

# INYO COUNTY ASSESSMENT PRACTICES SURVEY

**AUGUST 2002**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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August 15, 2002

TO COUNTY ASSESSORS:

INYO COUNTY  
ASSESSMENT PRACTICES SURVEY

2002/049

A copy of the Inyo County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Thomas W. Lanshaw, Inyo County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Inyo County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from July through August 2001. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:jm  
Enclosure

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## **INTRODUCTION**

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

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

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

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Inyo County Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Thomas W. Lanshaw, Inyo County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports 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, Revenue and Taxation Code<sup>1</sup> section 75.60 requires the BOE to certify whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample pursuant to Government Code section 15640(c), or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Inyo County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Inyo County that provided information relevant to the property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined by rule 371.<sup>2</sup>

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

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

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

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

## **EXECUTIVE SUMMARY**

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

- In our 1998 Assessment Practices Survey of Inyo County, we made 14 recommendations addressing problems found in the assessor's policies and procedures. The assessor fully implemented six of the recommendations, partially implemented two, and did not implement five. Due to a change in law, one of our previous recommendations no longer applies. Those recommendations that were not implemented, or implemented only in part, are repeated in this report.
- The assessor's administrative program elements — assessment appeals, computer system, and appraiser certification — conform to statutory requirements.
- The assessor's programs for the assessment of tenant improvements, leased equipment, aircraft, vessels, animals, and computers are consistent with the requirements of property tax law.
- The county did not participate in the State-County Property Tax Administration Loan Program.
- We found the assessor has not included in his consultant's contract clauses regarding the confidentiality of assessment records that are required by section 674(d).
- The assessor used outdated forms, inappropriately included penalty language on locally developed forms, included inappropriate supplemental schedules with the mineral property statements, and failed to file the exemption claim forms and miscellaneous forms checklist with the BOE.
- We found that Inyo County still has an outdated disaster relief ordinance as reported in our prior survey report.
- The assessment roll does not contain the escape assessment notation required by section 533. Penalties and interest are not applied to erroneously granted homeowners' exemptions.
- We found that the assessor inappropriately granted some church, religious, free museum, and lessors' exemptions.
- The assessor does not timely apply the change in ownership statement non-filing penalty required by section 482.
- When informing assesseees of an increase in a property's assessed value, the assessor's notice does not include the factored base year value as required by section 619(c).
- The assessor continues to improperly classify land improvements and wells.

- We found that the assessor does not investigate private uses at the county fairgrounds to determine whether they qualify as taxable possessory interests. We also found several properties where the assessor did not reappraise those properties for a change of ownership upon the expiration of both the anticipated term of possession and the contract term.
- The assessor should obtain copies of the California Public Utilities Commission filings for both regulated and mutual water companies and obtain the articles of incorporation and other relevant property tax documents from mutual water companies.
- The assessor continues to be deficient in completing the audits required by section 469. At present he performs only about one-half of his mandatory audits. Failure to perform those audits is listed as one of the significant assessment problems in rule 371. Additionally, the assessor fails to obtain a waiver of the statute of limitations when a mandatory audit will not be completed on time.
- The assessor does not send follow-up *Business Property Statements* to direct-billing accounts.
- The assessor inappropriately uses minimum valuation factors for machinery and equipment.
- The assessor does not enroll service station fixtures at the lower of current market value or factored base year value.
- The assessor continues to inappropriately classify manufactured homes as real property and to assess pre-1977 licensed manufactured home accessories without documenting that their value was not included in the license fee.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- Although we found a deficiency in mandatory audit production, a significant assessment problem as defined in rule 371, we believe this deficiency alone does not create a reasonable probability that the assessment roll would fail to meet the average quality requirements of section 75.60. Accordingly, Inyo County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1:       Revise the appraisal consultant's contract to comply with section 674(d) regarding the confidentiality of assessment records. .11

RECOMMENDATION 2:       Use only current versions of BOE-prescribed forms.....13

RECOMMENDATION 3:       Delete the penalty language from the *Boat/Motor Property Statement*. .....13

RECOMMENDATION 4: Send BOE-prescribed mineral property statements to assessees without attaching supplemental schedules. ....14

RECOMMENDATION 5: Annually submit forms checklists and rearranged forms to the BOE for approval. ....14

RECOMMENDATION 6: Request that the board of supervisors revise the disaster relief ordinance to comply with section 170. ....16

RECOMMENDATION 7: Include the notation required by section 533 when enrolling escape assessments. ....18

RECOMMENDATION 8: Inform the auditor-controller to apply penalties and interest on roll changes where appropriate. ....18

RECOMMENDATION 9: Ensure that only qualifying properties receive the applicable property tax exemptions. ....20

RECOMMENDATION 10: Impose the *Change in Ownership* failure to file penalty as provided in section 480. ....23

RECOMMENDATION 11: Include factored base year values on the decline-in-value notice as required by section 619(c). ....25

RECOMMENDATION 12: Enroll all wells as land. ....25

RECOMMENDATION 13: Enroll all land improvements as land. ....26

RECOMMENDATION 14: Review private uses of the county fairgrounds to determine whether taxable possessory interests exist. ....27

RECOMMENDATION 15: Review all older possessory interest assessments to discover reappraisable changes in ownership. ....27

RECOMMENDATION 16: Obtain CPUC filings from all private water companies. ....29

RECOMMENDATION 17: Obtain articles of incorporation and other relevant property tax documents from each mutual water company. ....30

RECOMMENDATION 18: Bring the mandatory audit program to current status. ....31

RECOMMENDATION 19: Obtain a waiver of the statute of limitations when a mandatory audit will not be completed timely. ....32

RECOMMENDATION 20: Send *Business Property Statements* to direct billing assessees at least once every four years. ....33

RECOMMENDATION 21: Use Assessors' Handbook Section 581 as intended. ....34

RECOMMENDATION 22: Assess service station fixtures at the lower of their market values or factored base year values. ....37

RECOMMENDATION 23: Classify manufactured homes as personal property.....38

RECOMMENDATION 24: Assess manufactured home accessories only as authorized by section 5805.....38

## **RESULTS OF THE 1998 SURVEY**

### ***Disaster Relief***

We recommended the assessor request that the board of supervisors revise the disaster relief ordinance to reflect the change in lien date to January 1<sup>st</sup>. We found that the assessor has not implemented this recommendation.

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

We recommended the assessor add the cash equivalent balance of outstanding improvement bonds issued under the 1911, 1913, or 1915 bond acts to the nominal selling price of real property. Due to a change to section 110, this recommendation no longer applies.

### ***New Construction***

We recommended the assessor add construction period interest as a component of the cost approach to value when the building owner uses owner-supplied funds. The assessor has implemented this recommendation and now adds interest on owner-supplied funds when applying the cost approach to value.

### ***Rural Properties***

We recommended that the assessor classify and enroll wells as land. We found that the assessor has not implemented this recommendation.

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

We recommended that the assessor enroll the taxable possessory interests held by major users of the fairground facilities. During our research for this survey, we found that the assessor has made no assessments to any users of the fairground facilities. We modify our prior recommendation to state that the assessor should review all private uses of the fairgrounds to discover taxable possessory interests.

We also recommended that the assessor apply an appropriate discount rate for income capitalization and revise the methodology of calculating possessory interest assessments on Los Angeles Department of Water and Power (LADWP) Section 11 properties. The assessor implemented those recommendations.

### ***Manufactured Housing***

We recommended the assessor (1) classify manufactured homes on the assessment roll as personal property, (2) place greater emphasis on the use of recognized value guides and documenting these values on the appraisal records, and (3) annually review all manufactured homes for declines in value.

We found that the assessor now uses a recognized value guide, documents these values on the appraisal records, and reviews most manufactured homes for declines in value. However, he still fails to classify manufactured homes as personal property on the assessment roll. We repeat that part of the recommendation in this report.

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

We recommended the assessor enroll the lower of factored base year value and current market value for real property owned by water companies. The assessor has implemented this recommendation.

### ***Audit Program***

We recommended the assessor (1) notify taxpayers of overassessments discovered during an audit, (2) bring the mandatory audit program to current status, and (3) obtain waivers of the statute of limitations from those taxpayers whose mandatory audits will not be completed timely.

We found that the assessor does notify taxpayers of overassessments discovered during an audit. However, the assessor is still behind in the mandatory audit program and has not obtained waivers of the statute of limitation for audits not completed timely. Therefore, we repeat those parts of the recommendation.

### ***Property Statement Processing***

We recommended that the assessor classify fixed machinery and equipment as fixtures and that he value all fixtures at the lower of current market value or factored base year value. The assessor has implemented both recommendations with respect to all property types except service stations.

### ***Vessels***

We recommended that the assessor include sales tax as a component of market value and apply late-filing penalties only when using the BOE-prescribed vessel property statement. The assessor has implemented these recommendations.

# OVERVIEW OF INYO COUNTY AND THE ASSESSOR'S OFFICE

## ***Inyo County***

Inyo County has a population of about 18,000 and encompasses over 10,000 square miles.<sup>3</sup> Located in the Eastern Sierra Nevada Mountains, the county stretches from Death Valley – the lowest point in the United States – to Mount Whitney – the highest peak in the lower 48 states. Tulare and Fresno Counties are adjacent to the west, Kern and San Bernardino Counties to the south, the State of Nevada to the east, and Mono County to the north. Most of the population is concentrated in the Owens Valley in the City of Bishop and the towns of Big Pine, Independence, and Lone Pine.

Formed in 1866, Inyo County is the second largest county (in land area) in the state. Inyo County's recreational activities include backpacking, fishing, horsepacking, skiing, climbing, biking, and photography.

Notable facts about the county include the following:<sup>4</sup>

Land in Federal Ownership	92%
Land owned by the City of Los Angeles	3.9%
Land in State Ownership	2.4%
Land in Private Ownership	1.7%
Median Family Income	\$40,200
Housing units	9,042
Labor force	7,160
Unemployment rate	5.6%

## ***Assessor's Budget, Staffing, and Workload***

### **Budget**

The assessor's budget for 1999, 2000, and 2001 was:

Budget Year	Gross Budget	Percent Change
1998-99	\$654,916	
1999-00	\$655,047	0.0%
2000-01	\$685,809	4.7%

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<sup>3</sup> County of Inyo web site, <http://www.countyofinyo.org/FAQs.htm>.

<sup>4</sup> County of Inyo web site, <http://www.countyofinyo.org/FAQs.htm> and State of California, Department of Finance web site, <http://www.dof.ca.gov>

Staffing

Since our last survey, the assessor's staffing levels have remained largely unchanged during the previous four years. Current staffing is as follows:

<b>Position</b>	<b>Total Staff Members</b>
Assessor	1
Assistant Assessor	1
Real Property Appraiser	1
Auditor-Appraiser	1
Cadastral Drafting Technician	1
Assessment Clerks	5
<b>Total Personnel</b>	<b>10</b>

Workload

The county's total roll units have decreased slightly since our 1998 survey, when the county roll was comprised of 19,378 units. For the 2001-02 assessment roll, the assessor prepared a roll containing 18,603 totals units, valued at \$2,458,275,184. The following table displays pertinent information for the 2001 lien date.

<b>Property Types</b>	<b>Number of Assessments</b>	<b>Enrolled Value</b>
Total Secured Roll (includes manufactured homes)	16,707	\$1,848,045,869
Total Unsecured Roll (personal property except aircraft)	1,805	\$603,789,695
Aircraft	91	\$6,439,620
<b>TOTAL ROLL</b>	<b>18,603</b>	<b>\$2,458,275,184</b>

For the 2001 assessment roll, the assessor's real property workload consisted of approximately 769 transfers, 203 reassessable new construction events, 1,122 taxable government-owned properties, and 752 possessory interest assessments. The real property staff also reviewed approximately 1,284 properties for declines in value, performed four disaster relief appraisals, and prepared 33 assessment appeals. The assessor has a business property workload that included processing approximately 2,400 *Business Property Statements*, 91 general aircraft, and 579 vessel assessments.

## **ADMINISTRATION**

This portion of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined appraiser certification, computer systems, exemptions, assessment forms, and disaster relief. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares and presents assessment appeals.

### ***Appraiser Certification***

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. The assessor and all three staff members who perform property appraisals in Inyo County hold valid appraiser's or advanced appraiser's certificates. In addition, two employees of the independent contractor employed by the assessor to appraise geothermal and mineral properties are certified appraisers.

### ***Appraisal Contracts***

We reviewed the assessor's most current contractual agreement with the independent contractor and found one item that needs improvement.

**RECOMMENDATION 1:** Revise the appraisal consultant's contract to comply with section 674(d) regarding the confidentiality of assessment records.

We found that the assessor's contract with the appraisal consultant does not include the specific language addressing the confidentiality of assessment records. Section 674(d) provides that all consultant contracts shall include a provision incorporating the requirements of subdivisions (b) and (c) of that code section regarding confidentiality of assessee information and records. In Letter To Assessors (LTA) No. 2000/055, the BOE suggested specific language to include in the confidentiality provision of a consultant contract in order to comply with section 674.

We found that the assessor's contract refers to subdivisions (b) and (c) of section 674. However, the contract does not include specific descriptions of the required treatment of confidential records as provided in section 674(b) and (c), or the language suggested by the BOE. Therefore, it does not comply with the requirements of section 674(d).

By failing to specify the required treatment of confidential records, the assessor assumes that the contract consultants have a current copy of section 674 and that they will read and act upon those requirements. Section 674(d) requires that the specific provisions of subdivisions (b) and (c) be included as a provision of the contract.

We recommend the assessor amend his consultant contract to comply with the requirements of section 674(d).

## **Computer Systems**

The assessor's computer system was first placed in service during 1966 and is a stand-alone system independent of any other county department. A complete backup of each day's work is stored on a master tape, which holds up to 100 days worth of information. Once each week, a copy of this master tape is made and stored at a safe location in another city.

Since the assessor's system is separate from other county systems, the information systems department must convert its data to a form usable by the county tax collector and county auditor which both use the Crest Property Tax Assessment Program (Crest). The assessor is scheduled to convert to Crest within the next 12 months. This conversion will increase efficiency by allowing the three offices to more easily share information and will reduce time-consuming manual functions now necessary with the current systems.

## **Assessment Forms**

Section 15606(d) of the Government Code specifically requires the BOE to prescribe the contents of forms used by county assessors for property statements, exemption claims, change in ownership statements, and administrative procedures.<sup>5</sup> To fulfill this duty, the BOE publishes an annually updated list of prescribed and recommended forms in Assessors' Handbook Section 222, *Standard Form List*. While the assessor may rearrange the layout of a BOE-prescribed form to suit his or her local needs, he or she may not add to or delete specific language on the form. In addition, any rearranged forms must be approved by the BOE prior to use.

Assessors may also employ locally developed forms to assist them in their assessment duties. However, because such forms are not subject to BOE approval, they are not designated as BOE-prescribed, and therefore no penalty may be imposed upon a property owner for failure to file these forms.

The BOE annually sends three checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, and return the property statements and miscellaneous forms checklists by October 15, and the exemption forms checklist by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.<sup>6</sup>

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<sup>5</sup> Government Code section 15606(d); Revenue and Taxation Code sections 480(b), 480.2(b), 480.4(b); rules 101 and 171.

<sup>6</sup> Rule 171(a).

## BOE-Prescribed Forms

**RECOMMENDATION 2:** Use only current versions of BOE-prescribed forms.

We found more than one version of various BOE-prescribed forms in the assessor's file. For the 2001-02 roll, outdated versions of several exemption and miscellaneous forms were provided to and submitted by assessesees.

Working with the Forms Subcommittee of the California Assessors' Association each year, the BOE staff amends existing forms and creates new forms in response to new legislation and assessment problems. As required by section 452, the BOE annually transmits updated and new forms to county assessors.

Because statutory amendments, new regulatory requirements, and other factors change reporting requirements, it is essential that the assessor employ only the most recent versions of those forms. Using obsolete forms fails to provide claimants and property owners with information affecting their rights to claim exemptions and their obligations to report property they own or have acquired. That failure may lead to a taxpayer either missing a benefit to which he or she is legally entitled or receiving tax relief for which he or she is not eligible.

We recommend that the assessor use only current versions of the BOE-prescribed forms.

## Nonfiling or Late filing Penalties

**RECOMMENDATION 3:** Delete the penalty language from the *Boat/Motor Property Statement*.

We found that the assessor's locally developed vessel property statement contained penalty language from section 463. This form, which uses preprinted information directly from the assessor's computer system, is mailed to vessel owners for completion. The assessor initially sends this form as part of the vessel account set-up. If it is not returned by the taxpayer, the assessor then sends form BOE-576-D, *Vessel Property Statement*. If this form is not returned, the assessor imposes the penalty for nonfiling pursuant to section 463. Although the assessor properly penalizes the taxpayer for only the failure to file the BOE-prescribed form, he cannot include the penalty language on his locally developed form.

The penalty mandated by section 463 may be applied only for failure to file or file timely a property statement as described in section 441. Such property statements are those prescribed by the BOE, through its authority under statute and regulation. Forms that are developed locally by assessors, but not adopted by the BOE as prescribed forms, may not carry penalties for nonfiling or late filing.

Including penalty language on the *Boat/Motor Property Statement* misrepresents the law to property owners. Even though the assessor does not impose the section 463 penalty for failure to file this form, the language on the form asserts a legal right that the assessor does not possess. If the assessor wishes to continue to use this locally-developed form when establishing new vessel accounts, we recommend he remove the penalty notice from the form.

## Property Statements

**RECOMMENDATION 4:** Send BOE-prescribed mineral property statements to assesses without attaching supplemental schedules.

We found that the assessor attaches a supplemental reporting schedule to forms BOE-560-A, *Aggregate Production Report*, and BOE-560-B, *Mining Production Report*, when mailing those forms to property owners. Because those documents are sent in a single mailing and the form is termed a "supplement" to the property statement, it appears to be part of the BOE-prescribed form, which it is not. Assessee may be misled to believe that a failure to file such a supplemental non-BOE-prescribed form subjects them to the same penalties appearing on the forms BOE-560-A and -B.

The assessor may not include penalty language on any non-BOE-prescribed form. This prohibition extends to any additional schedules attached to a BOE form. Even if the penalty language does not appear directly on the supplemental schedule, the attachment implies to assesses that they may be penalized for failure to file that schedule. If the assessor wishes to send requests for additional information to property owners, he should send the supplemental schedules in a separate mailing, apart from forms BOE-560-A and -560-B.

We recommend that the assessor send BOE-prescribed mineral property statements to assesses without attaching supplemental schedules.

## Forms Checklists

**RECOMMENDATION 5:** Annually submit forms checklists and rearranged forms to the BOE for approval.

For the 2001-02 assessment year, the assessor filed the *Business Property Statement* checklist with the BOE but failed to file either the exemption claim forms or the miscellaneous forms checklist. In addition, the assessor rearranged one exemption claim form without receiving prior approval from the BOE.

The assessor is required to annually submit to the BOE the three checklists detailing whether he will or will not use a form, will use the prototype form or a rearranged version, will submit a rearranged form for approval, or will send to the BOE final prints of all forms he or she will use for that year.

We recommend that the assessor annually submit all form checklists and rearranged forms to the BOE for approval.

## **Assessment Appeals**

The assessment appeals function is mandated by section 16 of article XIII of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions that guide county assessment appeal boards in the appeals function. Section 15606(c) of Government Code directs the BOE to prescribe rules and

regulations to govern county boards of equalization; the BOE has adopted rules 301 through 326 to regulate assessment appeals.

In Inyo County, the board of supervisors sits as the county board of equalization. The board schedules hearings as needed to resolve assessment appeals. The assessor himself, accompanied by an appraiser, makes the presentation before the board.

The following table shows the appeals workload for the most recent six years.

<b>Fiscal Year</b>	<b>No. of APN's (Assessees)</b>	<b>Decisions</b>	<b>Stipulations</b>	<b>Denials</b>	<b>Withdrawals</b>	<b>Continuations</b>
2000-01	35 (10)		5			30
1999-00	10 (8)		5	1		4
1998-99	8 (6)	2	1	5		
1997-98	51 (8)		12	34	5	
1996-97	16 (8)	2	3		11	
1995-96	62 (25)	39	11	7	5	

During this period, all appeals were heard within the two-year limit imposed by section 1604 and rule 309.

We found the assessor's preparation and presentation of evidence to be thorough and complete and his attention to procedural requirements consistent.

***Disaster Relief***

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assesseees whose properties have been damaged or destroyed through no fault of the assesseees. The ordinance may apply to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the governor, as well as to any other misfortune or calamity. The ordinance may specify a period of time within which the ordinance shall be effective, or it may remain in effect until repealed.

To obtain disaster relief, an assessee must submit a written application to the assessor requesting reassessment within 12 months of the misfortune or calamity. However, if no application is made and if the assessor becomes aware of a property damaged by misfortune or calamity within the previous six months, the assessor may either provide the last known assessee with an application for reassessment or revalue the property with the approval of the board of supervisors.

The Inyo County Board of Supervisors adopted Ordinance No. 430 in December 1981 to provide for disaster relief. The assessor discovers calamities through newspaper articles, building permits, property taxpayer notification, and field investigation.

Very few claims for disaster relief are filed with the assessor. During the past five years there have been only 14 claims for relief. We examined records relating to six fires that had each caused \$5,000 or more in structural damage to determine whether the assessor's efforts were sufficient to discover properties eligible for disaster relief. During our examination of those property records, we found them to be well documented and complete. We found that the assessor follows the correct procedures in assessing these properties according to section 170.

During our 1998 assessment practices survey of Inyo County, we recommended that the assessor request the county board of supervisors to revise the county disaster relief ordinance to reflect the lien date change to January 1. We found that this recommendation has not been implemented. We repeat this recommendation along with another recommended change to the disaster relief ordinance.

### Disaster Relief Ordinance

**RECOMMENDATION 6:** Request that the board of supervisors revise the disaster relief ordinance to comply with section 170.

At present, the Inyo County disaster relief ordinance refers to an incorrect lien date and provides that upon full restoration of the property, the value is enrolled on the lien date following the completion of the restoration. However, section 170 was amended to reflect the new lien date.

Section 170(h)(1) provides that when a property is fully repaired, restored, or reconstructed the assessor shall make an additional assessment or assessments in accordance with subparagraphs (A) or (B) upon completion of the repair, restoration, or reconstruction. Subparagraphs (A) or (B) refer to the use of the supplemental assessment process. In fact, we found that the assessor does make an additional assessment upon the completion of the restoration of damaged property; it is the county ordinance that is incorrect.

We recommend that the assessor request the board of supervisors to revise the disaster relief ordinance to reflect the provisions of section 170.<sup>7</sup>

### Taxpayer Notification

Section 170 requires that the assessor notify the applicant for disaster relief in writing of the amount of the proposed reassessment and appeal rights.

We found that the notice currently used by the assessor to notify taxpayers of disaster relief reassessments is the same notice used by the assessor to notify assesseees of reassessments due to changes in ownership or new construction. This *Notice of Changed Assessment* provides that the assessee has 60 calendar days from the date of mailing of the notice to file an appeal. Subsequent to our

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<sup>7</sup> Subsequent to our fieldwork, several amendments were made to section 170, effective January 1, 2002. Accordingly, additional changes may be necessary for the ordinance to comply with the current version of section 170.

fieldwork, section 170(c) was amended to provide a six-month period for the taxpayer to appeal the proposed reassessment to the local board of equalization.<sup>8</sup> Accordingly, the notice must be changed to reflect the new period for filing an appeal.

**Assessment Roll Changes**

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change the assessment roll unless authorized by statute or by the board of supervisors. All assessment roll changes are based on specific statutes and must contain appropriate statutory references.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed for any reason, or that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any escaped property upon discovery, and the taxpayer must be notified of the proposed escape at least 10 days prior to enrollment. A roll correction is any type of roll change authorized by section 4831 to an existing assessment except for underassessments caused by an error or omission of the assessee.

Various staff members within the assessor's office initiate assessment roll changes. All assessment roll changes are personally reviewed and approved by the assessor.

The volume of annual roll changes has remained relatively stable in recent years, as shown in the following table:

<b>Assessment Year</b>	<b>Number of Roll Changes</b>
2001*	131
2000	139
1999	204
1998	201
1997	202
1996	157

(\*Portion of the year)

The office manager prepares the transmittal documents that route roll changes to the auditor-controller's office. Approximately once a month, the office manager posts roll changes to the hard copy of the assessment roll maintained at the public counter of the assessor's office.

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<sup>8</sup> At the time of the fieldwork, that time period was within 14 days of the date of mailing the notice. Effective January 1, 2002, that period will be six months from the date of the mailing of the notice.

We reviewed the assessor's procedures and a number of roll changes. Roll changes are made within the authorized period of time, and *Notices of Proposed Escape Assessment* are correctly mailed to taxpayers at least 10 days before the changes are entered on the roll.

### Roll Notation

**RECOMMENDATION 7:** Include the notation required by section 533 when enrolling escape assessments.

We found that escape assessments on the assessment roll lack the notation required by section 533. When enrolling an escape assessment, the assessor adds a reference notation to the copy of the current year's assessment roll kept at the public counter. This notation includes the roll change number and the date it was prepared. In addition, a paper listing of all roll changes, arrayed in order of roll correction number, is attached to the end of the assessor's copy of the assessment roll. Taxpayers who have questions about the reference notation on the roll must refer to the listing for specific information about the roll year to which the change applied, the reason for the change, and the statutory authority for the roll change. These notations, however, do not meet the requirements of section 533.

Section 533 provides that when escape assessments are made, the roll entry must reference the year the property escaped assessment and the applicable sections of the Revenue and Taxation Code. That code section also dictates the specific notation that must be entered on the roll: "Escaped assessment for the year 19\_\_ pursuant to Sections \_\_\_\_\_ of the Revenue and Taxation Code." We found that this notation does not appear on the assessment roll for any escaped assessment.

We recommend that the assessor follow statutory provisions by including the notation required by section 533 when enrolling escape assessments.

### Penalty and Interest Notification

**RECOMMENDATION 8:** Inform the auditor-controller to apply penalties and interest on roll changes where appropriate.

When enrolling roll corrections, we found that the assessor does not notify the auditor-controller when to charge applicable penalties and interest. Although the assessor has procedures in place to identify those roll corrections to the auditor-controller, his staff processes most roll corrections as cancellations under section 4831, resulting in no penalties or interest.

Section 531.6 provides that if homeowners' exemption is incorrectly allowed because the claimant failed to notify the assessor that the property was no longer eligible for the exemption, the penalty provided in section 504 shall be added to the assessment. Moreover, section 506 also requires that the county add interest charges on the escaped taxes to the assessment. However, we found the assessor does not inform the auditor-controller to apply penalties and interest to terminated homeowners' exemptions. This practice results in incorrect assessments and lost tax revenue.

We recommend that the assessor properly notify the auditor-controller of applicable penalties and interest when making roll corrections.

**Exemptions**

Article XIII, section 3(d) of the California Constitution exempts from property taxation property used for free libraries and free museums and property used exclusively for public schools, community colleges, state colleges, and state universities. Section 3(e) exempts property used exclusively for nonprofit colleges. Section 3(f) exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship. Section 4(b) of the same article authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes, which are owned by non-profit entities, while section 5 of the same article provides that the exemption granted under sections 3(e), 3(f) and 4(b) can be applied to buildings under construction and land required for their convenient use. Buildings used, or under construction and intended to be used exclusively for religious worship, are eligible for exemption.

Institutional exemptions (those mentioned in the above paragraph) constitute a minor part of the assessor's workload. The office manager processes those exemption claims. The following table shows exemption data taken from the 2001-02 secured roll.

Exemption Type	No. of Parcels	Total Exempt Value
Church	16	\$2,437,664
Lessors to Churches, Free Museum, Free Libraries, Public Schools and Colleges	4	\$6,183,254
Free Museum and Library	15	\$1,235,911
Religious	24	\$7,310,597
Public School	28	\$5,802,323
College	4	\$3,489,569
Welfare <sup>9</sup>	35	\$2,902,521

Our review of the assessor's institutional exemption procedures discovered areas for improvement. Since the welfare exemption has somewhat different processing requirements than the other institutional exemptions, and it is the only exemption that is co-administered by the BOE and county assessors, we have divided our discussion into two areas: locally administered institutional exemptions and welfare exemptions.

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<sup>9</sup> Including Volunteer Fire Department (section 213.7)

## Locally Administered Institutional Exemptions

**RECOMMENDATION 9:** Ensure that only qualifying properties receive the applicable property tax exemptions.

We found that the assessor improperly granted the church, religious, free museum, and lessors' exemptions to a number of properties.

### Church Exemption

We found that the assessor granted the church exemption to a residence located on the grounds of a church when the residence was used to house relatives of the minister. In another case, the assessor granted the church exemption to a portion of a single-family residence in private ownership without confirming either the church's exclusive use or the credentials of the church.

As noted above, the California Constitution and sections 206 and 206.1 provide that the church exemption is limited to property used exclusively for religious worship, worship-related activities, and parking for these religious activities. The church exemption may not be granted to property used for housing; only the welfare exemption provides for the potential exemption of institutionally necessary staff housing.

### Religious Exemption

We found that the assessor granted the religious exemption to a church operating in leased space in a shopping center.

The religious exemption may be granted to property used exclusively for religious worship or for religious worship and religious schools. It is available for real property owned by the claimant and for personal property either owned by or leased to the claimant.<sup>10</sup> The religious exemption may not be granted for real property leased to a claimant. It is possible, however, that the church exemption may be applicable to this claimant.

### Free Museum Exemption

We found that in several instances the assessor granted the free museum exemption despite apparently disqualifying uses of property, where the following circumstances exist:

- Commercial sales of antiques, books, artifacts, jewelry, and souvenirs are regularly conducted on the property.
- Unrelated individuals or groups rent or otherwise use the property for retail sales, organizational meetings, or social functions.

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<sup>10</sup> Constitution article XIII, section 2 and 4(b); sections 207 and 207.1.

- Portions of the property are used as a bed and breakfast accommodation or as the owner's personal residence.

The free museum exemption is available for museum displays open to the public without charge (although donations may be accepted). Care must be taken by the assessor to ensure that only the actual museum display areas receive the exemption. Areas used for other purposes (retail sales, food service, residences, rental to outside groups, etc.) should be clearly identified and excluded from the exemption. Conducting a field inspection of free museum properties can best permit this determination.

#### Lessors' Exemption

We found several cases in which the assessor received and approved church and religious exemption claims filed by lessors instead of the lessee church. We found these claims were incomplete. In addition, we found other properties where the assessor granted the church, religious, college, and public school exemptions for leased property, and either there was no separate claim filed by the institution, the lessors' exemption claim (form BOE-263) was missing or was filed in an incomplete condition, or no lease document was submitted with the claim.

Although the law does provide for the exemption of property leased to various qualifying institutional lessees, any exemption must benefit only the institutional lessee. The lessee may file its own claim form, e.g., church exemption claim (BOE-262-AH), or the lessor and lessee may jointly file the lessors' exemption claim (BOE-263). In either case, the law requires that the benefit of the exemption for such leased property inure to the benefit of the lessee, not of the lessor. Some exemptions (i.e., free libraries and museums, public schools, churches) provide that if the lease agreement does not provide that the lessee's rent has been reduced to reflect the exemption, the lessee shall receive a reduction of rental payments or a refund thereof, in an amount equal to the reduction in taxes. If the lessor does not claim the exemption, the lessee may file a claim for refund under section 5096 with respect to taxes paid by the lessor.

It is the claimant organizations' responsibility to demonstrate their eligibility for the exemptions. Since exemptions are granted based on their use of the property, the claim forms provide that only the organizations that actually use the property for exempt purposes may properly execute the affidavits for exemption.<sup>11</sup> As a result, the assessor cannot ensure that the benefit of the exemption inures to the lessee.

We recommend that the assessor ensure that all properties qualify for an exemption before granting any exemption.

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<sup>11</sup> See sections 206, 206.1, 254 and 256.

## ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership
- Valuation of new construction
- Annual revaluation of certain properties that are subject to special assessment procedures, such as taxable government-owned land
- Annual review of properties experiencing declines-in-value

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

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

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

### **Overview**

To discover reappraisable changes in ownership, an assessment clerk reviews recorded documents. Once a month, she receives a CD-ROM from the county recorder's office containing documents recorded during the previous month. She supplements this data with an occasional visit to the county recorder's office to review and retrieve documents from the recorder's imaging system.

During fiscal year 2000-01, approximately 4,700 documents were reviewed for possible changes in ownership, resulting in the revaluation of 937 parcels. The following table summarizes the number of parcels reappraised for changes in ownership for the prior five years.

Fiscal Year	Parcels Reappraised
1999-00	538
1998-99	847
1997-98	544
1996-97	530
1995-96	679

We reviewed a number of recorded grant deeds from the county recorder's database and followed the assessor's procedures from reappraisal to enrollment of supplemental assessments. We found that changes in ownership had been properly identified, supplemental assessments were enrolled for all applicable periods, and records were well documented. We found the assessor thoroughly identifies and reappraises properties that have changed ownership.

### Change in Ownership Statement

Most transferees in Inyo County elect to file form BOE-502-A, *Preliminary Change in Ownership Report*, at the time the grant deed is recorded. However, some transferees pay the \$20 fee to excuse its filing. The assessor sends form BOE-502-AH, *Change in Ownership Statement (COS)*, to those persons (perhaps 40 to 50 each year).

**RECOMMENDATION 10:** Impose the *Change in Ownership* failure to file penalty as provided in section 480.

We found the assessor sends as many as three requests for a COS over a lengthy time period before imposing the failure to file penalty required by section 480. The first COS is mailed with a six-week deadline noted on it. A second notice is sent two weeks before the expiration of the six-week period. A third and final notice is then sent via certified mail. Only after an assessee ignores all three notices does the assessor impose the nonfiling penalty.

Section 480 provides that failure to file a change in ownership statement within 45 days from the date of a written request by the assessor results in a penalty of either \$100 or 10 percent of the taxes applicable to the new base year value, whichever is greater, to a maximum of \$2,500 if the failure to file was not willful. In effect, the assessor's practice gives transferees additional time to file beyond the period authorized by statute. The assessor has no authority to refrain from imposing the *Change in Ownership Statement* nonfiling penalty beyond 45 days.

We recommend the assessor impose the penalty required by section 480 when the transferee fails to file a timely COS.

### Legal Entity Ownership Program (LEOP)

The BOE's LEOP unit notifies county assessors of changes in control or ownership of legal entities owning real property in California. Under article XIII A of the California Constitution, such changes in control are changes in ownership of the real property owned by these legal entities and require reappraisal. But, because they are usually not recorded at the local county recorder's office, these events may go undiscovered by the assessor.

The LEOP unit learns of such changes in control through information furnished by the Franchise Tax Board (FTB), which includes questions relative to changes in ownership and control on its annual corporate and partnership tax returns. The LEOP unit gathers this preliminary information from FTB and sends both the acquiring and acquired entities a questionnaire soliciting the date of transfer, the nature of

the change in control, and a listing by county of all parcels of real property involved. Periodically this information is distributed to assessors for reassessment.

Since the program's inception in 1983, the LEOP unit has informed the assessor of 41 changes in control affecting 152 parcels. We reviewed a number of them and found that all had been promptly reappraised upon receipt of the LEOP notification.

### ***New Construction***

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

In our 1998 survey, we recommended the assessor include interest on new construction projects when the funds used to finance those projects were owner-supplied. The assessor has implemented this recommendation and now adds construction interest on owner-supplied funds as a component of the cost approach to value.

### ***Building Permits***

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

The assessor correctly processed approximately 175 permits issued by three agencies. We found no problems with the assessor's building permit processing.

### ***Decline in Value***

Section 51(a) requires the assessor to annually enroll real property subject to the assessment provisions of article XIII A of the California Constitution at the lower of its base year value (adjusted annually for inflation) or its current market value, as defined in section 110. If the taxable value is less than the factored base year value, section 51(e) requires an annual review until the current market value again exceeds the factored base year value. Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines.

Decline-in-value reviews constitute a significant part of the assessor's workload. There were 1,287 properties in decline-in-value status on the 2000-01 assessment roll. The decline-in-value review process is initiated by taxpayers' requests (in writing, in person, or by telephone) or by the assessor's appraisers. During our examination of assessment records for these properties, we found them to be well documented, complete, and the values to be reasonable.

**RECOMMENDATION 11:** Include factored base year values on the decline-in-value notice as required by section 619(c).

We found that the decline-in-value notice used by the assessor fails to inform assesseees of the factored base year values of their properties as required by section 619. Section 619(c) requires, among other things, that the notification include the base year values compounded annually to the current year by the appropriate inflation factors. Thus, the notices sent to assesseees do not conform to statutory provisions. Failure to include the factored base year value will not provide assesseees with the information they need to compare the current market value with the factored base year value.

We recommend the assessor include the factored base year value when notifying assesseees of a change in a property's assessed value.

### ***Supplemental Assessments***

Section 75.10 provides that whenever a change in ownership occurs or upon the completion of new construction, the assessor shall appraise the property at its full cash value as of the date of the change in ownership or completion of new construction. Any increase or decrease in assessed value resulting from a change in ownership or completion of new construction is reflected in a prorated assessment (the supplemental assessment) that covers the portion of the fiscal year remaining after the event date. If the event occurs on or after January 1 but on or before May 31, a supplemental assessment is also levied for the upcoming year.

We reviewed the assessor's supplemental assessment practices over a wide range of applications, such as possessory interests, property transferring from state to local assessment, fixtures, leasehold improvements, and manufactured homes. The assessor promptly and consistently enrolls supplemental assessments as required by law.

### ***Rural Property***

#### ***Wells***

**RECOMMENDATION 12:** Enroll all wells as land.

In our prior survey report, we recommended that the assessor classify all wells as land. We found that the assessor continues to enroll domestic and agricultural wells as improvements, rather than as land. We reviewed nine well permits issued by the county department of environmental health and found that the assessor enrolled all of them as improvements.

Rule 124 provides that water wells are classified as land for property tax purposes. The BOE has consistently advised county assessors to classify wells, including casings, gravel pack, and drilled holes, as land. On the other pumps, concrete pads, and electrical power drops should be assessed as improvements.

We recommend the assessor properly classify wells as land.

## Land Improvements

**RECOMMENDATION 13:** Enroll all land improvements as land.

We found that the costs of grading, leveling, filling, and draining were allocated to building improvements rather than land.

Rule 121 provides that where there is a reshaping of land, or an adding to land itself, that portion of the value relating to the reshaping or adding to the land is classified as land. Rule 121 also provides that whenever an addition of materials is solely for drainage of land to render it arable or for the drainage or reinforcement of land to render it amenable to being built upon, the land, together with the added materials, remains land.

We recommend that the assessor properly classify and enroll all land improvements as land.

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

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11(a). Section 11(a) provides that land located outside an agency's boundaries is taxable if, for property located in Inyo County, the property was assessed for taxation to the local government as of the 1966 lien date, or it was acquired by the local government subsequent to that lien date and was assessed to a prior owner as of that lien date. Improvements owned by a local government that are outside its boundaries are taxable if they were taxable when acquired or were constructed to replace improvements that were taxable when acquired. These lands and taxable improvements are commonly referred to as "Section 11" properties.

In Inyo County, the assessed value of Section 11 land is determined by multiplying the 1966 assessed value by the section 11 factor provided annually by the BOE. The assessor is not permitted to compare market value or the factored base year value when valuing Section 11 land.

The Los Angeles Department of Water and Power (LADWP) owns 1,122 taxable properties in Inyo County, valued at \$838,731,864. These Section 11 properties comprise about one-half of the county's secured assessment roll. Occasionally the LADWP exchanges taxable land for non-taxable land with the Federal Bureau of Land Management or other exempt federal agencies. When that occurs, it has a significant negative effect on the assessment roll.

During our current survey, we found no evidence of Section 11 property escaping assessment. In addition, we found that the Section 11 assessments are made correctly and that the assessor's program for assessing these properties is effective.

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

A taxable possessory interest is a private interest in publicly-owned real property. For property tax purposes, the term possessory interest includes either the possession or the right to possession of real property when a tax-exempt government agency holds the fee title to that property.

To discover such possessory interests, the assessor regularly contacts government agencies that own property in Inyo County. As a result of that research, the assessor has enrolled 752 separate possessory interest assessments on the 2001 assessment roll, totaling \$45,530,110.

In our prior survey report, we recommended that the assessor enroll the possessory interests held by major users of the fairgrounds facilities, apply an appropriate discount rate for income capitalization, and revise the methodology of calculating possessory interest assessments on LADWP Section 11 properties.

We found that the assessor now uses a reasonable discount rate for income capitalization and has corrected the procedure regarding the assessment of possessory interests on LADWP lands. However, it appears there may be possessory interests at the county fairgrounds that continue to escape assessment.

### **County Fairgrounds**

**RECOMMENDATION 14:** Review private uses of the county fairgrounds to determine whether taxable possessory interests exist.

We found no assessments or evidence that the assessor reviewed the uses by concessionaires and exhibitors at the county fairgrounds. We obtained a listing of concessionaires and exhibitors from the Inyo County fairgrounds manager. It appears that some users may have taxable possessory interests. If so, the assessor's inaction has resulted in escape assessments.

We recommend the assessor investigate private uses at the fairgrounds to determine whether they qualify as taxable possessory interests.

### **Change in Ownership**

**RECOMMENDATION 15:** Review all older possessory interest assessments to discover reappraisable changes in ownership.

We found three properties for which both the terms of possession used by the assessor for valuation and the contract terms of possession had expired, but the assessor failed to revalue them. These

possessory interests are held in employee housing on LADWP land. Each of these possessory interest assessments has been increased only by the inflation factor since its last valuation.

Section 61 provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Renewal and extension includes continual use after the term of possession used by the assessor to value the original interest expires. The assessor's failure to recognize these changes in ownership potentially results in the loss of tax revenue.

We recommend that the assessor review all existing possessory interest assessments to determine whether changes in ownership have occurred.

### ***Leasehold Improvements***

Leasehold improvements (tenant improvements) are structural or fixture improvements made to rented or leased premises and are typically installed by and paid for by the tenant/lessee. Improvements installed by the tenant/lessee can be secured to the real property or assessed to the tenant on the unsecured roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may alter the original improvements in a number of ways. Examples of leasehold improvements include additions, removals, or possibly both, resulting in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

In particular, when real property is reported on the *Business Property Statement*, the reported costs should be jointly examined by an appraiser and an auditor-appraiser. Determinations must be made as to whether those costs are for repair and maintenance (and therefore not assessable), or whether an addition is properly classified as a structure or fixture improvement. For this reason, coordination between the real property and business property staff is very important.

In Inyo County, the responsibility for assessing leasehold improvements is shared by the assistant assessor and the auditor-appraiser, with additional input from the real property appraiser. All appraisal staff are located in close proximity to each other and regularly share information concerning leasehold improvements. The assistant assessor performs appraisals of structural leasehold improvements and the auditor-appraiser assesses fixtures. However, they work together on most commercial properties.

We reviewed the assessment of leasehold improvements enrolled on both the secured and unsecured rolls. We found excellent coordination and communication between the business property and real property staff. Records were well documented, and structural and fixture improvements appear to be classified and assessed to the proper individuals. We found no problems with the leasehold improvement assessment program.

## **Water Company Property**

Water company properties assessed on the local assessment rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies (either regulated or unregulated by the California Public Utilities Commission (CPUC)), or mutual water associations. Each type presents different appraisal problems.

### **Private Water Companies**

Private water companies are privately-owned utilities in business to earn a profit from the sale of water. The current market value of the properties of a closely regulated water company is likely to approximate historical cost less depreciation (HCLD), the rate base on which the company is entitled to earn a return under CPUC regulations. Depending on the degree of regulation and the market's anticipation of future regulation and earning potential, the income approach may also approximate current market value.

The market value of the real property of a water company can be greatly influenced by regulated rates and may be less than its factored base year value. The assessor should compare these two values regularly to determine the taxable value of water company property. Currently, Inyo County has two private water companies whose rates are regulated by the CPUC.

In our prior survey report, we recommended that the assessor enroll the lower of factored base year value or current market value for regulated water company properties. At that time, the assessor valued most of the utility water company properties on the basis of their factored base year values, without considering their current market value. The assessor has corrected this problem.

**RECOMMENDATION 16:** Obtain CPUC filings from all private water companies.

We found that only one of the two regulated private water companies provides a copy of its CPUC financial report to the assessor. These reports contain the data necessary for developing an income indicator and a HCLD indicator of value.

Private water companies regulated by the CPUC must annually submit financial reports to the CPUC. These reports detail changes that occurred during the previous calendar year. They include balance sheets, income statements, fixed capital in service data, and accrued depreciation data necessary to determine either the HCLD indicator or the income indicator of value. Complying with this recommendation will enable the assessor to make accurate decline-in-value determinations while promoting taxpayer equity and fairness.

We recommend the assessor obtain complete CPUC filings from all regulated private water companies.

### **Mutual Water Companies**

A mutual water company is a private association created for the purpose of providing water at cost to its stockholders or members. Corporations organized for mutual purposes are not subject to regulation

by the CPUC unless they deliver water for compensation to persons other than stockholders and members. Inyo County has 23 mutual water companies.

**RECOMMENDATION 17:** Obtain articles of incorporation and other relevant property tax documents from each mutual water company.

We found that the assessor has no articles of incorporation or lists of parcels served for the 23 mutual water companies in Inyo County. It is important to obtain such documentation since a mutual water company's articles of incorporation contain much of the information that must be considered by an appraiser when valuing the company's property. Without this data, the assessor cannot ensure that all the assets of the mutual water companies are correctly reflected in the value of the properties served.

We recommend that the assessor obtain the articles of incorporation, the bylaws, a list of all owners and the parcels served, and a list of lands, improvements, and distribution systems owned by each mutual water company in Inyo County.

### ***Pipeline Rights-of-Way***

Intercounty pipeline rights-of-way were assessed by the BOE from 1982 until 1993 when an appellate court held that such assessments were outside the BOE's assessment jurisdiction. In *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42, the court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way over which they run must be assessed locally by county assessors. Consequently, assessors assumed assessment responsibilities for the intercounty pipeline rights-of-way. There is one intercounty pipeline right-of-way located in Inyo County. This right-of-way is located on federal land managed by the Bureau of Land Management.

For assessment years through 2010-11, if the intercounty pipeline right-of-way on publicly or privately-owned property is assessed according to the provisions of section 401.10(a), the assessments are rebuttably presumed to be the full cash value for that year. This assessment procedure continues regardless of whether a reappraisable event (e.g., change in ownership, new construction) occurs during that time period.

We found that the assessor does not value the right-of-way in the manner described by section 401.10. Rather, he assessed this property as a possessory interest and reappraised it for a 1998 change in control. He established a 1998 base year value and applied the annual inflation factors to determine the 2001-02 assessed value. Since the assessment does not follow the provisions of section 401.10, it does not benefit from the presumption of correctness. The current assessed value is less than the value would have been if determined by the provisions of section 401.10(a).

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

The assessor processes approximately 2,400 annual property statements and assesses 90 aircraft, 579 vessels, and approximately 1,250 manufactured homes.

### ***Audit Program***

The audit program is one of the most important functions of an assessor's business property assessment program. Audits ensure that taxable property has been reported accurately by the taxpayer and assessed properly by the assessor. Audits allow for the investigation and resolution of reporting and appraisal problems. A property tax audit is a means of collecting data relevant to determination of taxability, situs, and value of business property. Based on the audit findings, the original assessment may be adjusted to reflect the audited values.

In our prior survey report, we recommended that the assessor follow statutory requirements and notify taxpayers of overassessments discovered during an audit. We also recommended that the assessor bring the mandatory audit program to current status and obtain waivers of the statute of limitations from those taxpayers whose mandatory audits will not be completed timely. We found that the assessor now notifies taxpayers of overassessments discovered during an audit. However, the assessor is still behind in his mandatory audit program and has not obtained any waivers of the statute of limitations for audits not completed timely. We repeat these recommendations in this report.

### **Mandatory Audits**

Section 469 and rule 192 require the assessor to audit the books and records of a business at least once each four years when its locally assessable trade fixtures and tangible personal property have a full value of \$400,000 or more for four consecutive years. Failure to perform mandatory audits is specifically identified as a significant assessment problem in rule 371.

**RECOMMENDATION 18:** Bring the mandatory audit program to current status.

We found that the assessor is currently behind on 15 of his mandatory audit accounts. The assessor has a total of 28 mandatory audit accounts, resulting in an annual workload of seven to eight audits.

The mandatory audit program verifies the reporting of the largest business property accounts and forestalls any potentially large assessment errors. The further removed the audit is from the year being audited, the more difficult it may be to obtain the necessary records.

We recommend that the assessor bring the mandatory audit program to current status.

## Waiver of the Statute of Limitations

Section 532 requires the assessor to enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. As authorized by section 532.1, if the assessor cannot complete an audit within the prescribed time, the assessor may request a waiver of the statute of limitations from the taxpayer to avoid possible loss of tax revenue and to ensure refunds of overassessments when applicable.

**RECOMMENDATION 19:** Obtain a waiver of the statute of limitations when a mandatory audit will not be completed timely.

Over the last several years, the assessor has not obtained waivers of the statute of limitations on the mandatory audits that were postponed. By failing to request a waiver, the assessor may allow taxable property to escape assessment, or he may be prevented from authorizing tax refunds for the number of years beyond the reach of the statute.

We recommend that the assessor seek waivers of the statute of limitations in all situations where the mandatory audits will not be completed on time.

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

Annually, the assessor mails form BOE-571-L, *Business Property Statement (BPS)*, to taxpayers who have assessable business property costing more than \$100,000, in accordance with section 441. The assessor has effective procedures to process nearly 2,400 property statements, excluding boats and aircraft. Boats and aircraft are reported separately on specially designed statements.

We reviewed randomly selected business property accounts to determine whether the BPS processing procedures were correctly applied. In addition, we reconciled the actual property statement processing practices to pertinent authoritative citations, including application of the Revenue and Taxation Code, Property Tax Rules, LTA's, annotations, and relevant sections of the Assessors' Handbook. We found no problems relating to processing of business property statements.

We reviewed property statements pertaining to agricultural property, lessors' business property, secured and unsecured personal property, and apartment personal property. In all cases, a certified property appraiser had reviewed the statements for completeness. Incomplete statements were tagged for further contact with the taxpayer.

For taxpayers who failed to file a BPS, section 501 authorizes the assessor to make an estimated assessment based on information in his possession. Additionally, section 463 requires the assessor to add a 10 percent penalty to the assessed value of the unreported taxable property. The assessor applies the appropriate penalties when BPS's are not filed timely, including unreported assessable business property assessed pursuant to section 501.

## Direct Billing

Many California assessors utilize an assessment procedure called direct billing or direct assessment. It is a method of assessing eligible low-valued business accounts without filing the annual BPS. The assessor establishes an initial value for such accounts and continues it for several years. Periodically, the assessor should require assessees to file a BPS or conduct a field review of the business location. Examples of businesses suitable for direct billing include apartments, barber shops, beauty salons, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings.

Direct billing programs are beneficial to taxpayers and to the assessor. It results in a reduction of paperwork for taxpayers and the assessor has fewer annual property statements that required processing. This increases time available for auditor-appraisers to perform their other required duties.

The assessor uses a direct billing program. Accounts that are direct-billed are generally stable and have between \$10,000 and \$30,000 in full value of reportable business property. The assessor has approximately 200 business property accounts in the direct billing program.

**RECOMMENDATION 20:** Send *Business Property Statements* to direct billing assessees at least once every four years.

We found that most of these direct billing accounts have not been reviewed within the last four years to determine whether or not they should remain direct billing accounts.

The direct billing program can be productive and effective only if direct-billed accounts are periodically reviewed and updated. This can be accomplished by sending a BPS to all direct-billed accounts on a rotating four-year cycle, regardless of their business type or classification. Failure to review and update direct billing accounts could lead to overassessments or escape assessments.

We recommend the assessor send the BPS to direct billing accounts at least once every four years.

## ***Machinery and Equipment Valuation***

The BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), to help assessors in the valuation of business property and trade fixtures. The price index factors measure the trended prices of goods over their service lives. The percent good factors are intended to reflect the average loss in value that a commercial or industrial property, in general, will experience over its service life. The percent good factors are based on averages and represent a reasonable estimate of depreciation for the majority of business property.

Valuation factors are the product of the price index factor and the percent good factor. The proper choice and application of valuation factors to historical cost produces an estimate of taxable value. The assessor produces tables that use such valuation factors to aid in the valuation of business property. The valuation factors that the assessor uses are integrated into the *Inyo County Composite Index/Percent Good Factor Tables*. We reviewed all the tables containing the valuation factors and found them to be correct except in the specific area discussed below.

**RECOMMENDATION 21:** Use Assessors' Handbook Section 581 as intended.

We found that the assessor uses minimum valuation factors for commercial, industrial, agricultural, and construction equipment. He has no documentation to support these minimum valuation factors. These factors are based on the position adopted by the California Assessors' Association.

The percent good factors are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives. The percent good factors contained in AH 581 are adjusted annually by the BOE based on the premise that these types of properties lose value as they age. The use of arbitrary minimum valuation factors (not approved by the BOE) will usually result in overassessments of older equipment.

When valuing property, the appraisers may analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the normal percent good factor to reflect the deviation. However, this analysis must be documented. Arbitrarily establishing minimum values is not an acceptable appraisal practice.

We recommend that the assessor use AH 581 as intended.

### **Computer Valuation**

The valuation of computers and computer equipment is somewhat different than the valuation of other machinery and equipment. Computers and related equipment have shorter estimated useful service lives, principally due to rapid changes in technology and user needs. The BOE has recognized these differences and has developed tables of valuation factors that reflect those shorter lives.<sup>12</sup>

Computer valuation tables promote uniformity in appraisal practices and assessed values, and comply with the requirements of section 401.5. There are three tables: small computers (costing \$25,000 or less), mid-range computers (with a cost range from \$25,000.01 to \$500,000), and mainframe computers (with costs of \$500,000.01 or more). The valuation factors in these tables are directly applied to historical costs.

We found that the assessor correctly values computers using the BOE-recommended factors.

### ***Leased Equipment***

One of the assessor's responsibilities is the discovery and assessment of taxable leased equipment. Taxpayers are required to report all leased equipment, i.e. taxable property in their possession but belonging to others, on the annual *Business Property Statement*. To supplement that information the assessor requests the name and address of the owner, the month and year of property acquisition, the acquisition cost, the location, and other relevant information.

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<sup>12</sup> AH 581, Table 6.

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

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

We reviewed the procedures for assessing leased equipment and found that the assessor has an effective leased equipment assessment program.

## **Aircraft**

### General Aircraft

Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this section of the Assessors' Handbook. On January 8, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for planes not listed in the *Bluebook*. As stated in LTA 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate fair value for the local market.

For the 2001-02 assessment roll, the assessor enrolled 91 aircraft with a total valuation of \$6,453,620. The assessor uses the *Bluebook* valuation guide for appraising general aircraft. The value is calculated by reducing the list price by 10 percent and making appropriate adjustments. Adjustments are made for engine hours, extra equipment, and general aircraft condition. We found no problems with the general aircraft assessment program.

### Historical Aircraft

Aircraft of historical significance may be exempt from property taxation. As defined by section 220.5(d), historical aircraft means any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older, or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide. To receive an exemption, the owner of a historical aircraft must meet certain criteria and submit a claim for exemption between the lien date and 5 p.m. on February 15.

To qualify for the exemption, section 220.5 provides that assessees must: (1) be an individual owner who does not hold the aircraft primarily for purposes of sale; (2) not use the aircraft for commercial purposes or general transportation; (3) make the aircraft available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is

claimed; and (4) sign and swear to the accuracy of the contents of the affidavit before either a notary public or the assessor or his or her designee, at the claimant's option.

We reviewed the filings and declarations of historical aircraft claimants and found no problems with the administration of the historical aircraft exemption.

### **Vessels**

Assessors in California are required to annually appraise boats at market value and to assess all boats with an assessed value above \$400, unless the county adopts a low-value property exemption. A low-value property exemption has not been adopted in Inyo County.

For the 2001-02 assessment roll, the assessor enrolled 579 vessels with a total assessed value of \$2,022,700. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the boat owners themselves. Valuation techniques used include consideration of reported purchase prices and the *ABOS Marine Blue Book*. We found no problems with the assessor's vessel assessment program.

### **Animals**

The California Constitution provides that all property is taxable unless specifically exempted by the Constitution or, in the case of personal property, by act of the Legislature. The Revenue and Taxation Code exempts most animals from taxation. Pets are exempted under section 224. Many animals are considered business inventory – as defined by section 129 and rule 133 – and are exempted by section 219. Racehorses are exempt from property tax but are subject to an in-lieu tax specified in section 5701, et seq.

Show horses are one of the few types of animals subject to property taxation. Show horses (and other non-exempt animals) are assessed as personal property in the same manner as other items of personal property.

Methods of discovering taxable animals include exchange of information between the assessor and other county assessors, newspaper articles and advertisements, telephone directories, business directories, agricultural property statements, and audits of agricultural property.

Inyo County has very few assessable animals. We reviewed the procedures for discovering and assessing taxable animals and found that the program is well administered.

### **Service Station Improvements**

Prior to the passage of article XIII A of the California Constitution, service station improvements were generally assessed as a single unit, with no distinction made between structure and fixture improvements. Now, it is important to segregate fixture improvements from structures because rule 461(e) provides that fixtures and other machinery and equipment classified as improvements constitute a separate appraisal unit for purposes of recognizing declines in value. In addition, the replacement of a structural

item may be considered normal maintenance and, hence, not assessable as new construction, whereas the replacement of a fixture qualifies as newly constructed property.

**RECOMMENDATION 22:** Assess service station fixtures at the lower of their market values or factored base year values.

We found that service station fixture assessments are not annually reviewed for declines in value. The assessor determines a base year value for all fixtures and, in subsequent years, they are adjusted by the appropriate inflation factor.

Because fixtures are classified as real property, they must be assessed at the lower of their current market values or factored base year values. Rule 461(e) provides that fixtures and other machinery and equipment classified as improvements constitute a separate appraisal unit for purposes of recognizing declines in value. Typically, fixtures have shorter economic lives than real property, and they usually depreciate in value over time. In most instances the factored base year values would exceed current market values.

We recommend that all service station fixtures be assessed at the lower of their factored base year values or current market values.

### ***Manufactured Homes***

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in sections 18007 and 18008 of the Health and Safety Code, and statutes prescribing the valuation and assessment of manufactured homes are in sections 5800 through 5842 of the Revenue and Taxation Code.

Manufactured homes are considered to be personal property and must be classified as such. For assessment purposes, however, manufactured homes are treated differently than other personal property. Manufactured homes are listed on the secured roll with a base year value that is subject to compounding by an inflation factor each year. The taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments upon a change in ownership or new construction. The taxable value of a manufactured home is the lesser of its factored base year value or its full cash value on the lien date.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, the *Kelley Blue Book Manufactured Housing Used Value Guide* and the *National Automobile Dealer Association's Manufactured Housing Appraisal Guide*.

The 2001-02 assessment roll contains 1,258 manufactured homes subject to local property taxation, with a total value of \$33,194,148. Including those subject to the vehicle license fee, there are

approximately 2,100 manufactured homes in Inyo County. About 1,300 of these are located in 74 mobilehome parks, and the remaining homes are sited on fee land or government-owned property.

The assessor's real property appraiser values all manufactured homes in the county, with the exception of those located in isolated, rural parts of the county, such as the Death Valley and Furnace Creek areas. The assistant assessor handles the assessment of manufactured homes in those remote areas.

The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development (HCD) listings, building permits, dealer's reports of sale, tax clearance certificates, and voluntary conversions.

The manufactured home assessment program is well organized and much recent effort has been expended on improving documentation and other aspects of the program. In our prior survey, we recommended that the assessor: (1) classify manufactured homes on the assessment roll as personal property; (2) place greater emphasis on the use of recognized value guides and note these values on appraisal records; and (3) review manufactured homes for declines in value. We found that the assessor has revised the manufactured home program and now uses and documents the use of value guides. He also has reviewed most assessable manufactured homes for declines in value. However, since part (1) was not implemented, we repeat that part of the recommendation in this report.

### Classification

**RECOMMENDATION 23:** Classify manufactured homes as personal property.

We found that the assessor continues to enroll manufactured homes as real property. This practice is primarily the result of difficulties with his current computer system, which issues *Business Property Statements* to all owners of personal property and does not permit granting homeowners' exemptions to manufactured homes enrolled as personal property.

Section 5801(b)(2) specifically provides that manufactured homes are not to be classified as real property. When manufactured homes are improperly classified as real property and are located in a tax-rate area subject to special assessment, owners of manufactured homes may pay taxes that should not have been levied. Special assessments are levied upon only real property for improvements and services, and are based upon benefits accruing to the real property. They are typically applied to land or a combination of land and improvements.

We recommend the assessor classify manufactured homes as personal property.

### Manufactured Homes Accessories

**RECOMMENDATION 24:** Assess manufactured home accessories only as authorized by section 5805.

We found the assessor enrolls manufactured home accessories when installed on licensed manufactured homes purchased prior to 1977. Regardless of age, the assessor enrolls all attached accessories, for

both licensed manufactured homes and those subject to local property tax. However, the assessor provides no evidence that original accessories attached to licensed manufactured homes purchased prior to 1977 should be appraised, or that the value of these older accessories is not included in the license fee.

The assessor indicated he has "zero-valued" some pre-1977 accessories when it was brought to his attention that taxes for these accessories had been included in the license fee. We examined several records of and inspected licensed manufactured homes originally purchased prior to 1977. We found that attached accessories such as carports, awnings, and skirting had been appraised even though they appear to be part of the original manufactured home. These older accessories were discovered after 1977 and assigned a 1975 base year value.

Section 5805(b) provides that the value of accessories attached to a licensed manufactured home first sold prior to 1977 and located in a rental park are presumed to be included in the license fee.

Since the assessor values attached accessories on licensed manufactured homes purchased before 1977, and since he does not provide evidence that these values are not included in the license fee, he may be imposing a property tax on property already subject to an in lieu tax. These accessories should be assessed only when he has evidence that such accessories are not enrolled in the license fee base.

We recommend that the assessor enroll the value of manufactured home accessories on licensed manufactured homes purchased before 1977 only when he has evidence that they are not included in the license fee.

## **APPENDICES**

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

#### ***Inyo County***

##### ***Chief, County Property Tax Division:***

Charles Knudsen      Survey Program Director:

##### ***Assessment Practices Survey Section Manager***

Michael Lebeau      Principal Property Appraiser

##### ***Survey Team Supervisor:***

Arnold Fong      Supervising Property Appraiser

##### ***Survey Team Leader:***

Dale Peterson      Senior Specialist Property Auditor Appraiser

##### ***Survey Team:***

James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Simeon Okoroike	Senior Petroleum and Mining Appraisal Engineer
Pete Gaffney	Supervising Property Appraiser
Glenn Danley	Associate Property Appraiser
Kim Trotto	Assistant Property Appraiser
Marilyn Jones	Tax Technician II

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

### **Government Code**

15640. Survey by board of county assessment procedures.

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

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

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

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

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

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

duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.**

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

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

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

**15644. Recommendations by board.**

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

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

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

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

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

**Revenue and Taxation Code****75.60. Allocation for administration.**

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

**Title 18, California Code of Regulations**

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

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

**Rule 371. Significant assessment problems.**

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

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

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

The Inyo County Assessor's response begins on the next page. The CPTD staff has no comments on the response.