

LASSEN COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

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July 6, 2001

TO COUNTY ASSESSORS:

No. 2001/040

LASSEN COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Lassen County Assessment Practices Survey Report is enclosed for your information. The State 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 Kenneth Bunch, Lassen 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 and the assessor's response constitute the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the county board of supervisors, grand jury, and assessment appeals board.

The BOE's County Property Tax Division performed the fieldwork for this survey of the Lassen County Assessor's Office during May through August 2000. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Bunch and his staff for their cooperation and patience during this assessment practices survey.

These survey reports give the 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,

A handwritten signature in cursive script, appearing to read "Richard C. Johnson".

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
Enclosure

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INTRODUCTION

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

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

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

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in the report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, the Lassen County Grand Jury, and the Lassen County Assessment Appeals Board. The response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved.

Management audit reports typically emphasize problem areas, with little said about operations performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Survey*) and information that may be useful to other assessors. The latter information is provided in the hope that these reports will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF SURVEY

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, section 75.60 of the Revenue and Taxation Code¹ requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in the Appendix.

Our survey of the Lassen 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 Lassen County with information relevant to the property tax assessment program.

This survey also included an assessment sample of the 1999-2000 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in the Appendix.

An assessment practices survey is not an audit of the assessor's entire operation. We did not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment, nor did we review or report on the assessor's duties relating to the functions of county clerk and county recorder.

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

EXECUTIVE SUMMARY

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

- In our prior survey, we made eight recommendations. Of those recommendations, the assessor implemented five, did not implement two, and one was subsequently found to be a function of the county auditor’s office and, therefore, outside the scope of our survey. One of the two recommendations that was not implemented is no longer applicable.
- The assessor and his staff appraisers are current in their mandatory training requirements.
- We found no problems in the assessor’s administration of assessment appeals.
- The assessor and his staff are correctly processing and documenting new construction assessments.
- The assessor incorrectly exempts certain low-value roll corrections.
- The assessor should not grant disaster relief without receiving a timely application.
- The assessor does not identify the specific State or Federal agencies to assist in discovering taxable properties.
- The assessor has an effective program for valuing boats, and aircraft. The appraisals are made in accordance with standard methodology.
- The assessor should develop a formal audit program.
- The assessor uses minimum valuation factors without supporting documentation and incorrectly includes the value of the sales tax in the assessment of equipment leased to the federal government.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- The county assessment roll easily meets the requirements for assessment quality established by section 75.60. Our sample of the 1999-2000 assessment roll indicated an average assessment ratio of 99.84 percent, and the sum of absolute differences was 1.88 percent. Accordingly, the Board of Equalization certifies that Lassen County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.
- Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1: Apply the low-value property exemption to escape assessments only when the full value of the entire appraisal unit meets the standards of the county's low-value ordinance. 8

RECOMMENDATION 2: Grant disaster relief only upon the filing of a timely application. 10

RECOMMENDATION 3: Obtain the name of the specific federal or state agency controlling the use of government-owned land. 17

RECOMMENDATION 4: Use the Assessors’ Handbook Section 581 as intended..... 22

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RECOMMENDATION 6: Develop and maintain a formal audit program. 23

RESULTS OF 1996 SURVEY

Low-Value Property Exemption

We found that Lassen County passed a low value resolution applying only to property on the unsecured roll. We found that the resolution did not meet the requirements of section 155.20. Based on the current interpretation of section 155.20 by BOE staff, we think Lassen County's low value resolution does conform to the requirements of the section. Therefore, our prior recommendation no longer applies.

California Land Conservation Act (CLCA) Properties

We determined that the assessor failed to obtain all the information needed to properly and accurately assess CLCA properties. The assessor now periodically mails questionnaires to CLCA property owners.

Taxable Possessory Interests

We recommended that the assessor review fairground uses and assess all taxable possessory interests. In our current survey, we found the assessor consistently applies existing assessment regulations and is diligent in his discovery of fairground possessory interests.

Government-Owned Property

We recommended that the assessor obtain the name of the specific federal or state agency controlling the use of government-owned lands to make more effective the collection of information on possible escaped possessory interests and lease information. The assessor has not implemented this recommendation.

Mandatory Audits

We discovered that mandatory audits were not being completed timely. For the current survey, we found that such audits are now completed timely. Although the assessor has a new auditor-appraiser, hired with Property Tax Administration Program (PTAP) funding, he is actively petitioning the Lassen County Board of Supervisors for permanent funding of this vital position.

Vessels

We found that the assessor failed to appraise vessels at market value. During the current survey, we found that the assessor now assesses vessels correctly. The assessor periodically compares depreciated selling prices to current market data in the manner we recommended in our prior survey.

OVERVIEW OF LASSEN COUNTY

Located in scenic Northeastern California, Lassen County is bounded by Modoc County to the North, Shasta County to the West, Plumas and Sierra Counties to the South, and the State of Nevada to the East. State routes 44 and 36 connect Lassen County to the greater Sacramento Valley and the City of Redding. Susanville, the Lassen County seat, was incorporated in 1900 and is situated at the major crossroads for the region. Lassen County's population is approximately 34,000, approximately 17,000 of whom reside in Susanville.² Government is Lassen County's largest employer. Over 25 percent of the workforce is employed in government and public administration.

The Lassen County Assessor's Office has experienced major reductions in its staffing, from 18 staff members (1979-80) to a staff of seven and one-half in fiscal years 1993-94 and 1994-95. Participation in the PTAP permits the current staffing level of nine employees. The assessor estimates staffing needs at a total of 11 positions. For the fiscal year 1999-2000, the assessor prepared an assessment roll containing about 25,500 assessments on a gross budget of about \$405,000.

The following chart displays pertinent information from the 1999-2000 assessment roll. Most of the information was taken from the BOE publication *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*, July 2000.

Property Type	Number of Assessments in County	Enrolled Values
Residential	11,649	
Miscellaneous (includes Manufactured Homes)	108	
Rural	11,329	
Commercial/Industrial	<u>896</u>	
Total Secured Roll	23,982	\$1,352,329,000
Total Unsecured Roll (Personal Property except Manufactured Homes)	<u>1,593</u>	<u>93,762,000</u>
Total Roll	<u>25,575</u>	<u>\$1,446,091,000</u>

² "Lassen County Economic and Demographic Profile 2000" page 7.

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and personal property assessment programs. We examined the training and qualifications of appraisal staff, how the assessor handles corrections and changes to the completed assessment roll, and how the assessor's staff prepares and presents assessment appeals.

Training

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. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours of annual training if an appraiser holds an advanced certificate.

An analysis of the training records of the assessor's personnel in Lassen County who perform appraisals indicated that all appraisers are appropriately certified and current with training requirements. The appraisal staff is comprised of four real property appraisers, and one auditor-appraiser, plus the assessor. Three of the appraisers have advanced certificates, and two are certified and taking classes that will qualify them for advanced certification.

Assessment Roll Change Procedures

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 and the county counsel.

Assessment roll changes fall under two general categories: escape assessments and corrections.

An escape assessment is an assessment of property (1) that was not assessed on the July 1 roll, for any reason, or (2) that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any escape property upon discovery, and the taxpayer must be notified of the proposed escape at least 10 days prior to enrollment.

A correction is any type of authorized change to an existing assessment except for underassessments caused by an error or omission of the assessee. Although corrections are normally initiated by the assessor's office, the concurrence of other county officers may be required depending on the nature of the correction.

All roll changes are based on specific statutes, and the assessment roll must contain appropriate statutory references.

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

RECOMMENDATION 1: Apply the low-value property exemption to escape assessments only when the full value of the entire appraisal unit meets the standards of the county's low-value ordinance.

The assessor cancels all roll changes with a value difference of less than \$3,000, under the authority of the county's section 155.20 low value ordinance. This procedure is not correct.

The section 155.20 low-value exemption is applicable to *property* in a class identified in the ordinance; it is not applicable to merely a portion of a property. For example, if a vessel has not been previously assessed, then section 155.20 could be applied to preclude an escape assessment of the property, if the full value of the vessel is within a class identified in the county's low-value exemption ordinance and meets the standards of the ordinance. The exemption could also be applied when the original assessment was too high and the corrected fair market value of the vessel meets the low value standard. However, the exemption cannot be applied to a vessel which has a fair market value that exceeds the low-value standard.

We recommend that the assessor apply the low-value property exemption to escape assessments only when the full value of the entire appraisal unit meets the standards of the county's low-value ordinance.

Computer System

In order to use resources efficiently and effectively, an organization must dedicate a significant amount of its resources to updating and maintaining its computer systems. Lassen County is one of seven counties using the Crest Property Tax System (CPTS), which serves the county assessor, county auditor, and county tax collector offices. The seven counties are Yolo, Trinity, Glenn, Sierra, Lassen, Tuolumne, and Modoc.

Lassen County's commitment to the use of computer technology is evident. Among other things, the assessor has staff attend monthly CPTS meetings to resolve problems and improve the system.

In 1999, all employees in the assessor's office were equipped with personal computers. The assessor's office has a sales retrieval agreement with the Multiple Listing Service (MLS) through the Internet, from which sales and listings can be accessed by neighborhood, size, and price. Presently, the assessor's computer system does not allow the staff to retrieve sales data that has been collected by the assessor's staff.

The assessor's computer equipment is located in the assessor's office. The maintenance of the system is the responsibility of the data control supervisor and the cadastral drafter I. They are the only two with access to make value changes. The system is password driven, allowing the appraisal staff to view all screens without the capability of changing values. The auditor and the tax collector have access to the public screens with only supplemental assessments being processed out of a joint file with the auditor and the tax collector. The system's data is backed up daily with a full backup conducted once every week.

Assessment Appeals

In 1997, the Lassen County Board of Supervisors appointed a three-member board to sit as an assessment appeals board. Two of the three original members are currently serving on the

appeals board. These two members and the clerk of the board have received formal training from the BOE.

The following details Lassen County's assessment appeals workload:

	1997	1998
New Appeals Filed	13	26
Carried Over From Previous Yr.	21	24
Total Workload	34	50

Most of these carryovers resulted from postponement letters filed by one taxpayer. Of the 13 appeals filed for 1997 assessments, three were withdrawn, two were resolved by stipulation, seven were postponed, and one was dismissed. Of the 26 appeals filed for 1998 assessments, 15 were withdrawn, seven were resolved by stipulation, and four were postponed. The number of stipulations relative to the total number of appeals appears reasonable, particularly in light of the fact that all of the 1998 stipulations involved the property of one taxpayer.

The appraisal records of properties under appeal contained adequate analysis to support the value conclusions reached by the assessor. The 1998 stipulated values were based on changes in anticipated income, costs allowed for equipment upgrades, and valuations of other similarly situated companies operating in California.

We found no problems with the assessor's appeal procedures, which are in compliance with the requirements for appropriate assessment practices.

Low-Value Property Exemption

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

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

Lassen County adopted an ordinance exempting low-value property in December of 1993.

Pursuant to section 155.20, the board of supervisors has exempted all property on the unsecured roll with a full value of \$2,000 or less, and manufactured home accessories, with a full value of \$5,000 or less, that are installed on manufactured homes subject to vehicle license fees and first purchased prior to July 1, 1980.

Welfare Exemptions

Churches must file for the welfare exemption for parsonages claimed to qualify for exemption. For 1999, the BOE and Lassen County exempted 100 percent of the assessed value of two

qualifying parsonages. The BOE denied claims for exemption of three other parsonages due to incomplete filings.

Prior to 1999, it was general practice to exempt only the portion of a parsonage that was used exclusively for religious purposes, and the assessor employed that methodology.

Property Tax Rule 137 now allows for 100 percent exemption on qualifying parsonages. The assessor's practices comply with this regulation, and we have no recommendations in this area.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assessees whose properties have been damaged or destroyed through no fault of their own. The ordinance may be made applicable to a major misfortune or calamity within a region that has been declared a state of disaster, or to any damage or destruction, or both. To qualify for tax relief, damage must exceed \$5,000. Assessed values are reduced by applying a percentage to the current roll value of the property. To obtain relief under this ordinance, the assessee must file a written application with the assessor requesting reassessment. However, if the assessor determines that a qualifying misfortune or calamity has occurred within the preceding six months he can, with the approval of the board of supervisors, grant the tax relief as provided by section 170. Lassen County has adopted an ordinance pursuant to section 170

When the assessor becomes aware of a disaster, a disaster relief form is mailed to the property owner. The staff processes approximately three to four disaster claims a year. Applications are mailed and a copy is kept until the completed application is returned. The copy is then destroyed.

RECOMMENDATION 2: Grant disaster relief only upon the filing of a timely application.

During the course of reviewing 12 disaster claims, we found four undocumented situations. Two properties received the relief although no applications had been filed. One application could not be located, although the assessor and the taxpayer both affirmed one had been filed, and relief was granted. On another, an application was filed but not dated by the taxpayer or date stamped by the assessor, but relief was granted.

Section 170(d) provides that property shall be reassessed upon receipt of a properly completed, timely filed application. Section 170 also describes the allowable time frames in which applications for disaster relief can be accepted. Although section 170(1) allows the assessor to grant relief with the approval of the board of supervisors if no application is filed, the Lassen County Board of Supervisors has not granted this specific authority to the assessor. The lack of this specific approval and documentation on the above claims casts doubt as to whether proper procedures were followed. We recommend the assessor comply with section 170 when granting disaster relief.

On those properties with applications that were properly filed, we noted that correct procedures were followed when removing and reinstating value.

State-County Property Tax Administration Program

Section 95.31 established the State-County Property Tax Administration Program (PTAP). This program provides state-funded loans to eligible counties for the improvement of property tax administration.³

If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. As a provision the contract, a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's office's existing funding.

Presently, the BOE's only connection with the program is that a county's performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31. The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment. For most counties, the contract provides that verification of performance is certified to the State Department of Finance by the county auditor-controller. In the paragraphs below, we briefly describe Lassen County's participation in the State-County Property Tax Administration Program.

Lassen County participated in the PTAP during years 1995-96, 1996-97, 1997-98, and 1998-99. For the fiscal year 1999-2000, the county borrowed \$54,699. The county's required base funding and staffing levels for the assessor's office are \$344,384 and 7.5 positions, respectively. The Lassen County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment.

Lassen County has used PTAP funds to reduce backlogs of mandatory and nonmandatory audits, escape assessments, assessment appeals, and decline-in-value reductions through increased staffing.

³ Chapter 914, Statutes of 1995 (Assembly Bill 818).

ASSESSMENT OF REAL PROPERTY

In Lassen County, the assessor's real property appraisal staff consists of four appraisers who are responsible for about 24,000 residential, commercial, industrial, mineral, and agricultural parcels. The assessor's real property assessment program includes (1) revaluation of properties that have changed ownership, (2) valuation of assessable new construction, (3) annual review of properties having market values below their factored base year values, and (4) annual review of certain properties subject to special assessment provisions.

Change in Ownership

Section 50 requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. In Lassen County, the assessor's staff reviews each recorded deed to discover changes in ownership that require the establishment of new base year values.

Change in Ownership Processing

Section 480 requires that a *Change in Ownership Statement* (COS) be filed upon a change in ownership of either real property or a manufactured home subject to local property taxation. Should a transferee fail to file a COS within 45 days from the date of a written request by the assessor, section 482 requires the assessor to apply a penalty of either (1) one hundred dollars (\$100) or (2) 10 percent of the tax applicable to the new base year value, whichever is greater, but not to exceed two thousand five hundred dollars (\$2,500).

The following table shows the number of deeds processed, the number of deeds representing changes in ownership, and the number of parcels reappraised due to changes in ownership over the last three years:

Tax Year	Deeds Processed	Changes in Ownership	Parcels Reappraised
1997-98	1,160	874	1,149
1998-99	1,842	913	1,157
1999-00	1,787	893	1,269

About 50-60 percent of the deeds transmitted from the recorder's office include the assessor's parcel number (APN). The APN's for the remaining deeds are determined by the assessor's staff. When APN's are provided, they are compared to the legal descriptions on the deeds for accuracy. When the transfer involves a partial interest, the appropriate percentage(s) are entered on the deed. When a deed involves a transfer to a trust, and there is no *Preliminary Change in Ownership Report* (PCOR), a letter is sent to the transferor requesting information regarding the beneficiary to determine whether a reappraisable change in ownership has occurred.

The assessor's staff receives excellent cooperation from the recorder's office. When a taxpayer fills out a PCOR prior to recording a deed, the recorder's staff brings the PCOR to the assessor's staff to determine whether it has been filled out completely and correctly. Approximately 75

percent of the deeds are accompanied by PCORs. The recorder imposes an additional \$20 recording fee if the taxpayer fails to submit a completed PCOR.

When there is no PCOR with a recorded deed, a COS is sent to the transferee if the appraisal staff believes that the information is needed. The response rate to these mailings is very high, and a non-filing penalty is rarely necessary.

Parent-Child Exclusions (Section 63.1)

Section 63.1 excludes from change in ownership the purchase or transfer, on or after November 6, 1986, of the principal residence and the first one million dollars of other real property between parents and children when a claim is filed timely. This exclusion has been expanded to include certain grandparent-grandchild transfers.

About 200 parcels and 40 principal residences have received this exclusion. Some of these represent grandparent-grandchild transfers. We found no material problems with the assessor's procedures in handling these exclusions.

Base Year Value Transfers (Section 69.5)

Section 69.5 allows qualified homeowners 55 years of age or older to transfer the base year value of their principal residences to replacement dwellings of equal or lesser value purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed.

Additionally, section 69.5 allows the same base year value transfer benefit to (1) transfers between two counties, on or after November 9, 1988, provided the receiving county passes an implementing ordinance, and (2) qualified applicants who are severely and permanently disabled and who have purchased or newly constructed a replacement dwelling within the same county on or after June 6, 1990 (or between counties provided the receiving county passes an implementing ordinance).

There were only three intracounty transfers of base year values for 1999. These transfers were processed appropriately. The county does not have an ordinance permitting intercounty transfers of base year values.

Legal Entity Ownership Program

Section 64(c) provides that a change in control of any legal entity results in a change in ownership of all real property owned by that legal entity, as of the date of change in control. Discovery of a change in control can be difficult because ordinarily there are no recorded deeds. While such notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records. However, the BOE's Legal Entity Ownership Program (LEOP) discovers unrecorded changes in ownership that occur using corporate and partnership tax returns filed with the State Franchise Tax Board. Through the LEOP, the BOE passes information related to those transfers to county assessors' offices.

The LEOP section transmits reports to each assessor containing property schedules of legal entities reporting a change in control. These reports include the names of acquiring entities, the

date that the stock or partnership interests transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

BOE records indicate that there were only seven changes in control from 1993 through 1998 that should have resulted in property reappraisals in Lassen County. We reviewed the assessor's processing of the four most recent of these changes in control and found the properties had been appropriately reappraised.

We concluded that the assessor's change in ownership program is substantially in compliance with acceptable assessment standards and we have no recommendations relative to this section.

New Construction

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

New construction activity is most often discovered from building permits issued by the County of Lassen and the City of Susanville. Combined, these agencies issued a total of 1,007 permits for fiscal year 1999, resulting in 720 assessments. Other discovery methods include business property statements and field inspections.

Four property appraisers are each assigned to a geographic area for the valuation of new construction. The appraisers work all properties in their assigned area except for commercial and industrial properties, which are done by one senior property appraiser. The staff uses BOE costs, historical costs (when available), and, for commercial and industrial property, *Marshall Valuation Service*. In-house generated costs (updated yearly) are used for the valuation of septic systems, domestic wells, irrigation wells, pumps and pressure systems, electrical systems, rural improved sites, clear site costs, asphalt paving, access roads, heating costs, and manufactured home accessories.

In calculating residential costs, the appraisers use a *Market Expressed Percent Good* (MEPG) derived from sales of residential properties. The MEPG is a percentage adjustment used in lieu of a percent good to determine value added in the market place. The new construction appraisal records we reviewed were well documented and in compliance with proper assessment practice.

The assessor has one formalized new construction questionnaire, but it is seldom used. Only 20 were estimated to have been used for assessment year 1999. The appraiser usually collects new construction data by phone or with a questionnaire tailored to the property being reviewed. The personal property section also delivers a copy of costs reported on Schedule B of the *Business Property Statement* (BPS) to the real property section for review and valuation. The staff appears to be communicating well between divisions, thus avoiding double or escaped assessments.

Supplemental Assessments

Section 75.10 requires that whenever a change in ownership occurs or qualifying new construction is completed, the assessor shall appraise the property changing ownership or any new construction at its full cash value on the date the change in ownership occurs or the new construction is completed. This new value is the base year value for the property that changed ownership or was newly constructed. Section 75.11 requires a supplemental assessment to be made for the difference between this new base year value and the taxable value on the current roll.

A new base year value for a change in ownership or the completion of new construction is reflected on a supplemental roll for the balance of the fiscal year in which the qualifying event occurs. If the event occurs between the lien date and the beginning of the fiscal year, a supplemental assessment is also levied for the coming fiscal year.

Once the appraisal staff has completed a value change following a change in ownership or new construction, supplemental assessments are computer generated. These supplemental assessments are forwarded to the county auditor-controller's office every two weeks. The auditor-controller cancels any resultant tax bill that is ten dollars (\$10) or less, as allowed by section 75.41(d), and issues supplemental assessment notices two weeks later.

We reviewed a number of supplemental assessments and noted that the prorations, tax bill amounts, time periods, and ownership tracking were done appropriately. The assessor's supplemental program is accurate and in compliance with all applicable provisions of law.

Declines in Value

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

For the 1998-99 fiscal year, the staff monitored 520 decline-in-value properties out of a total 23,877 secured roll units. The decline-in-value list contains 520 parcels.

All properties that have been reviewed and reduced in value are computer-listed and tracked by use code. Each appraiser is responsible for processing all decline-in-value properties within his or her geographic area and must annually review these assessments. Appraisal records for these properties are kept in a separate file drawer for easy identification and access.

Declines in value are discovered by (1) a taxpayer's request, (2) a partial interest transfer, and (3) field inspections. Occasionally, the assessor will conduct a review by targeting high probability properties (usually consisting of properties assessed above \$200,000).

The appraisal records were well documented with sales data referenced. In addition, each appraiser keeps his own sales books and field map books noting sales dating back to 1984.

The appraisers are able to track declines in value by a monthly computer generated status report. Lassen County has not been impacted greatly by declines in value due to what has been a

relatively stable and inclining real estate market during the years other counties were being hard hit (1989-1993).

We found the tracking and valuation of decline-in-value properties to be accurate and efficient.

Taxable Possessory Interests

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

There are 300 possessory interest assessments in Lassen County. The assessor and chief appraiser process all possessory interest assessments of grazing properties. Questionnaires, along with a cover letter, are mailed annually to all government agencies requesting any changes of lessees, changes in terms, and new or renewed leases. The rate of return is approximately 80 percent. Follow-up calls and personal visits are made in order to obtain all necessary information.

The assessor's staff uses the questionnaire to discover changes in ownership. New construction is discovered primarily through the permit process and appraiser knowledge of construction activity.

When determining the term of possession for different types of properties, the history of each particular property type is analyzed for the typical term of possession. This is sometimes the exact term stated in the written agreement, while with others it may be a reasonably anticipated term. Rents are analyzed by property type. Not every possessory interest is reviewed every year, although each property type is checked to determine current market trends.

The county board of supervisors is currently in the process of adopting a \$50,000 low-value exemption for possessory interests at the fairgrounds. We found the assessor to be diligent in his discovery of possessory interests and in compliance with proper possessory interest assessment procedures.

Taxable Government-Owned Property

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

In 1995, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to Section 11 properties.⁴ Prior to this decision, these lands were assessed at the lower of either their fair market value, or the 1967 taxable value of the land multiplied by the factor described in Section 11. For all California counties, (other than Mono and Inyo), the Court's ruling means that such property must be assessed using the lowest of (1) the current fair

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

market value, (2) the 1967 taxable value of land multiplied by the factor described in Section 11, or (3) the article XIII A factored base year value.

We previously recommended that the assessor review the nonassessed property list for possible taxable government-owned property. At that time, we recommended that the assessor verify the ownership and tax-rate area (TRA) code for each property.

During our research for this survey, we selected 17 parcels with potential Section 11 escape assessments. Upon reviewing the parcels, it was determined that 14 of the 17 had discrepancies in the recorded title, but they were correctly exempted.

Two of the remaining three potential Section 11 escape assessments had been assigned incorrect TRA's. Since the government entity that owned both parcels has jurisdiction in the TRA's within which the parcels are actually located, they are not taxable.

The last nonassessed property was investigated and found to be an escaped assessment; the assessor took corrective action immediately. We conclude that the assessor has implemented our previous recommendation.

RECOMMENDATION 3: Obtain the name of the specific federal or state agency controlling the use of government-owned land.

Our prior survey also suggested that the assessor's staff determine whether any properties owned by the United States of America or the State of California were being leased to private individuals, companies, or other entities, such as outdoor recreational clubs. At that time, we noted the possibility that some taxable possessory interests (PI's) could escape assessment because the specific federal or state agency managing these properties had not been identified. We suggested that the staff obtain the names of the specific agencies and determine whether taxable PI's exist.

Our review of exempt government-owned properties indicates that this problem still exists. Therefore, we repeat the suggestion from our previous survey as a recommendation.

There are roughly 300 properties for which the owner is designated only as "State of Calif" or "State of California" and several thousand parcels for which the assessee is listed simply as "USA" or "United States of America." We recommend that the assessor obtain the names of the specific federal or state agency controlling the use of all government-owned land. This may help the assessor discover additional private uses of government-owned land.

Timberland Production Zone

Land zoned as Timberland Production Zone (TPZ) and not subject to a CLCA contract is to be assessed in accordance with special assessment limitations according to various TPZ site classifications. Those limitations require exclusion of the value of the standing timber. Section 435 specifies that the assessed value of TPZ land each year must be its appropriate site value plus the current market value of any existing, compatible, nonexclusive uses of land. This section also provides that the special assessment limitations do not apply to any structure on TPZ land or to a reasonable site value for such structures. In other words, structures and supporting land are subject to the same assessment guidelines as other, non-TPZ, real property.

For the 1999-2000 lien date, there were 1,217 parcels of TPZ land totaling 310,120 acres in Lassen County. The assessor and chief appraiser have been valuing the TPZ properties for

several years. They are very familiar with the properties, and they process the TPZ assessments effectively.

The TPZ site classifications were originally determined by an appraiser/assessor who was a registered forester. Since then, any properties that have been added have been classified by comparing them with similarly situated properties.

The assessor conducts regular and systematic canvassing of TPZ landowners to determine whether compatible, nonexclusive uses exist. Typically, these uses may include hunting, grazing, camping, and mining, among others. The value of these compatible uses must be determined annually and added to the site class value of the timberland.

In addition, the assessor contacts timberland owners to obtain information concerning any private leases, permits, or other agreements they may have with other parties that allow their timberlands to be used for purposes other than the growing, harvesting, or storing of timber. These uses are valued and enrolled in addition to TPZ values.

We found that the assessor makes a reasonable effort to accurately identify and value TPZ properties and any existing, compatible, nonexclusive uses. We also found that structures and building sites were properly assessed.

Water Company Property

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

Mutual Water Companies

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

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

Private Water Companies Regulated by the California Public Utilities Commission

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

Lassen County has only one private water company. The private water company is CPUC-regulated and consists of two related projects: a water company and a twenty-four-lot subdivision. The water company has two assessable parcels. The valuation of the parcels was predicated on the parcels' original 1994 acquisition value and factored for subsequent roll years.

The subdivision included the development of a new water system, which is now connected to the old system and regulated by the CPUC as a private utility. We found no problems in the methodology and the values used in the assessor's assessment of the private water company.

In our prior survey report, we suggested that the county assessor obtain a listing of water resources (i.e., wells) that are annually inspected by the State's Division of Drinking Water. We found this not to be an issue, since all new installations of wells, septic systems, pumps, and pressure systems are now discovered for assessment through the building permit process.

Mineral Properties

We reviewed the assessor's mineral property assessments, working papers, and forms, such as BOE-560-A, *Aggregate Production Report*. This form provides an effective tool for the assessor to collect relevant mineral appraisal data. Information requested on that form includes production, income, and expense data. When necessary, the assessor should make attempts to verify this information from other sources.

The assessor properly establishes base year reserves and values for all mineral properties and adjusts these to account for reserve depletions and additions, as prescribed by Rule 469. Base year values are established at either 1975, the latest date of a change in ownership, or the start of production. These values are then annually adjusted to account for production (depletion) and any reserve additions.

We found that the assessor conscientiously adheres to BOE guidelines when valuing mineral properties. There are no significant variations from recommended practices in Lassen County.

Power Plants

Lassen County has biomass, geothermal-assisted, and hydroelectric power plants. We found that the assessor employs acceptable power plant appraisal methodology and practices for all these plants.

One task the assessor performs especially well is correlation of the current year's production of hydroelectricity to the snow pack. The assessor reviews snow pack reports and tries to determine whether the current snow pack is above or below average. He then adjusts his assumptions concerning the first year's electrical production to reflect these conditions. This adjustment can be difficult since most of the snowfall in the Sierra Nevada mountains comes after the January 1 lien date.

Agricultural Preserve Properties

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into either a CLCA contract or Farmland Security Zone (FSZ) contract restricting the use of their lands. Lands under either type of contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting, communication facilities,

etc.) and are assessed at the lowest of this restricted value, the current market value, or the factored base year value, as defined in article XIII A of the California Constitution. Sections 421 through 430.5 deal specifically with the valuation of lands subject to agricultural preserve contracts. Because FSZ contracts are for 20 years (10 more than the typical CLCA contracts), they result in greater property tax relief.

Lassen County has 1,375 parcels totaling 303,247 acres of land under CLCA contracts and six parcels totaling 893 acres of land in FSZ. This represents approximately 350 CLCA contracts and two FSZ contracts. There are four parcels in non-renewal, and none in the process of cancellation.

The agricultural preserve program is computerized as part of the Crest computer system. The values are reviewed annually with a comparison of restricted value and factored base year value completed by the computer system. Staff performs a current market value and comparison study. Lassen County does not have any contracted properties that are in decline-in-value status. This is determined by reviewing the values of the appraisal units, rather than those of individual parcels.

Homesites are valued based on their factored base year values. Lassen County does not have any agricultural laborer housing sites.

In our prior survey of Lassen County, we recommended that periodic questionnaires be used to obtain current information regarding agricultural preserve property. The assessor now mails questionnaires to each contract owner annually. The assessor's staff stated that it has an approximately 80 percent return rate; however, only about 20 percent of these questionnaires contain what they believe to be reliable information.

Rents used to value restricted properties are based on an analysis of the information contained in the questionnaires and interviews with property owners. Lassen County has a large variety of crops (garlic, onion, potatoes, mint, sugar beets, alfalfa, etc.) Some crops have short growing seasons determined by the weather conditions each year. The rent is often based on alfalfa, since it is considered to be the highest and best use for most of the land capable of being irrigated.

The assessor uses a 1 percent risk rate, plus the applicable tax rate to develop the capitalization rate for computing the restricted value. When compatible uses exist, the assessor adds the appropriate value.

New construction on restricted properties is primarily discovered from agricultural property statements. In addition, appraisers' geographical assignments help in the discovery of unreported improvements. Lassen County does not require building permits for agricultural improvements. The county does require electrical and well permits, and this requirement helps in the discovery of improvements.

We found Lassen County's agricultural preserve program to be well-administered and in compliance with the Revenue and Taxation Code.

Tenant Improvements

Our review of the assessor's tenant improvement assessment program showed that the assessor is in compliance with generally accepted assessment practices with respect to the assessment of such improvements. The assessor's appraisal staff properly classifies and assesses tenant improvements. Additionally, the assessor coordinates the assessment of tenant improvements between real property and business property sections of his office.

ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY

The personal property appraisal staff consists of one auditor-appraiser and a cadastral drafter who are responsible for more than 2,000 business property assessments, including 593 boat assessments and 42 general aircraft assessments. The assessor has 25 percent more business property roll units than we found existing during our prior survey.

Our prior survey report contained three recommendations and three suggestions relative to the valuation and assessment of business and personal property. We found that two of our prior survey recommendations and all three suggestions were implemented. The remaining recommendation pertains to the audit program.

Business Property Statement Processing

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

It is usually impossible for the assessor's staff to determine, with certainty, the accuracy of the statement upon its receipt. Therefore, when we reviewed the property statement processing activity, we made no attempt to measure the level of taxpayer compliance. Although inaccuracy can be caused by many factors, most errors can be prevented when the assessor has a vigorous audit program.

We reviewed the assessor's property statement processing procedures and a large sample of property statements. We found no problems in the processing of property statements. Property statements had the appropriate signatures, the calculations were accurate, and the statements were processed efficiently.

We found that the assessor is in compliance with generally accepted assessment practices relating to property statement processing.

Equipment Index Factors

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

The AH 581 contains 20 equipment index categories of price indices and percent good factors. The equipment index factors are used to adjust the acquisition costs of equipment reported on the business property statement, resulting in replacement cost new (RCN). The percent good factors are then applied to the RCN, resulting in an estimated replacement cost new less normal depreciation, or RCNLD. For property tax valuation purposes, RCNLD is normally the taxable value of equipment that is enrolled on the county's assessment roll.

RECOMMENDATION 4: Use the Assessors' Handbook Section 581 as intended.

The price index factors and percent good factors used by the assessor generally follow the recommended procedures in AH 581, except for the use of arbitrary minimum valuation factors. Minimum valuation factors used by the assessor vary from 11 to 30 percent, depending on the service life and type of business properties.

Price index factors recognize elements such as price changes and the effects of technological progress. They are intended to reflect the price of a replacement. 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 the handbook are based on the premise that these types of properties lose value as they age.

When valuing property, it is necessary for appraisers to analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust either the price index factor or the percent good factor to reflect the deviation. However, arbitrarily establishing minimum values is not an acceptable appraisal practice and is likely to result in overassessment of older equipment.

We recommend the assessor use the AH 581 as intended by discontinuing using an arbitrary minimum valuation factor.

Leased Equipment Valuation

We found that the assessor generally complies with accepted assessment practices with regard to the assessment of leased equipment. The assessor's staff checks the lessors' and lessees' business property statements. The assessor's staff also uses the Valuation Division's Schedule of Leased Equipment (Form 600-B) to discover and assess equipment leased to state assessed entities. However, one area of the assessor's leased equipment program needs improvement.

RECOMMENDATION 5: Exclude sales tax as an element of cost when the lessee of equipment is a federal agency.

In Lassen County, the auditor-appraiser processes and assesses leased equipment using the valid components of cost. The auditor-appraiser is fully aware that, where the cost of the equipment is the basis of value, the sales tax, freight, and installation costs are elements of value. Similarly, the auditor-appraiser applies the trade level theory of assessment. That is, if the owner of the equipment at the consumer level is subject to the application of a sales tax element in the valuation of the property, the lessor of the same kind of property at the consumer level is subject to the same sales tax element.

In the case of equipment leased to the federal government, however, sales tax should not be included as part of the equipment value. In *United States v. California State Board of Equalization* (1981) 650 F.2d 1127, the United States Court of Appeals ruled that the incidence of the sales tax on leases of tangible personal property fell on the federal government and, thus, the tax was unconstitutional. Since California's sales tax is deemed by the Court of Appeals to be unconstitutional as to leases of tangible personal property to the federal government, the value of equipment leased to the federal government should not include sales tax.

Currently, the assessor includes sales tax as an element of value for equipment leased to the federal government. We recommend the assessor, when assessing equipment leased to federal agencies, not add an adjustment for sales tax.

Audit Program

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more.

The majority of personal property assessments are based upon information reported on the business property statements. For these assessments to be an accurate estimate of value, it is imperative that the reported information be accurate and complete. Although most property statement reporting is done in good faith, errors do occur on the part of both the assessee and the assessor. For this reason, statutes require the assessor to verify an assessee's reported cost and other information that may affect the assessment of all taxable items. This verification process is accomplished through a property tax audit.

A comprehensive audit program is essential to the successful administration of any tax program that depends on information supplied by the assessee. A good auditing program discourages deliberate underreporting and helps educate those property owners who unintentionally misreport. It is one of the most important functions of the business property section of any county assessor's office.

RECOMMENDATION 6: Develop and maintain a formal audit program.

In Lassen County, a large number of audits are considered complete by reviewing the depreciation schedules, fixed asset listing, or other schedules provided by the assessee. Some of the audits are done using the income approach. A few audits are conducted through the California County Cooperative Audit Services Exchange.

It is the assessor's policy and practice to require an annual depreciation schedule from each assessee. However, the assessee does not always provide the requested depreciation schedule. Sometimes, instead of the depreciation schedule, the assessee submits a fixed asset listing, a value summary, other schedules, or nothing at all. When the schedule is provided, the auditor-appraiser compares the computerized list of machinery and equipment on file with the material submitted by the assessee. In many situations, this constitutes the totality of the assessor's "audit."

After verification of the costs reported, additional information and data are collected to determine the proper taxability, situs, and value of the property being audited. A review of the depreciation schedule, fixed asset listing, or other schedules is just one of the important steps in conducting a property tax audit.

Depreciation schedules prepared for income tax purposes do not necessarily meet all the requirements for property tax purposes. For instance, it may be acceptable for income tax purposes to not include fully depreciated equipment, while property tax laws require the assessee to declare *all* equipment, including fully depreciated items.

An audit solely based on a review of the depreciation schedule fails to include a review of the supplies, expenses (e.g., major repairs), capital (e.g., capitalized interest), and other asset accounts (e.g., construction-in-progress). Those accounts are not included in the depreciation schedule; yet, this additional information may affect the assessment of all taxable items of

personal property. This type of desk-review also fails to include a situs inspection of the property being appraised. Situs inspection should be a standard procedure for mandatory audits and audits involving large commercial or industrial operations.

A formal audit program should have an accurate and systematic way of selecting mandatory audit and nonmandatory audit accounts. An effective audit program must apply generally accepted auditing standards and utilize generally accepted accounting and appraisal principles. It should follow professional audit guidelines for audit format and review procedures.

We recommend the assessor develop and maintain a formal audit program. Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), should be helpful in guiding the assessor to implement this recommendation.

Valuation of Other Taxable Personal Property

Vessels and 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 handbook section. On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. 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 value for aircraft in average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value of aircraft in the hands of the user.

The assessor's staff uses published value guides, including the *Aircraft Bluebook Price Digest*, *VREF* and the *ABOS* boat valuation guide. The assessor adjusts these values to include sales tax and to reflect local market conditions.

Our review of the assessor's vessel assessment program showed that the assessor is in compliance with statutory guidelines with respect to assessment of vessels in his jurisdiction. In valuing vessels, the assessor periodically compares depreciated selling prices to current market data as we recommended in our 1987 survey. For the current survey, we sampled five vessel accounts and made comparisons between the value arrived at using the valuation guide and the depreciated value (assessed value) enrolled by the assessor. The differences found were immaterial.

We have no recommendations or suggestions to make concerning the vessel and aircraft assessment program.

Apartment Personal Property

Our review of the assessor's apartment personal property program showed that the assessor is in compliance with generally accepted appraisal practices relating to assessment of apartment personal property. The assessor's appraisal staff uses the replacement cost approach based on the reported costs by apartment owners in their annual business property statements. Consequently, no recommendations are warranted relating to this issue.

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 set forth in sections 5800 through 5842 of the Revenue and Taxation Code.

The assessor has a sound program for discovering manufactured homes located in his county. He has conducted market studies indicating that the market values of manufactured homes were similar in 1995 to market values established in the early and mid-1980's. Additionally he has conducted annual reviews of manufactured home resales suggesting no substantial changes in value occurring between 1995 and 1999. As a result, the assessed values of some manufactured homes not changing ownership or enhanced by new construction have been frozen for close to 15 years.

The assessor believes that the market value of a manufactured home occupying a space in any mobilehome park in the county is not influenced by its location. It is the assessor's opinion that the values in the NADA guide are low and not valid for Lassen County. The staff generally enrolls the sale prices of homes in parks rather than using the NADA guide. However, on transfers where there is no sale price available, the staff will sometimes use the NADA guide and at other times rely on the value shown on the building permit.

In order to determine if there was a shortage of mobilehome spaces, which might enhance the value of a home already located in a park, we interviewed the managers of some of the parks in the Susanville area. Of the combined 259 mobilehome spaces in the five parks we surveyed, 20 spaces (7.7 percent) were vacant. Two managers stated they currently had one or two more vacancies than normal, which would drop the typical vacancy rate to 7.0 percent. Only one park, where the rents were \$45 lower than the next least expensive park, had 100 percent occupancy. Another park manager, who indicated he had one vacancy, stated his park was usually full. These parks typically offer minimal, if any, amenities. A few parks have central laundries, but none offered swimming pools, clubhouses, or view sites. Our survey validated the assessor's assertion that the parks added little or no value to a manufactured home's location.

We concluded that the assessor is properly considering section 5803 in valuing manufactured homes and have no recommendations for this aspect of manufactured homes assessments.

APPENDICES

A: County Property Tax Division Survey Group

Lassen County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal
Engineer

Robert Donay

Associate Property Appraiser

Manny Garcia

Associate Property Auditor Appraiser

Wes Hill

Associate Property Appraiser

Nancy James

Associate Property Appraiser

Kim Trotto

Tax Technician II

Julius Trujillo

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 (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

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

C: The Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁵ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁶
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁵ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁶ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?

- d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
 8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

The Lassen County Assessor's response begins on the next page. The BOE has no comments on the response.

Office of Assessor

County of Lassen



KENNETH BUNCH, Assessor
Lassen County Courthouse
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RECEIVED

MAR 15 2001

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March 10, 2001

County Property Tax Division
State Board of Equalization

Mr. Charles Knudsen
County Property Tax Division
State Board of Equalization
PO BOX 942879
Sacramento, CA 94279-0062

Dear Mr. Knudsen,

It is with a great sense of appreciation for my excellent staff that I am responding to the six recommendations made in the recent Assessment Practices Survey. This response is submitted pursuant to section 15645 of the Revenue and Taxation Code.

When an in-depth audit by a large survey team conducts a review that lasts longer than three-months and finds that the Lassen County Assessor's Office has a 99.5% compliance rating that "easily meets the requirements for assessment quality" my staff has a right to be proud. This level of excellence can only be maintained if the State increases it's commitment to funding assessment programs. In Lassen County the State has benefited from over 70% of the property tax generated.

I commend your Board Survey Crew for doing a professional job and conducting themselves in a manner that reflects well on the County Property Tax Division of the State Board of Equalization.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth Bunch".

Kenneth Bunch
Lassen County Assessor

**LASSEN COUNTY ASSESSOR'S RESPONSE
TO
STATE BOARD OF EQUALIZATION'S
1999/00 ASSESSMENT PRACTICES SURVEY**

RECOMMENDATION 1:

Apply the low-value property exemption to escape assessments only when the entire appraisal unit meets the standards of the county's low-value ordinance.

Background:

Section 7 of Article XIII of the California Constitution authorizes the Legislature to authorize county boards of supervisors "to exempt real property having a full value so low that, if not exempt, the total taxes and applicable subventions on the property would amount to less than the cost of assessing and collecting them". Lassen County has adopted an ordinance exempting real and personal property assessments that would not be cost effective to process and collect. It has been the policy of the County for over twenty years to not waste taxpayer money on roll changes of that are not cost effective because they generate low tax payments.

Response:

I intend to request that Lassen's county counsel review this recommendation after he has read the published survey. He will be given the December 7, 2000 letter from Mr. Epolite to Mr. Knudsen on this matter as well as other legal opinion letters on this subject. This recommendation, if implemented, could easily result in the County Assessor and Auditor spending taxpayer dollars only to have the Tax Collector cancel the bill pursuant to section 4986.8 of the Revenue and Taxation Code. It is my hope that the definition of assessment as used by the Revenue and Taxation Code when dealing with tax collection matters will resolve this matter.

Recommendation 2:

Grant disaster relief only upon the filing of a timely application.

Background:

The survey team reviewed twelve properties that had experienced a disaster. In all cases relief had been given to the property owner. The survey team did not always find an application in the file.

Response:

It is the Assessor's Office policy to seek and process disaster relief applications. Sometimes these applications are misfiled. When we do not receive an application and the improvements are totally destroyed we are allowed by law to remove the related value of the improvements in the same manner we would refund voluntary demolition on the supplemental roll.

Recommendation 3:

Obtain the name of the specific federal or state agency controlling the use of government-owned land.

Response:

As stated in the survey, there are thousands of parcels owned by government in Lassen County. These parcels are correctly identified as being Federal, State, or other government entity owned. When information is made available through deeds or other reliable sources that a particular agency controls a parcel we are complying with this recommendation.

The stated purpose of this recommendation is to identify possessory interests in the County. On page sixteen of this report we were found "to be diligent in his discovery of possessory interests and in compliance with proper possessory interest assessment procedures". We will continue to upgrade our records in a cost-effective manner while managing our limited resources.

Recommendation 4:

Use the Assessor's Handbook Section 581 as intended.

Background:

The survey team has interpreted a phrase from the 581 Handbook differently than it has been explained in SBE Course 8, The Appraisal of Machinery and Equipment. The phrase "NO MINIMUM PERCENT GOOD INTENDED" has meant that appraiser judgement was used to decide the minimum value a piece of equipment would sell for in the open market. The constitution mandates a current market value be enrolled.

The current survey suggests that machinery and equipment will reach a value of one percent of what a new replacement would be worth. This concept holds that a productive piece of equipment has almost no value. Sample number 214 represented that six pieces of productive equipment purchased for a total of \$14,594 would only have a total fair market value of \$171. This viewed is being presented by the survey arbitrarily and without any supporting studies.

Response:

I do not believe the above stated example meets the constitutional requirement of assessing equipment at fair market value. The values used by this Assessor's Office comply with that mandate. Furthermore, they conform closely to the opinion of the leading national valuation guide for the salvage value of equipment.

The California Assessor's Association's Executive Committee has adopted a standard for estimating minimum percent good developed by leaders in the assessment field. The standard was again adopted for the 2001-02 assessment roll. Private industry appears to accept these standards due to the fact it has not been an issue at last years tax protest hearings. Since Lassen County is in compliance with these standards we believe our valuation methods are constitutional. When the SBE presents a study supporting the recently taken position we will consider it.

Recommendation 5:

Exclude sales tax as an element of cost when the lessee of equipment is a federal agency.

Response: We concur with this recommendation.

Recommendation 6:

Develop and maintain a formal audit program.

Response:

The development and maintenance of an audit program is a goal of this Assessor. The State law has made this goal easier since it recently increased the threshold for mandatory audits from \$300,000 to \$400,000. The State has hindered the program by making the funds we are able to allocate for this program (known as AB719/818) temporary. The uncertain nature of these funds makes recruitment and retention of the auditor-appraiser responsible for this function a problem.

We are currently waiting for the State to make the auditing course available. Recently we have focused our resources primarily on auditing known problem accounts and using the California Counties Cooperative Audit Service Exchange.