conservation Act contract is assessed at the lowest of its appropriate site value, current market value, or FBVY.

Del Norte County has 717 TPZ parcels comprised of 148,695 acres. Within this total, 1,806 acres are classified as "Non TPZ Acreage" encompassing exclusive uses such as grazing lands, gravel bars, antenna sites, etc. These designated areas have no timber-producing capabilities. Presently, there are no existing, compatible, non-exclusive uses of lands within the county.

The TPZ files are part of the assessor's data system. The values are updated annually by the computer system after TPZ site class values are announced by the BOE. Homesites and improvements are valued at the lesser of their current market value or factored base year value. The assessor makes a reasonable effort to accurately identify and value TPZ properties and any exclusive, compatible uses. Our review of structures and building sites on TPZ parcels indicate that they are properly assessed.

Rural Property

Del Norte County has between 200-300 parcels of farmland, none of which has trees or vines. Del Norte County does not have a California Land Conservation Act program.

Appraisers in the assessor's office are assigned workloads by geographic area. Therefore, they all have experience in valuing agricultural properties.

We have no recommendations in this area.

Water Company Property

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

Mutual Water Companies

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

When mutual water company shares are appurtenant to the land, the value of the mutual water company is typically reflected in the value of the property being served and to which the shares are attached. In such cases, we recommend a minimum value be assigned to mutual water company lands, improvements, and delivery systems in order to avoid double assessments.

Del Norte County has used the proper procedures when assessing its mutual water companies.

Private Water Companies Regulated by the CPUC

Private water companies, both regulated and unregulated, are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the CPUC. The CPUC regulates the rates charged by private water companies, with profits limited to a return based on the company's outstanding investment.⁶ Because the assessed value of these properties is tied directly to regulated rates, current market value may be less than the factored base year value, making it necessary to determine its taxable value annually as of the lien date.

We reviewed the assessor's methodology and the values used in the assessments of the private water companies and concluded that they are correct and based on accepted appraisal principles for valuing private water companies.

⁶ For systems sold after January 1, 1999, the CPUC is required to use fair market value when establishing the rate base. See Public Utilities Code section 2720 and Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*.

ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY

The business property division of the Del Norte County Assessor's Office is responsible for annually valuing approximately 2,300 business property accounts, 34 aircraft, and 480 pleasure boats and documented vessels. The assessor and one auditor-appraiser carry this workload.

Audit Program

Pursuant to section 469 and rule 192, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more for four consecutive lien dates.⁷ When audits are not completed timely, any assessment change beyond the four-year statute of limitations cannot be made unless the taxpayer has signed a waiver of the statute of limitations. Waiver of the statute of limitations is provided for by section 532.1.

RECOMMENDATION 6: Bring the mandatory audit program to current status.

The assessor is behind on the completion of his mandatory audits because he tracks his mandatory audits by calendar year rather than fiscal years. We found that 6 of the 10 audits slated for completion for 2000 were either still in process or were completed after June 30, 2000, the fiscal year deadline. Rule 192 provides that the assessor shall complete an audit of the taxpayer's books and records (1) at least once within the four fiscal years following the first of such four consecutive lien dates, and (2) at least once thereafter within each four-year period following the latest fiscal year covered by the preceding audit. It appears that the assessor is using a calendar year cutoff rather than a fiscal year cut-off as required by rule 192.

We recommend that the assessor track his mandatory audits by fiscal year to bring his program to current status.

RECOMMENDATION 7: Audit all years within the statute of limitations period when a discrepancy or irregularity is found in the year of an audit as required by rule 193.

We found that when the auditor audits a single year, generally the most current year, he only processes escapes or refunds for that year. Since the audit represents a test year, any problems discovered should indicate to the auditor that the remaining years within the statute of limitations should be reviewed.

Rule 193 allows the assessor to select an audit year when determining the scope of an audit. If a discrepancy or irregularity is found in the fiscal year selected for audit, the assessor is required to audit the remaining fiscal years for which the statute of limitations has not expired. The only exception to this rule is when the auditor documents in the audit report his/her conclusion that

⁷ Subsequent to our fieldwork, the Legislature amended section 469 to \$400,000, effective January 1, 2001.

the discrepancy or irregularity in the test year is peculiar to that fiscal year and that the discrepancy or irregularity did not permit an escape assessment pursuant to sections 502, 503, 531.3 and 531.4. The auditor has not documented any such peculiarities.

We recommend that the assessor audit all years within the statute of limitations when a discrepancy or irregularity is found in the year selected for audit.

RECOMMENDATION 8: Consistently cite the section 531.8 heading when notifying taxpayers of proposed escape assessments.

We found that the assessor does not consistently use the required section 531.8 notice when notifying taxpayers of escaped assessments. In four of the eight notices we reviewed, the assessor used the required notice prominently displaying the "NOTICE OF PROPOSED ESCAPE ASSESSMENT" heading. However, in the remaining four notices, the assessor's notice did not display the required heading.

We recommend that the assessor consistently cite the required section 531.8 heading when notifying taxpayers of proposed escape assessments.

Business Property Statement Processing

Section 441 requires each person owning taxable personal property totaling \$100,000 or more to file a signed property statement annually with the assessor. Annual property statements form the backbone of the personal property assessment program. These statements cover a wide variety of property types, including businesses, agriculture, boats, and aircraft.

We reviewed the assessor's property statement processing procedures and a number of property statements. We found no problems in the processing of property statements. Property statements had the appropriate signatures, the calculations were accurate, and the statements were processed efficiently. Upon receipt, business property statements are date stamped, reviewed for name, situs address, and a signature.

We found that the assessor adheres to BOE guidelines when processing business property statements.

Equipment Valuation Factors

Taxable values of business equipment are calculated using historical costs and valuation factors. The valuation factors are derived from price index and percent good factors that measure depreciation. Accurate assessments of business equipment depend on the proper choice and application of these price index and percent good factors. The BOE annually publishes equipment price index and percent good factors in Assessors' Handbook Section 581, Equipment Index and Percent Good Factors (AH 581).

AH 581 contains 20 equipment index categories of price indices and percent good factors. The equipment index factors are used to adjust the acquisition costs of equipment reported in the business property statement resulting in replacement cost new (RCN). The percent good factors are then applied to the RCN to determine an estimated replacement cost new less normal depreciation (RCNLD). For property tax purposes, the RCNLD is the cost estimate indicator of the market value of the equipment.

With one exception, we found that the taxable business personal property valuation methods are sound.

RECOMMENDATION 9: Review the valuation factors used in valuing equipment.

We found a number of math and transcription errors in the assessor's valuation tables. The valuation tables were set up about three years ago by an auditor-appraiser to facilitate equipment valuation. These tables were recently revised and some of the revisions were incorrect. Some of the factors were higher than intended, and others were lower. Although the errors are not large, they will nevertheless result in some erroneous assessments.

We recommend that the assessor review the factors in these tables to ensure accuracy, compliance, and agreement with the AH 581.

Tenant Improvements

Tenant improvements, also called leasehold improvements, are structural or fixture improvements made to rented or leased premises, and installed and paid for by the tenant/lessee or landlord. Tenant improvements also include the original installation of finished tenant spaces in a construction project. These are often subject to periodic changes by succeeding tenants.

Commercial, industrial, and other income-producing properties require constant monitoring by the assessor because changes in tenants often result in new construction and/or removal of previous tenant improvements. When new construction changes the value of a property, these changes must be reviewed and reflected in the property's assessment.

Schedule B of the annual business property statement is designed for reporting costs expended by tenants for improvements, both structural and fixture, to rented premises (land and buildings) where they operate their businesses, trades, or professions. Frequently, it is difficult to determine from the property statement how to classify a reported structural improvement.

Improvements could be structural improvements requiring assessment, structural improvements considered normal maintenance or remodeling and not qualifying as new construction, or fixtures to be classified, valued, and assessed as such.

Our review of the assessor's tenant improvement property program disclosed that the assessor is conscientious in discovering and processing tenant improvements. The assessor is properly assessing tenant improvements and we have no recommendations in this area.

Valuation of Other Taxable Personal Property and Fixtures

Leased Equipment Valuation

We found no problems with the assessor's leased equipment assessment program. The assessor checks and cross-references all known lessors and lessees in Del Norte County.

Pursuant to rule 204, the lessee of business property is assessed when a purchase agreement is in effect, or in cases where the lessor is exempt or has contractually agreed with the lessee that responsibility for property taxes on the leased equipment lies with the lessee. In all other cases the lessor is assessed.

The assessor effectively monitors his leased equipment assessment program and administers it in a thorough, accurate, and compliant manner.

Vessels

Del Norte County has an active commercial fishing industry. There are 142 commercial vessels that potentially qualify for the 96 percent exemption provided in section 227. The county also has 338 other vessels, excluding vessels subject to the low value property resolution.

The assessor mails his own *Vessel Owners' Report* (VOR) every four years to each pleasure vessel owner. The vessels for which no VOR is mailed are appraised and assessed under a direct billing program. Vessels are valued using data from the *ABOS Marine Bluebook* (ABOS). The assessor compares the values in the current ABOS with those in the previous ABOS for three or four different types of vessels to determine the percent good factor for all vessels not listed in ABOS for a given year. These procedures represent good appraisal practices with regard to the valuation of vessels.

Qualifying documented vessels receive the 96 percent exemption. The late-filed affidavit exemption for a documented vessel is 80 percent of the 96 percent when affidavits are filed between February 16 and August 1. We found that the assessor is complying with section 227 in his assessment of documented vessels.

RECOMMENDATION 10: Send Form BOE-576-D, *Vessel Property Statement*, under a separate cover letter.

For commercial vessels, the assessor sends Form BOE-576-D, *Vessel Property Statement*, and Form BOE-576-E, *Affidavit for 4 Percent Assessment of Certain Vessels*, under a single cover letter to the taxpayer. The cover letter states that all forms must be returned before February 15, 2000. This is correct only for Form BOE-576-E. Form BOE-576-D is a property statement, and by statute it is due April 1, with penalty assessable if not filed by May 7. This mailing practice does not conform to the statutory requirements.

We recommend that the assessor send form BOE-576-D under a separate cover letter.

General Aircraft

RECOMMENDATION 11: Use the winter edition of the *Aircraft Bluebook Price Digest* value guide.

The assessor values general aircraft using the fall edition of the *Aircraft Bluebook Price Digest*. In Letter To Assessors 97/03, the BOE recommended using the winter edition of the *Aircraft Bluebook Price Digest* value guide. It is the BOE's opinion that this edition would most closely correspond to the January lien date for which aircraft's value is to be determined.

We recommend the assessor use the winter edition of the *Aircraft Bluebook Price Digest* value guide when appraising general aircraft.

Apartment Personal Property

Our review of the assessment of apartment personal property indicates that the assessor is in compliance with generally accepted assessment practices relating to the assessment of apartment personal property. As part of the discovery process for assessable apartment business property, real property appraisers notify the auditor-appraiser of any new or newly acquired furniture, appliances, or equipment they encounter in their fieldwork. Discovery is also made through media perusal, building permits, etc.

Valuation tables are applied to reported furniture, appliances, and equipment in accordance with BOE policy and are correctly applied to reported historical costs, notwithstanding valuation table errors previously discussed. We found apartment personal property to be correctly assessed. The auditor-appraiser is doing a good job in discovering, appraising, and assessing apartment business personal property. This area is well managed and we have no recommendations with respect to it.

Computers

The assessment of computers and related equipment has become more complex due to rapid changes in technology and changing user needs. To address the complexity of the computers' short lives, rapid depreciation, and low salvage value, the BOE periodically issues an LTA with recommended valuation factors to use when valuing non-production computers. The value factors are divided into schedules for computers costing \$25,000 or less, computers costing between \$25,000 and \$500,000, and computers costing \$500,000 or more. These valuation factors were developed after the BOE reviewed data accumulated by the Property Taxes Department staff, the California Assessors' Association, and representatives of the computer industry. It is the BOE's opinion that the proper application of these factors will yield a reasonable estimate of current market value.

The assessor properly applied the valuation factors provided by the BOE for assessments of nonproduction computers. The errors previously cited in the valuation charts for business property were not present in the computer valuation charts.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980 or by the owner's request for conversion from vehicle license fee to local property taxation. The assessor's primary method of discovering manufactured homes is through the State Department of Housing and Community Development's (HCD) listing of transfers, voluntary conversions, and new registrations.

RECOMMENDATION 12: Classify manufactured homes as personal property.

The assessor classifies manufactured homes as real property. Section 5801 specifically provides that, with limited exceptions, manufactured homes are not to be classified as real property. Improper classification of manufactured homes can affect the amount of taxes levied due to special assessments. Special assessments are levies upon real property in a district for the purpose of paying for improvements. The amount of the levy is based upon the benefits accruing to the property as a result of the improvements. Special assessments are not imposed on items of personal property.

We recommend that the assessor classify manufactured homes as personal property.

RECOMMENDATION 13: Recognize declines in value for manufactured homes.

The assessor usually enrolls sale price as the new assessed value and annually adjusts this value or inflation. However, in most instances, manufactured homes decline in value due to depreciation, and sell for an amount less than their factored base year value at the time of the sale.

We found that the assessed values for many manufactured homes were significantly higher than the value indicated by the manufactured home value guides. Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its current market value as determined pursuant to section 110.

We recommend that the assessor recognize declines in value for manufactured homes.

Service Stations

RECOMMENDATION 14: Properly classify service station improvements.

We found a number of service station improvements that had been improperly classified. One service station had the canopy, which is a structural improvement, improperly classified as a fixture. Other service stations had the tanks, dispensers, (pumps), and store fixtures improperly classified as personal property instead of fixtures. A canopy is an attachment to the land and should be classified as a structural improvement. On the other hand, items such as tanks, pumps, hoists, and air/water stations should be classified as fixtures. The difference in classification is that structures are subject to supplemental assessment while fixtures are not, and fixtures are a separate appraisal unit for decline-in-value purposes (see rule 461(e)).

We recommend that the assessor properly classify service station improvements.

APPENDICES

A: County Property Tax Division Survey Group

Del Norte County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Auditor Appraiser

Survey Team:

Glenn Danley

Associate Property Appraiser

Nancy James

Associate Property Appraiser

Rodney Miyatake

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Manuel Garcia

Associate Property Auditor Appraiser

Ancil Aydelott

Associate Property Auditor Appraiser

Kim Trotto

Junior Property Appraiser

Julius Trujillo

Tax Technician II

Marilyn Jones

Tax Technician II

B. The Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁸ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁹ with the approval of the board of supervisors
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁸ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁹ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
 - (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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OFFICE OF THE ASSESSOR

June 15, 2001

JUN 18 2001

County Property Tax Division
State Board of Equalization

Mr. Charles Knudsen, Chief
County Property Tax Division
P.O. Box 942879
Sacramento, Ca 94279-0062

Re: Del Norte County Assessment Practices
Survey Response

Dear Charlie:

In accordance with Section 15645 of the California Government Code, the following is the Del Norte County Assessor's response to the Assessment Practices Survey, May 2001.

Many of the recommendations made by the survey team have been initiated at this time. Others will be initiated as adequate time, staffing and funding becomes available.

I would like to express my appreciation to the State Board of Equalization Survey Team for their professional manner in which this survey was conducted. Their constructive suggestions and cooperative attitude throughout the survey contributed greatly to the final survey, which will help to improve the operation of my office.

Thank you for the opportunity to provide our response.

Sincerely yours,



GERALD D. COCHRAN
Assessor

Enclosures

Cc: Richard Johnson

**RECOMMENDATIONS AND ASSESSOR'S RESPONSE
MAY 2001 ASSESSMENT PRACTICES SURVEY**

RECOMMENDATION 1: Include the required section 463 notations on the Assessment roll.

ASSESSOR'S RESPONSE: Del Norte County has begun to update its computer system to enable us to enroll the 463 notations on the assessment roll. When the computer system has been upgraded to accomplish this recommendation this will be done.

RECOMMENDATION 2: Revise disaster relief written policies and procedures.

ASSESSOR'S RESPONSE: Del Norte County Assessor's office has rewritten its' disaster relief Policies and procedures manual.

RECOMMENDATION 3: Classify land improvements as land.

ASSESSOR'S RESPONSE: The appraisal staff has been adding grading, leveling and other development cost to the land value since the 1987 survey suggestion. We have also been adding wells and septic systems to improvement value since that time. These systems for the most part are all residential properties and the cost are generally less than \$3,000 each and sold to the property owner as a unit making it difficult to separate. Where the project is commercial, and the cost are significant, we will separate the cost.

RECOMMENDATION 4: Document decline-in-value assessments on appraisal records.

ASSESSOR'S RESPONSE: Due to the added workload of Proposition 8 appraisals, the staff has used their Comparable Sales Listing book to process those declines in value. If questioned by a taxpayer, they have their Comparable Sales Listing book immediately at hand.

RECOMMENDATION 5: Enroll the lowest of the Section 11 value, the factored base year value, or the current market value for taxable government-owned real property.

ASSESSOR'S RESPONSE: Del Norte County concurs and will enroll the lower of the Base Year Value or Market Value, whichever is lower.

RECOMMENDATION 6: Bring the mandatory audits program to current status.

ASSESSOR'S RESPONSE: Del Norte County concurs with this recommendation even though we believe we are in compliance with the required mandatory audit program.

RECOMMENDATION 7: Audit all years within the statute of limitations period when discrepancy or irregularity is found in the year of the audit as required by Rule 193.

ASSESSOR'S RESPONSE: Del Norte County concurs and will expand its audit program to audit those accounts that are found to have significant discrepancies or irregularities.

RECOMMENDATION 8: Consistently cite the section 531.8 heading when notifying taxpayer of proposed escape assessment.

ASSESSOR'S RESPONSE: Del Norte County has implemented this recommendation.

RECOMMENDATION 9: Review the valuation factors used in valuing equipment.

ASSESSOR'S RESPONSE: Del Norte County concurs and has implemented this recommendation.

RECOMMENDATION 10: Send Form BOE-576-D, *Vessel Property Statement*, under a separate cover letter.

ASSESSOR'S RESPONSE: Del Norte County will state on our cover-sheet more clearly that the affidavit is due the 15th of February, and the personal property is not due and delinquent until May 7th.

RECOMMENDATION 11: Use the winter edition of the *Aircraft Bluebook Price Digest* value guide.

ASSESSOR'S RESPONSE: Del Norte County concurs and has used the Aircraft Bluebook Price digest for the 2001-2002 Assessment Roll.

RECOMMENDATION 12: Classify manufactured homes as personal property.

ASSESSOR'S RESPONSE: Del Norte County is not capable of accomplishing this task until such time as our computer is updated. We have complied with the State Boards earlier requirement that it could be placed as improvements or personal property. From the outset, our computer could not handle the manufactured homes as personal property. When the Legislature required the manufactured homes to be placed as personal property, I did attempt to get assistance from the Legislature to accomplish this task. They did not provide assistance.

RECOMMENDATION 13: Recognize decline in value for manufactured home.

ASSESSOR'S RESPONSE: Del Norte County has begun a massive project of reducing values of manufactured housing not on permanent foundations. We will expand that program to the remaining manufactured homes this coming year under the AB 719 contract.

RECOMMENDATION 14: Properly classify service station improvements.

ASSESSOR'S RESPONSE: Del Norte County concurs and will classify service stations as recommended.