

HUMBOLDT COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2008

CALIFORNIA STATE BOARD OF EQUALIZATION

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December 30, 2008

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No. 2008/074

TO COUNTY ASSESSORS:

HUMBOLDT COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Humboldt County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (Board) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the Board 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 Linda Hill, Humboldt 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, the State Legislature; and to the Humboldt County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The Board's County-Assessed Properties Division performed fieldwork for this survey from May through June 2007. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Hill and her staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:tl
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum funding level, the State must make up the difference from the general fund.

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, and the Senate and Assembly, the Humboldt County Board of Supervisors, Grand Jury, and the Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Linda Hill, Humboldt County Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the Board determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility for the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

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

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

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

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

EXECUTIVE SUMMARY

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

In our 2003 Humboldt County Assessment Practices Survey, we made 22 recommendations to address problems in the assessor's policies and procedures. The assessor fully implemented ten of the recommended changes. Four of the prior recommendations no longer apply, either because of new legislation or changes in Board guidance. The recommendations that were not implemented and which continue to apply are repeated in this report.

In the current survey, in the area of administration we noted that the assessor has an effective assessment appeals program. Staff is experienced and able to timely resolve all appeals. In other areas related to administration, however, we provide recommendations for improvement.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, supplemental assessments, and leasehold improvements. However, we provide recommendations for improvement in other areas related to the assessment of real property.

In addition, the assessor has effective programs for the audit of personal property, business equipment valuation, discovery of leased equipment, and the discovery and valuation of aircraft and vessels. Nonetheless, we provide several recommendations for improvement with respect to the assessment of personal property and fixtures.

Despite several problems as noted in the list of recommendations below, we found that most properties and property types are assessed correctly.

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

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

- RECOMMENDATION 1:** Improve the disaster relief program by: (1) obtaining fire reports from all fire protection agencies; and (2) revising the notice for disaster relief assessment to comply with section 170(c).....13
- RECOMMENDATION 2:** Conform the *Notice of Enrollment of Escape Assessment* to the provisions of section 534.14

RECOMMENDATION 3: Maintain a public transfer list as required by section 408.1(b). .21

RECOMMENDATION 4: Improve the decline-in-value program by: (1) annually reviewing and assessing all properties experiencing a decline in value as required by section 51(e); and (2) updating the decline-in-value notice to meet statutory requirements.25

RECOMMENDATION 5: Deduct an applicable amount for irrigation system improvements in the valuation of California Land Conservation Act properties.27

RECOMMENDATION 6: Send a questionnaire to all owners of Timberland Production Zone properties to discover compatible, nonexclusive uses.....28

RECOMMENDATION 7: Periodically review all taxable possessory interests with stated terms of possession for declines in value.....29

RECOMMENDATION 8: Improve the water company property program by: (1) obtaining relevant assessment information to properly appraise all water company properties; and (2) assessing the real property of regulated private water companies at the lesser of current market value or factored base year value.31

RECOMMENDATION 9: Apply Rule 469 to mining properties.32

RECOMMENDATION 10: Assess manufactured homes at the lesser of factored base year value or current market value as required by section 5813.38

RESULTS OF 2003 SURVEY

Appraiser Certification

We recommended the assessor use the services of an appraisal consultant only under terms that conform to section 674. This recommendation is not currently an issue, as the assessor no longer uses the services of a consultant.

Disaster Relief

We recommended the assessor improve his disaster relief assessment procedures by: (1) obtaining fire reports from all fire departments within the county; (2) revising the application for disaster relief to comply with section 170(a); (3) revising the notice for disaster relief reassessment to comply with section 170(c); and (4) granting disaster relief only upon receipt of a complete and timely application.

In the current survey, we found that the assessor has implemented the second recommendation by revising the disaster relief application form, *Application for Calamity Reassessment*, to conform to the provisions of section 170(a). Additionally, the fourth recommendation has been implemented, as the county board of supervisors adopted an updated ordinance. However, the other two recommendations have not been implemented, and are therefore repeated in this report.

Assessment Roll Changes

We recommended the assessor correctly identify escape assessments on the current roll, as required by section 533. Due to legislative changes to section 533, this requirement is no longer applicable.

Low-Value Property Tax Exemption

We recommended the assessor comply with the county low-value property tax exemption resolution regarding contiguous properties. In the current survey, we found the assessor correctly exempts all low-value parcels in accordance with the county resolution.

Exemptions

We recommended the assessor assess all personal property owned by church and religious entities, whether or not such property ultimately is exempt. The assessor has implemented this recommendation.

Assessment Forms

We recommended the assessor use only Board-prescribed business property statements. We also recommended that the assessor apply the section 5367 penalty only when the aircraft property statement conforms to section 5365. The assessor has complied with these recommendations.

Change in Ownership

We recommended the assessor maintain a public transfer list that conforms to the requirements of section 408.1. This recommendation has not been implemented; we repeat it in this report.

New Construction

We recommended the assessor: (1) obtain building permits from the county department of health and human services, environmental health division; and (2) include the value of water wells and septic systems in the assessment of single-family residences. The assessor currently receives building permits from the environmental health division, and we have not found any new water wells or septic systems that have escaped assessment. Accordingly, we do not repeat either recommendations in this report.

Supplemental Assessments

We recommended the assessor enroll supplemental assessments for all qualifying new construction. This recommendation has been implemented.

California Land Conservation Act Properties

We recommended the assessor revise California Land Conservation Act (CLCA) assessments by: (1) deducting from the total property income a charge for return on and of the investment in irrigation systems; and (2) inventorying nonliving improvements on CLCA properties. Currently, we found that the assessor has not implemented these recommended changes; however, we repeat only the first recommendation in this report. We do not repeat the second recommendation since we did not find any problems with nonliving improvements on CLCA properties.

Taxable Government-Owned Properties

We recommended the assessor use the correct factor when valuing taxable government-owned properties. The assessor has complied with this recommendation.

Water Company Properties

During our last survey, we discovered the assessor does not regularly receive the annual water company reports available from the California Public Utilities Commission for regulated water companies. These reports contain the data necessary for developing indicators of value for the income and Historical Cost Less Depreciation approaches. Additionally, we found the assessor does not request the articles of incorporation of mutual water companies. While we made recommendations for improvement in these areas, none of our recommendations were implemented; thus, we repeat them in this report.

Mineral Properties

We recommended the assessor apply Rule 469 to sand and gravel properties. The assessor has not implemented this recommendation; it is repeated in this report.

Equipment Valuation

We recommended the assessor use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended when valuing older machinery and equipment. The assessor has complied with this recommendation.

Manufactured Homes

We recommended the assessor recognize declines in value of manufactured homes by assessing them at the lesser of factored base year value or current market value. Currently, the assessor is in the process of implementing a program to review manufactured homes for declines in value; however, since the implementation of this program was not complete at the time of the survey, we repeat our prior recommendation in this report.

OVERVIEW OF HUMBOLDT COUNTY

Humboldt County is the southern gateway to the Pacific Northwest and encompasses about 480 square miles, 80 percent of which is forestlands, protected redwoods, and recreation areas. The county was incorporated in 1853. It derives its name from the Humboldt Bay. The county has a population of 128,000 with seven incorporated cities: Arcata, Blue Lake, Eureka (county seat), Ferndale, Fortuna, Rio Dell and Trinidad. Humboldt County is bound by the Pacific Ocean to the west, Del Norte County to the north, Siskiyou and Trinity counties to the east, and Mendocino County to the south.

Since our last survey, the assessor's office has incorporated many modernizing improvements, including a new and integrated computer system, new hardware, and new employee workstations.

The following table displays information pertinent to the 2006-07 assessment roll as provided by the assessor:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	44,930	
	Commercial/Industrial	3,246	
	Agricultural	14,603	
	Manufactured Homes	5,093	
	Other Secured	6,695	
	Total Secured	74,567	\$8,757,328,000
Unsecured Roll	Personal Property & Fixtures	8,198	\$453,554,000
	Total Assessment Roll	82,765	\$9,210,882,000

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

ROLL YEAR	TOTAL ROLL VALUE	PERCENT CHANGE	STATEWIDE INCREASE
2006-07	\$9,210,882,000	9.7%	12.3%
2005-06	\$8,397,166,000	9.4%	11.1%
2004-05	\$7,678,340,000	7.6%	8.3%
2003-04	\$7,137,169,000	5.0%	7.3%
2002-03	\$6,798,805,000	N/A	7.3%

ADMINISTRATION

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

Budget and Staffing

As shown in the following table, the assessor's office benefited from increased budget levels from 2002-03 through 2006-07. PTAP funds are accounted for separately from the assessor's official budget.

YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED ³	PTAP STAFF ***
2006-07	\$2,134,015	1.48%	32	\$70,000**	1
2005-06	\$1,990,256	1.44%	32	\$210,806	3+1
2004-05	\$1,851,552	-1.98%	32	\$210,806	4+1
2003-04	\$2,020,133	5.6%	32	\$210,806	4+1
2002-03	\$1,984,097	3.96%	31	\$210,806	4+1

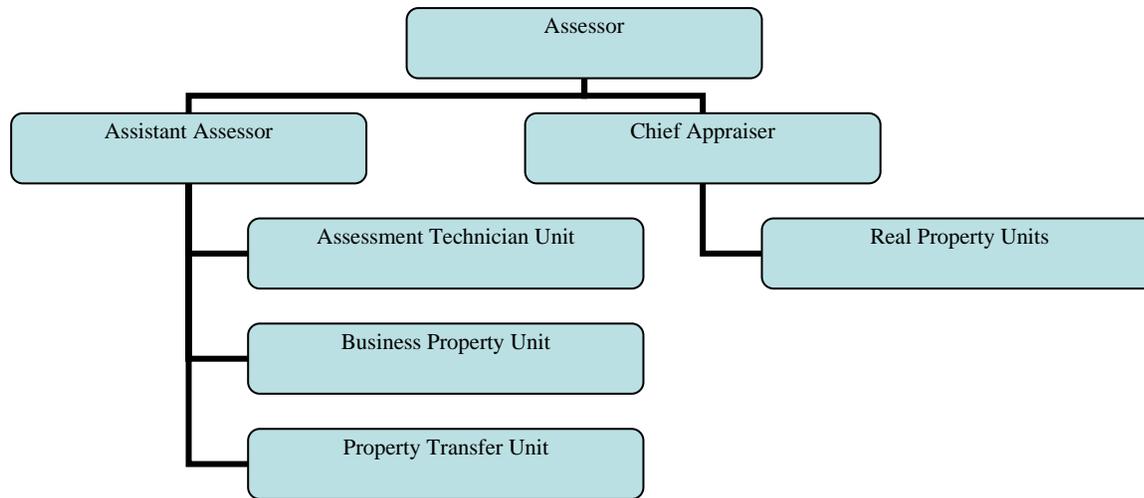
** PTAP expired 2005-06 but county carried over funds from previous years.

*** PTAP funds supported 4 permanent and 1 part time staff member as indicated in the chart.

Although the assessor's staff has increased over the last decade, it has not returned to the staffing level of 40 permanent positions that existed in the 1991-92 fiscal year. Presently, the number of employees totals 33, which includes 12 real property appraisers (including the assessor), one appraiser assistant, five auditor-appraisers, four mapping staff, and 11 support staff.

³ The State County Property Tax Administration Program provided state-funded loans to eligible counties for the improvement of property tax administration.

The assessor's organizational structure is shown below:



State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁴ This program expired June 30, 2001, and was replaced with the Property Tax Administration Grant Program, which was available to counties for fiscal years 2002-03 through 2006-07.⁵ The grant program operates in essentially the same manner as the loan program except that if a county does not meet its performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elects to participate, the county submits a resolution as described in section 95.35 to the State Department of Finance. The resolution provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using funds from the grant program to supplant the assessor's existing funding.

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

Humboldt County has participated in either program since April 1, 1996. For contract year 2005-06, the assessor received a grant of \$210,806. The Humboldt County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every year under contract.

⁴ Chapter 914, Statutes of 1995, in effect October 16, 1995.

⁵ State-County Property Tax Administration Program funding has been suspended for two years, beginning with the 2005-06 California State Budget.

The funds received by Humboldt County under the PTAP have depleted. Carryover funds from the grant program remain in the amount of \$70,000 for 2006-07. An allocation of \$45,000 was made for one auditor-appraiser position; the position was later transferred to the regular budget unit. The county also allocated \$17,550 for computer equipment and \$24,500 for service and supplies, leaving \$3,000 for miscellaneous items. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are a total of 17 certified appraisers on staff, including the assessor; 10 of these appraisers hold advanced certificates. We found that the assessor and her staff possess the required certificates. Additionally, we found the auditor-appraisers performing mandatory audits have met the requirements contained in section 670(d).

Assessment Appeals

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

In Humboldt County, the assessment appeals board consists of five members. The members sit as a three-member panel on a rotating basis, and usually meet once a month. The clerk of the assessment appeals board receives all assessment appeal applications, and forwards copies to the assessor.

The assessor reviews each application and assigns the appeal to the appraiser who initially appraised the property. Either the appraiser or the assistant assessor presents the assessor's case to the appeals board, if necessary. Most cases involve appeals of base year value determinations.

The assessor maintains a spreadsheet tracking system to determine the status for each assessment appeal. On average, 107 appeals were filed annually from 2003-04 through 2006-2007.

The following table illustrates the appeal workload for recent years:

APPEALS	2006-07	2005-06	2004-05	2003-04
Total Appeals:				
Applications Received	50	74	82	69
Carried Over	29	27	28	70
Total	79	101	110	139
Resolution:				
Hearing-reduced	1	7	4	0
Hearing-upheld	10	11	3	9
Stipulation	10	18	11	10
Withdrawn	16	14	19	45
Other	20	22	46	47
Total	57	72	83	111
Carried over to next year	22	29	27	28

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

Disaster Relief

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

To obtain relief under section 170, assesses must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity; the assessor must provide the last known assessee with an application for reassessment.

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

The Humboldt County Board of Supervisors adopted Ordinance 2305 on August 5, 2003. This ordinance defines property tax relief for property owners whose homes, businesses and other properties have been damaged in a disaster or calamity.

Disaster relief claim forms are mailed out by, and returned to, the assessment technician, who maintains a log for all claims filed. These records indicate 12 claim forms were mailed in fiscal year 2002-2003, 20 in 2003-2004, 17 in 2004-2005, 14 in 2005-2006, and 16 in 2006-2007.

The assessor's procedures manual covers disasters and calamities. Discovery of disasters or calamities is primarily through review of newspaper articles and other media, building permits, information from taxpayers and volunteer firefighters on the assessor's staff, and through word of mouth. Additionally, appraisers must report any disasters or calamities in their assigned geographical areas of responsibility. The appraisers notify the assessment technician, who mails disaster relief applications to the affected taxpayers.

In our 2003 survey, we recommended the assessor obtain fire reports from all fire protection districts and revise the notice for disaster relief reassessment to comply with section 170(c). The assessor has not implemented these recommendations; accordingly, we repeat them in this report.

RECOMMENDATION 1: Improve the disaster relief program by: (1) obtaining fire reports from all fire protection agencies; and (2) revising the notice for disaster relief assessment to comply with section 170(c).

Obtain fire reports from all fire protection agencies.

In our 2003 survey report, we recommended the assessor request and review the fire reports from all county fire districts on a regular basis. We found during our current survey that the assessor is still not obtaining fire reports from the county's fire districts. We obtained some fire reports and found a number of properties that appear to be eligible for disaster relief assessment. Many taxpayers are unaware that this form of property tax relief is available; therefore, the assessor has failed to be proactive in discovering property eligible for disaster relief.

Revise the notice for disaster relief assessment to comply with section 170(c).

The assessor currently uses form BOE-67-B, *Notice of Supplemental Assessment*, for notifying taxpayers of a reassessment due to a disaster or calamity. This notice is not appropriate for disaster relief notification because it does not properly address the appeals process for calamity reassessments. By using this notice, the assessor misinforms taxpayers about their appeals rights in the case of a disaster relief reassessment.

Assessment Roll Changes

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of the unpaid taxes requires the consent of the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

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

FISCAL YEAR	ROLL CHANGES
2006-07	2,036
2005-06	3,262
2004-05	3,105
2003-04	3,389
2002-03	3,586

We have one recommendation for the roll changes program.

RECOMMENDATION 2: Conform the *Notice of Enrollment of Escape Assessment* to the provisions of section 534.

The assessor does not use the Board-approved *Notice of Enrollment of Escape Assessment*. Instead, she uses a locally developed notice. Furthermore, her notice does not include a reference to the 60-day filing deadline.

In addition to the notice of proposed escape assessment, section 534 provides that the assessor must inform the taxpayer of an enrollment of an escaped assessment. This notice must be approved by the Board and include: (1) the date the notice was mailed; (2) information regarding the assessee's right to informal review, the right to a formal appeal, and that a 60-day filing deadline will apply based on the printed mailing date or the postmark; and (3) a description of the requirements, procedures, and deadlines regarding filing an appeal for the enrolled escape assessment.

Alternatively, the county can adopt a resolution, pursuant to section 1605(c), that would allow the tax bill to serve as the notice of enrollment of escape assessment. In this case, since the county has not adopted such a resolution, the assessor must use a Board-approved notice.

In using a locally developed notice, the assessor is not following the provisions of section 534 and the notice lacks a key element in providing appeals information to the taxpayer. Therefore, the assessor's notice is not in compliance with these statutory provisions.

Low-Value Property Tax Exemption

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

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

In Humboldt County, the board of supervisors established \$2,000 as the low-value threshold for cost-effective assessments. Resolution No. 89-131, dated August 29, 1989, is consistent with section 155.20(e). The low-value property tax exemption does not apply to real or personal properties enumerated in section 52.

On the 2005-2006 roll, there were 1,608 low-value secured items valued at \$1,590,928, plus 30 unsecured items valued at \$31,985, for a total of 1,638 items with a total enrolled value of \$1,662,913.

The assessor is in compliance with all statutory requirements outlined in section 155.20.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption from property taxes of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts from property taxes buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt from property taxes under article XIII, section 4(d) of the California Constitution provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has implemented the religious exemption in section 207, which exempts property from taxation when owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade.)

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

The assessor processed 11 church exemption claims and 150 religious exemption claims for the 2006-07 assessment roll. The following table presents the number of properties and the amount of assessed value exempted under the religious and church exemptions for recent roll years:

ROLL YEAR	CHURCH	EXEMPTED VALUE	RELIGIOUS	EXEMPTED VALUE
2006-07	11	\$1,679,300	150	\$43,318,703
2005-06	26	\$3,156,520	147	\$42,539,414
2004-05	22	\$2,712,168	149	\$42,765,733
2003-04	25	\$2,920,654	159	\$36,204,230
2002-03	29	\$2,872,677	161	\$35,594,198

In our 2003 survey report, we recommended personal property owned by all churches and religious entities first be assessed regardless of whether the property is eventually exempted. The assessor has implemented new written procedures to ensure the business property unit provides the exemption section with copies of the business property statements filed by all churches and religious entities. Our current review indicates that the assessor properly processed church and religious exemption claims pursuant to statutory requirements.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

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

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the Board; and, if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner, then it must also hold a valid *Supplemental Clearance Certificate* (SCC) issued by the Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the Board has issued an OCC or SCC to the claimant.

The following table shows the number of properties and the amount of assessed value exempted under the welfare exemption for recent roll years:

ROLL YEAR	WELFARE	EXEMPTED VALUE
2006-07	321	\$241,133,143
2005-06	326	\$226,152,691
2004-05	311	\$207,654,631
2003-04	323	\$197,802,192
2002-03	284	\$185,907,810

Welfare exemption claims include first-time filings and annual filings. Our review found that claims for low-income housing properties, including properties owned by limited partnerships, as well as other welfare exemption claims, are properly processed.

Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218, exempts \$7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or the veteran's unmarried surviving spouse). The amount of exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both these amounts are adjusted annually by a cost of living index.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. The \$100,000 basis for the disabled veterans' exemption requires a one-time filing; annual filing is required if the \$150,000 low-income exemption is claimed.

The assessor processed 25,910 homeowners' exemption claims and 235 disabled veterans' exemption claims for the 2006-07 assessment roll. The following table presents the number of properties and the amount of assessed value exempted under the homeowners' exemption and disabled veterans' exemption for recent roll years:

ROLL YEAR	HOMEOWNERS	EXEMPTED VALUE	DISABLED VETERANS'	EXEMPTED VALUE
2006-07	25,910	\$180,823,830	235	\$23,492,625
2005-06	25,826	\$180,763,867	221	\$21,164,468
2004-05	25,777	\$180,192,085	183	\$17,110,508
2003-04	25,726	\$180,089,817	155	\$13,812,971
2002-03	25,598	\$178,679,737	153	\$12,959,450

Our review of the homeowners' exemption and disabled veterans' exemption records indicate that the assessor is properly processing these exemptions and is in compliance with all statutory requirements.

ASSESSMENT OF REAL PROPERTY

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

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

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

Change in Ownership

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

Discovery and Document Processing

The assessor's primary means for discovering properties that have changed ownership is to review deeds and other documents recorded at the county recorder's office. The recorder electronically transmits copies of all recorded documents to the assessor's drafting section. An assessment technician culls all documents that do not correspond to a list of documents to review for possible reappraisal. The initial review is typically made within one week from the date of recording.

The following table shows the number of recorded documents reviewed by the assessor during recent roll years and the number of resulting changes in ownership in Humboldt County:

ROLL YEAR	RECORDED DOCUMENTS	RESULTING CHANGES IN OWNERSHIP
2006-07	6,610	3,133
2005-06	7,978	3,815
2004-05	8,421	4,651
2003-04	unavailable	4,654
2002-03	unavailable	4,341

Legal Entity Ownership Program (LEOP)

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

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

We reviewed the assessments for properties owned by legal entities on the LEOP notices and found the assessor properly identifies the transfers and reappraises the properties. We found the assessor processes LEOP notices properly and revalues parcels that have undergone a change in ownership.

Section 408.1 Transfer Lists

Section 408.1 requires the assessor to maintain a list of real property transfers that have occurred within the preceding two-year period for public inspection. The list must be divided into geographic areas and updated quarterly. For each transfer, the list must show the names of the transferor and transferee (if available), the assessor's parcel number, the address of the transferred property, the date of transfer, date of recording and recording reference number, and, if known by the assessor from non-confidential sources, the amount of consideration paid.

In Humboldt County, the assessor keeps a list of transfers in a binder available for inspection at the public counter. The list includes the date of transfer, the assessor's parcel number, and the recording reference number. Additionally, it shows the documentary transfer tax amount, which *may* indicate the amount of consideration paid for this property. However, the list is not in complete compliance with section 408.1(b).

RECOMMENDATION 3: Maintain a public transfer list as required by section 408.1(b).

In our 2003 survey, we recommended the assessor maintain a public transfer list that conforms to the requirements of section 408.1(b). Our current review shows that the assessor's transfer list still does not conform to the requirements of section 408.1(b).

The assessor's public transfer list does not identify the names of the transferee and transferor or the address of the transferred property pursuant to the provisions of section 408.1(c).

We recommend the assessor maintain an updated transfer list that provides all required information as provided in section 408.1.

Section 63.1 Exclusions

Section 63.1 excludes from the definition of change in ownership the purchase or transfer of principal residences and the first \$1 million of other real property between parents and their children. Certain transfers from grandparents to their grandchildren are also excluded.

In Humboldt County, an assessment technician reviews all section 63.1 applications. All qualifying applications are logged electronically; quarterly reports are submitted to the Board, listing approved transfer exclusions involving property other than the transferor's principal residence. The assessment technician reviews the report from the Board regarding claims that cause claimants to exceed the \$1 million threshold; this information is used to reassess properties in excess of the \$1 million threshold.

Section 69.5 Base Year Value Transfers

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement dwelling of equal or lesser value, provided the property owner is at least 55 years of age or severely and permanently disabled, the owner files a claim timely, and the properties are within the same county.

We reviewed several claims for base year value transfers processed by the assessor. We found the claims were filed timely, included the required information, and all required signatures were present. All claims are reviewed and relevant information verified.

The following table shows the number of section 63.1 and 69.5 claims filed in Humboldt County for recent roll years:

ROLL YEAR	SECTION 63.1	SECTION 69.5
2006-07	346*	89*
2005-06	557	133
2004-05	542	73
2003-04	542	40
2002-03	448	42
* Count through 4/20/2007		

The assessor is in compliance with all statutory requirements for section 63.1 and section 69.5 claims.

New Construction

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

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

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

Building Permits

Most new construction activity is discovered through building permits. Currently, the assessor receives building permits from nine permit-issuing agencies: the Environmental Health Division of the Humboldt County Department of Health and Human Services, the Building Division of the Humboldt County Community Development Services, and the cities of Arcata, Blue Lake, Eureka, Ferndale, Fortuna, Rio Dell, and Trinidad. Other methods used to discover new construction include review of newspaper articles and business property statements and field canvassing.

Most permits are accompanied by a building plan, and all permits received are forwarded for review and valuation by an appraiser. Cost information and completion dates are obtained from building permits and taxpayers.

The following table shows the number of new assessments that resulted from the assessor's review of building permits for new construction for recent roll years:

ROLL YEAR	BUILDING PERMITS	NEW ASSESSMENTS
2006-07	2,669	853
2005-06	3,670	1,404
2004-05	4,856	1,474
2003-04	4,722	1,533
2002-03	3,671	1,342

Permit Processing

Permits are received from permit-issuing agencies either in hard copy or electronic format. Clerical staff enters building permit data into the computer system. Residential permits are screened according to guidelines to determine which permits represent appraisable events. Those that evidence assessable new construction are forwarded to the appraisal staff. Permits for commercial properties are screened by a supervisor.

For each instance of new construction, the appraiser conducts a field inspection. The inspection verifies information received and aids in the discovery of unpermitted new construction in the surrounding area.

Valuation

New construction is valued by estimating the full value of the improvement as of the date of completion of the new construction. The appraiser determines the completion status for new construction from field inspections, notices of completion from the permit-issuing agencies, and information from the taxpayer. The assessor's policy is to enroll all assessments for new construction even when the value may be too low to generate a tax bill.

The assessor uses several cost sources to value residential new construction, including the Assessors' Handbook Section 531, *Residential Building Costs*, and the owner's reported cost. Information from the *Marshall Valuation Service* is used to estimate the value of new construction on commercial and industrial properties.

Construction in Progress

Section 71 requires the assessor to enroll construction in progress at its fair market value on each lien date. This process continues until the new construction is complete, at which time the new construction is assigned a base year value equal to its fair market value.

We found no problems with the valuation of construction in progress. The assessor keeps a detailed history for improvements made to each property. We did not discover any taxable new construction that escaped assessment. The assessor's records pertaining to new construction are properly documented both on the appraisal record and in the assessor's computer system.

Declines in Value

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

The following table shows the number of declines in value processed in Humboldt County for recent years:

ROLL YEAR	DECLINES IN VALUE
2006-07	140
2005-06	203
2004-05	223
2003-04	323
2002-03	414

From 2002 through 2006 real estate values in Humboldt County appreciated significantly, and the number of properties experiencing declines in value has decreased.

The assessor's program for discovery, valuation, and processing of decline-in-value assessments is governed by written policies and procedures. A computer program is used to assist in valuing and tracking the single-family residential properties. The assessor's program for other than single-family residential properties entails responding to taxpayer requests for review and relying upon appraisers' general knowledge of market values in their assigned geographical areas.

Our review of several assessments reflecting declines in value identified two areas for improvement.

RECOMMENDATION 4: Improve the decline-in-value program by: (1) annually reviewing and assessing all properties experiencing a decline in value as required by section 51(e); and (2) updating the decline-in-value notice to meet statutory requirements.

Annually review and assess all properties experiencing a decline in value as required by section 51(e).

We found the assessor does not annually review the assessment of all parcels with decline-in-value assessments. Section 51 requires the assessor to annually enroll properties at the lesser of market value or FBYV. In addition, section 51(e) requires properties with taxable values less than their FBYV to be reappraised annually until the full cash value exceeds the FBYV. If the assessor does not annually review properties that have experienced declines in value, these properties may not be correctly assessed.

Update the decline-in-value notice to meet statutory requirements.

The assessor sends a value notice to any assessee whose property is in decline-in-value status. The notice does not, however, contain certain information required by statute. For example, the notice refers to the incorrect appeals filing period for the county, and does not include an explanation of the stipulation procedure set forth in section 1607.

Section 619(b) requires the assessor to notify property owners of their appeals rights, and to include information about the stipulation procedure. We recommend that the assessor update the notice for declines in value so that they are in compliance with section 619(b).

Supplemental Assessments

Sections 75 through 75.80 define supplemental assessments for changes in ownership and the completion of new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completion of new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments when there is a change in ownership or completion of new construction. All supplemental assessments are reviewed by a senior appraiser prior to being keyed into the computer system. Supplemental assessments are issued within the statute of limitations defined by section 75.11(d). Supplemental assessment notices are generated by the computer system; the supplemental assessment data is electronically forwarded to the auditor-controller for issuance of tax bills.

We reviewed several transfer and new construction events, and found the assessor correctly issues two supplemental assessments for events occurring between January 1 and May 31, and one supplemental assessment for events occurring between June 1 and December 31. The assessor properly issues “builders' exclusions” to contractors filing timely claims. She also

correctly applies the inflation factor for the following lien date when supplemental events occur between January 1 and June 30.

The assessor properly issues supplemental assessments for leasehold improvements, manufactured homes, taxable possessory interests, and unrestricted portions of property subject to the California Land Conservation Act.

We found the assessor's supplemental assessment program to be in compliance with sections 75 through 75.80.

California Land Conservation Act Properties

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

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

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

On the 2007 lien date there were 195,104 acres of grazing land encumbered by 142 CLCA contracts. The acreage under CLCA contract has remained fairly level since 1997. The total taxable value for the land was \$26,865,428.

The assessor properly tracks the restricted values, FBYVs, and market values for CLCA properties for purposes of enrolling the lowest of the three values, as required by law. The assessor mails an annual questionnaire requesting income, production, and expense information on grazing lands.

In Humboldt County, all land under CLCA contract is used for grazing. The risk rate used as a component of the capitalization rate for the grazing land is one percent. We found the assessor is using appropriate capitalization rates.

In our 2003 survey, we noted that the assessor did not deduct an amount from the total property income for the return *on* and *of* the investment in irrigation systems. We also noted that the assessor did not deduct an amount for capital replacement for irrigation wells that contribute to the income being capitalized. Our current survey disclosed that the assessor still fails to account for either of these amounts in processing the net income to be capitalized for CLCA properties, and thus, we repeat this recommendation here.

RECOMMENDATION 5: Deduct an applicable amount for irrigation system improvements in the valuation of California Land Conservation Act properties.

This procedure is explained in the Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521). If an amount is not deducted, the CLCA land value will include value attributable to separately assessed assets, thereby creating a double assessment.

Deductions from gross income include the return *on* and *of* the irrigation systems, and the capital replacement for irrigation wells. Income from irrigated land that is serviced by a permanently installed irrigation system will include income attributable to the irrigation system. Sections 421 through 430.5 set forth assessment procedures for land subject to CLCA contract; these procedures must not be applied to nonliving improvements.

Irrigation systems are separately assessed because they contribute income to the land; this income must be deducted from the total income stream prior to capitalizing the remaining income into a CLCA land value. Wells are classified as land for property tax purposes, and a *return on investment* is included in the land income. Nonetheless, they are a wasting asset and a charge for replacement must be deducted from the land income.

We recommend the assessor deduct all applicable amounts for irrigation system improvements when valuing CLCA properties.

Taxable Government-Owned Properties

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

The assessor enrolled 29 taxable government-owned properties with a total taxable value of approximately \$50,732.

The assessor has a good program for assessing government-owned properties.

Timberland Production Zone Properties

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation for such lands excludes the value of any standing timber. The annual value for a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435).

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

Humboldt County has 7,228 TPZ parcels comprising 999,954 acres. The following table shows the total TPZ acreage and assessed value for recent roll years:

ROLL YEAR	TPZ ACRES	TOTAL ASSESSED VALUE
2006-07	999,954	\$155,423,934
2005-06	1,000,805	\$158,505,879
2004-05	998,930	\$158,212,413
2003-04	995,654	\$161,772,681
2002-03	994,070	\$164,352,947

The Humboldt County Board of Supervisors passed an ordinance adopting a TPZ district in 1977. The TPZ land is assessed in accordance with values determined each year by the Board. Standing timber is excluded from the Board's values.

TPZ properties in Humboldt County are classified as Redwood or Whitewood, and are valued according to the five different site classes. The county does not have TPZ properties classed as Pine-Mixed Conifer.

The assessor follows the Board's valuation schedule for different site classes and updates TPZ values annually based on values provided by the Board. The assessor uses multiple use codes and taxability codes for TPZ land based on the utilization of the land. Pursuant to section 433, taxability codes are entered into the computer system and the appropriate entry "TPZ" is placed on the electronic roll and all paper files.

Exclusive and nonexclusive compatible uses for TPZ lands are valued in accordance with article XIII A of the California Constitution at the lower of fair market value or FBYV. The assessor generally allocates one acre of land from the TPZ restricted land for homes or other structures. This land is valued at the lower of fair market value or FBYV.

The assessor discovers exclusive and nonexclusive compatible uses for TPZ properties through permits. Currently, the appraisal staff does not canvass TPZ parcels or send a TPZ questionnaire for discovering compatible uses.

While the assessor has a sound TPZ program, we did identify one area for improvement.

RECOMMENDATION 6: Send a questionnaire to all owners of Timberland Production Zone properties to discover compatible, nonexclusive uses.

We found that the assessor does not have a program to discover existing compatible, exclusive and nonexclusive uses on TPZ lands. Section 435(a) requires the assessor to value timberland according to the site value schedules expressed in section 434.5, plus the value of any

compatible, nonexclusive uses of the land. These uses may include grazing, hunting, camping, mining, and others. The values for these compatible uses must be determined annually and added to the site class values for the timberland.

The assessor should use a questionnaire to help discover compatible uses on TPZ land.

Taxable Possessory Interests

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

The assessor contacts 47 government agencies annually for a summary of taxable possessory interest activity. Recorded leases and agreements are reviewed periodically, and data from these sources are combined with information discovered during field inspections of government-owned properties. On lien date 2005-06, there were 787 taxable possessory interests in Humboldt County with a total roll value of \$21,169,398.

We found that the assessor does not use the remaining term of possession, as specified in the lease, for valuation purposes.

RECOMMENDATION 7: Periodically review all taxable possessory interests with stated terms of possession for declines in value.

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

Section 51 requires the assessor to assess real property, including taxable possessory interests, at the lesser of the FBYV or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term of possession, Rule 21 provides that the stated term of possession must be used as the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term. Generally, as the remaining term of the contract declines, the market value of the taxable possessory interest declines.

Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of taxable possessory interests with stated terms of possession. Such a program will ensure that declines in values of taxable possessory interests are consistently recognized.

Leasehold Improvements

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

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

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

In Humboldt County, leasehold improvements are primarily discovered through the BPS and building permits. Expenditures exceeding \$3,500, reported on schedule B of the BPS, are referred to the real property unit for review. Coordination between the business property and real property staff appears to be well defined. The assessor properly classifies reported structural improvements on the secured roll and fixtures on the unsecured roll.

We found the county's leasehold improvement program to be in compliance with all statutory requirements.

Water Company Properties

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues. Humboldt County has no municipal water systems.

Private Water Companies

Private water companies, both regulated and unregulated, are utility companies that earn a profit from the sale of water. The California Public Utilities Commission (CPUC) regulates the rates charged by private water companies, limiting profits to an authorized return on the companies' investment. The value for all property owned by regulated companies is reflected in those rates. Thus, rate regulation may result in the current market value of the real property being lower than its FBV.

Humboldt County has four regulated water companies with a total real property assessed value of \$2,100,280.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases little value should be assigned to land, improvements, or delivery systems owned by the mutual water company, because the values of these types of properties are reflected in the assessments of the member or stockholder parcels. We were able to identify 95 mutual water companies in Humboldt County. We have one recommendation regarding the assessor's water company property program.

RECOMMENDATION 8: Improve the water company property program by:
(1) obtaining relevant assessment information to properly appraise all water company properties; and (2) assessing the real property of regulated private water companies at the lesser of current market value or factored base year value.

Obtain relevant assessment information to properly appraise all water company properties.

In our 2003 survey, we discovered the assessor did not regularly receive the annual water company reports available from the CPUC for regulated water companies. These reports contain data necessary for developing indicators of value. Additionally, the assessor did not request the articles of incorporation for mutual water companies. The articles identify legal ownership, real and personal property owned, and relevant information required for assessment. Because the assessor continues not to request this type of information, we repeat our recommendation to obtain relevant assessment information to properly appraise all water company properties.

Assess the real property of regulated private water companies at the lesser of current market value or factored base year value.

The assessor currently enrolls the factored base year value (FBYV) for real property owned by regulated water companies, adjusted for additions or deletions after the base year.

Pursuant to section 51, properties owned by regulated water companies are enrolled at the lesser of current market value or FBYV. Because the CPUC regulates the rates that private water companies can charge for delivery of water, and thus, the value of the properties owned by the private companies, the current market value for regulated water company properties may be less than the FBYV.

The assessor's practice of omitting this value comparison may lead to overassessments. To ensure proper assessment for regulated water company properties, the assessor must estimate the market values on each lien date, compare those values with the properties' FBYVs, and in each case enroll the lower of the two values.

Mineral Properties

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties. There are no assessable geothermal properties in Humboldt County.

Petroleum Properties

Humboldt County produces approximately 1,000,000 cubic feet of gas a year from 37 wells. The approximate roll value is about \$35,700,000. The petroleum properties are appraised by a consultant hired by the assessor. We have no recommendations concerning these types of properties.

Mining Properties

Humboldt County has over 40 mining properties with an estimated roll value of \$18,300,000. In our 2003 survey, we recommended the assessor apply Rule 469 to the assessment of these types of properties. The assessor has not implemented this recommendation, and therefore, we repeat it.

RECOMMENDATION 9: Apply Rule 469 to mining properties.

The assessor does not determine the current market value of any of the mining properties in the county; instead, she simply enrolls the FBYV each year. However, the assessor is receiving annual production reports from the taxpayers. In addition, the assessor tracks changes in ownership, and collects information regarding use permits issued by the county and the California Coastal Commission.

Rule 469(e)(1)(B) provides that increases and reductions in the proved reserves must be reflected in the current market value of the mineral rights. Failure to develop a current market value indicator and compare that indicator with the FBYV could result in the overassessment of a mining property.

Since taxpayers are providing estimates of proved reserves to the assessor when filing their annual production reports, the assessor has the data needed to develop current market value indicators.

Therefore, we recommend the assessor comply with Rule 469 by developing current market value indicators for all mining properties and enrolling the lower of current market value or FBYV.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

As of February 2007, the assessor's staff assigned to the business property program consisted of one chief auditor-appraiser (assistant assessor), four senior auditor-appraisers, and one real property appraiser. The real property appraiser works in conjunction with the auditor-appraisers to ensure the correct classification and allocation of real and personal property items assessed to businesses. This staffing mix maximizes the coordination of real property and business property assessments.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business property, discovering and assessing leased equipment, and assessing manufactured homes, aircraft, and vessels.

Audits

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

The following table shows the total number of audits completed for recent years:

DESCRIPTION	2005-06	2004-05	2003-04
Audits Scheduled			
Mandatory	31	31	34
Nonmandatory	22	61	62
Total Audits Scheduled	53	92	96
Unfinished From Prior Year	23	12	12
Total Audit Workload	76	104	108
Audits Completed			
Mandatory	33	25	36
Nonmandatory	34	56	60
Total Audits Completed	67	81	96
Mandatory Audits Carried Forward	9	23	12

Mandatory Audits

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

There are currently 124 entities in Humboldt County that are subject to the mandatory audit requirement. The assessor generates an annual computer listing for accounts that have a value of \$400,000 or more for four or more consecutive years, which forms the basis for the mandatory audit list. The assessor must audit approximately 31 accounts each year to remain current. The assessor has a good record for completing the mandatory audit workload in a timely fashion, and, with few exceptions, the assessor is current on all mandatory audits within the past four years.

Nonmandatory Audits

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

There were 34 nonmandatory audits completed for fiscal year 2005-06, 56 for fiscal year 2004-05, and 60 for 2003-04. The assessor does an excellent job in performing nonmandatory audits.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the

assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor seeks waivers of the statute of limitations when audits cannot be completed within the four-year period. When a taxpayer fails to execute a waiver, the assessor completes an assessment based on the information available. We found no problems with the assessor's procedures for dealing with the statute of limitations.

Audit Quality

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

We found the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. All audits were accurate and well documented.

Business Property Statement Processing

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

The assessor's staff processed 9,500 BPSs for 2006. Data submitted on the BPS serves as the basis for subsequent business property assessments. Additionally, BPSs provide information regarding changes in business ownership, location of the property, and the business start date at the current location.

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate, up-to-date listings of businesses. The assessor has an efficient discovery program. A self-reporting program is the principal means for discovering assessable property. Other discovery methods include reviewing business permits, fictitious business name filings, newspaper articles and advertisements, and telephone directories, referrals from other counties, and Board notification. We found the assessor's discovery program for business personal property is excellent.

Business Equipment Valuation

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

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

Price index factors measure the trended value for goods over their service lives. The percent good factors reflect the average loss in value that commercial and industrial equipment will suffer over their service life. The factors are based on averages and represent a reasonable estimate of annual changes for the majority of business machinery and equipment.

In our 2003 survey, we recommended the assessor use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* as intended when valuing older machinery and equipment. The assessor has implemented this recommendation and is now correctly valuing machinery and equipment. The assessor is in compliance with all statutory requirements.

Leased Equipment

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

When property is leased, both the lessor and the lessee are required to report such property on their annual property statements. When the lease expires, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment upon termination of the lease, the assessor should confirm that the lessee reports the property on the lessee's annual property statement. A cross-check of information reported by lessors and lessees verifies the accuracy of reported information.

We reviewed the assessor's procedures and discovered the program for leased equipment is well managed, especially in the areas of discovery, processing, tracking, and cross-checking leased equipment information.

Manufactured Homes

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

For the 2006-07 assessment year, Humboldt County enrolled 5,094 manufactured homes with a total assessed value of \$229,700,103. The following table illustrates the number of manufactured homes and their assessed value for recent roll years:

ROLL YEAR	MANUFACTURED HOMES	TOTAL ASSESSED VALUE
2005-06	5,230	\$244,384,438
2004-05	5,175	\$253,919,638
2003-04	5,369	\$265,514,764
2002-03	5,584	\$253,033,040

There are 3,041 manufactured homes within the county's 88 mobilehome parks, and 2,053 manufactured homes sited on land owned by the owner of the manufactured home. Manufactured homes in mobilehome parks are identified with an assessment number beginning with 910. The parcel number relates to the space within the park.

Manufactured homes sited on land owned by the owner of the manufactured home are identified with an assessment number beginning with 911. Land is identified with a separate individual parcel number. All manufactured homes in Humboldt County are assigned to one senior appraiser. Pursuant to sections 5801(b)(2) and 5810, the assessor enrolls manufactured homes as personal property on the secured roll.

Pursuant to section 5803, the assessor shall consider sales prices listed in recognized value guides in determining the full cash value for a manufactured home on rented or leased land. The assessor uses selling prices, local market cost data, *N.A.D.A. Manufactured Housing Appraisal Guide* (NADA), and Assessors' Handbook Section 531.35, *Residential Building Costs, Manufactured Housing*, to establish the values of manufactured homes.

The assessor correctly applies supplemental assessments to new and transferred manufactured homes. Exemptions are correctly handled for the assessment of manufactured homes held in a dealer's inventory and those held or owned by financial institutions and insurance companies. In compliance with section 5803, site value is not included in the manufactured home assessment.

The assessor has a well-administered manufactured home program; however, we are repeating a recommendation made in our 2003 survey.

RECOMMENDATION 10: Assess manufactured homes at the lesser of factored base year value or current market value as required by section 5813.

In our 2003 survey, we recommended that the assessor value manufactured homes at the lesser of factored base year value or current market value, and develop a program to ensure declines in value for manufactured homes are recognized accurately and consistently.

Section 5813 requires the taxable value of a manufactured home to be the lesser of its base year value, compounded by the annual inflation factor, or its full cash value, as determined pursuant to section 5803, as of the lien date. In determining the full cash value, the assessor should consider reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value.

The assessor does not have a program to discover declines in value for manufactured homes. The assessor typically discovers declines in value when a taxpayer requests a review of the manufactured home assessment. If the review indicates a decline in value, the assessor will review the assessment of similar manufactured homes and adjust the values accordingly.

Although not required to reappraise all properties each year, the assessor should be proactive in discovering properties declining in value. A program designed to review declines in value for manufactured homes will help reduce overassessments and inconsistent treatment of taxpayers.

The assessor is currently in the process of implementing a program to review manufactured homes for declines in value; however, implementation of this program was not complete at the time of this survey.

Aircraft

General Aircraft

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

The Humboldt County Assessor's Office assessed approximately 130 general aircraft for the 2006-07 assessment roll with a total value of approximately \$18.0 million. One auditor-appraiser is responsible for valuing general aircraft. The assessor discovers general aircraft through the airport manager who reports aircraft located at the airport on form BOE AH 577-B, *List of Aircraft*, referrals from other counties, and Federal Aviation Administration (FAA) reports.

An aircraft property statement is mailed each year to the owner of record for each aircraft in the county. The statement lists the aircraft and requests the owner to report added or deleted

equipment, engine air hours since last major overhaul, date of last overhaul, overall condition of the aircraft, and transfer information if the aircraft has been sold since the last lien date.

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

We found the assessor's procedures are in compliance with all statutory requirements.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the Board). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

The assessor enrolled five commercial aircraft accounts for the 2006-07 roll year with a total value of approximately \$7.0 million. The auditor-appraiser in charge of certificated aircraft predicates his appraisals on the aircraft business property statements' reported costs. The auditor-appraiser then applies a percentage, based on ground and flight time and the number of arrivals and departures in Humboldt County during the representative period for the calculated fleet value, to derive a pro rata estimate for the value of certificated aircraft.

We reviewed the certificated aircraft appraisal procedures and found them to be correctly administered and the value estimates to be properly calculated.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as: (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

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

For the 2006-07 assessment roll, the assessor exempted three historical aircraft located in Humboldt County. Historical aircraft are listed on the roll along with other general aircraft, and are not accounted for or listed separately. We found no problems with the assessor's procedures for assessing historical aircraft.

Vessels

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

The assessor has approximately 2,600 pleasure vessels on the 2006-07 assessment roll with a total assessed value of approximately \$23.8 million.

Vessel valuation is the responsibility of an auditor-appraiser; primary sources of discovery are DMV reports, marina lists, and referrals from other counties. Vessels are valued using data from the *BUC Used Boat Price Guide* and *ABOS Marine Blue Book*. If current or reliable information is not available in the published value guides, the assessor uses the values of similar vessels in the harbor, values of similar vessels within the assessor's own database, or data from other sources.

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements of section 227. To qualify for the exemption, the owner of the vessel must file form BOE-576-E, *Affidavit for 4 Percent Assessment of Certain Vessels*. If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent. However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

For the 2006-07 roll year, there were approximately 120 commercial vessels potentially qualifying for the 96 percent exemption provided in section 227. We sampled several exempt vessels; in each case the exemption was granted appropriately.

The assessor uses form BOE-576-D, *Vessel Property Statement*, and form BOE-576-E, *Affidavit for 4 Percent Assessment of Certain Vessels*, to solicit information from owners of commercial vessels. In Humboldt County, only commercial vessel owners are required to file a Vessel Property Statement. No pleasure vessel having an aggregate cost of \$100,000 or more has its situs in Humboldt County. The assessor is in compliance with all statutory requirements, and we have no recommendations in this area.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Humboldt County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Bob Reinhard

Supervising Property Appraiser

Survey Team Leader:

Nick Winters

Associate Real Property Appraiser

Survey Team:

Jim McCarthy

Senior Petroleum and Mining Engineer

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Carlos Zaragoza

Senior Specialist Property Auditor-Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Dan Jenkinson

Associate Property Auditor-Appraiser

Maureen Spurlock

Associate Property Auditor-Appraiser

Tammy Aguiar

Assistant Property Appraiser

Ryan Wong

Assistant Property Appraiser

Ella Chin

Tax Technician I

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may 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 ten 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 ten 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 ten 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 BOARD'S FINDINGS

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

The Humboldt County Assessor's response begins on the next page. The Board has no comments on the response.



LINDA A. HILL, ASSESSOR
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September 12, 2008

Mr. Dean Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
P. O. Box 942879
Sacramento, California 94279-0062

Dear Mr. Kinnee:

Enclosed is my response to the recommendations in the recent Assessment Practices Survey of Humboldt County conducted by the Board of Equalization. Please include it in the final report.

Your staff is to be commended for the professional and courteous manner in which they conducted the review. We appreciated their efforts to avoid disruption of the ongoing operations of this office.

The survey is a valuable tool that will aid us as we work to ensure that property taxes are properly and efficiently administered. As you will see from the response, we agree with many of the recommendations. We have already implemented some; others will be implemented as time and resources allow.

I wish to thank the staff of the Humboldt County Assessor's Office for the professional manner in which they conduct the business of this office. The overall good report was due to their hard work and dedication. I also applaud their achievement of excellent service to the public.

Sincerely,

Linda A. Hill
Assessor

HUMBOLDT COUNTY RESPONSE TO RECOMMENDATIONS
ASSESSMENT PRACTICES SURVEY
SEPTEMBER 2008

RECOMMENDATION 1: Improve the disaster relief program by: (1) obtaining fire reports from all fire protection agencies; and (2) revising the notice for disaster relief assessment to comply with section 170(c).

RESPONSE: (1) We concur and will continue to attempt to obtain fire reports from the various fire protection agencies. Our efforts in the past have been less than successful. We will make a more determined effort in the future to get the agencies to respond.

(2) We have implemented a new notification procedure so that taxpayers receive a notice of revised assessment showing the correct appeal process.

RECOMMENDATION 2: Conform the *Notice of Enrollment of Escape Assessment* to the provisions of Section 534.

RESPONSE: We partially concur. We have been correctly noticing real property escapes. We have changed our procedure so that we are now correctly noticing escapes of business property.

RECOMMENDATION 3: Maintain a public transfer list as required by section 408.1(b).

RESPONSE: We concur and have changed our transfer list to fully comply with the requirements of section 408.1(b).

RECOMMENDATION 4: Improve the decline-in-value program by: (1) annually reviewing and assessing all properties experiencing a decline in value as required by section 51(e); and (2) updating the decline-in-value notice to meet statutory requirements.

RESPONSE: (1) We agree that we were not reviewing all decline-in-value properties annually. We recognize the importance of this annual review and have improved our decline-in-value monitoring program to accomplish this.

(2) We concur and have changed our procedure to comply.

RECOMMENDATION 5: Deduct an applicable amount for irrigation system improvements in the valuation of CLCA properties.

RESPONSE: We concur and will implement.

RECOMMENDATION 6: Send a questionnaire to all owners of TPZ property to discover compatible, nonexclusive uses.

RESPONSE: We agree. Humboldt County has over 7,000 TPZ parcels. We will comply as time and resources allow.

RECOMMENDATION 7: Periodically review all taxable possessory interests with stated terms of possession for declines in value.

RESPONSE: We have an active and effective possessory interest appraisal program. We continue to believe that the anticipated term of possession is a valid consideration in the process of determining value.

RECOMMENDATION 8: Improve the water company property program by: (1) obtaining relevant assessment information to properly appraise all water company properties; and (2) assessing the real property of regulated private water companies at the lesser of current market value or FBYV.

RESPONSE: We concur with both (1) and (2) and will implement as time and budgetary constraints allow.

RECOMMENDATION 9: Apply Rule 469 to mining properties.

RESPONSE: We concur and are working to develop a procedure to implement this recommendation.

RECOMMENDATION 10: Assess manufactured homes at the lesser of FBYV or current market value as required by section 5813.

RESPONSE: A new module in our software system will help us to implement this recommendation. It is worth noting that the typical mobile home sale shows that we are not overvaluing the mobile homes in Humboldt County.