

MENDOCINO COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2006

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STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062
916 324-5827 • FAX 916 323-5689
www.boe.ca.gov

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July 20, 2006

TO COUNTY ASSESSORS:

RAMON J. HIRSIG
Executive Director

MENDOCINO COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2006/026

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

The Honorable Marsha A. Wharff, Mendocino County Assessor/Recorder/Clerk, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Mendocino County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from March through April 2005. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J Gau
David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Mendocino County Assessor/Recorder/Clerk Office.¹

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

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

¹ This report covers only the assessment functions of this office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.³

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

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

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

In our 2001 Mendocino County Assessment Practices Survey, we made 22 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 15 of the recommended changes. Two recommendations no longer apply because of a change in BOE guidance or statutory provisions. The recommendations that were not implemented, or only implemented in part, are repeated in this report.

In the area of administration, we noted that the assessor participates in the State-County Property Tax Administration Program. Additionally, we found the appraisal staff are certified and found no problems with the assessment appeals and exemptions programs. We also noted two innovations initiated by the assessor to improve general administration of her office. The first is that she has made assessment forms available on her website as a convenience to property owners. The second is that she has converted her cadastral mapping system to an electronic drawing program that allows the maps to be easily transmitted to the Mendocino County Geographic Information System.

Several administrative components of the assessor's program need improvement:

- The assessor has not requested the board of supervisors to revise the disaster relief ordinance to conform to the current provisions of section 170.
- The assessor does not notify the assessee when an escape assessment has been enrolled as required by section 534.
- The assessor does not notify the auditor-controller when penalties should be added to escape assessments and does not add notice of those penalties on the tax roll.
- The assessor has inappropriately added language to a BOE-prescribed form and the penalty reference on her *Aircraft Property Statement* incorrectly cites the wrong code section.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, declines in value, Timberland Production Zone property, and leasehold improvements. She has streamlined the flow of recorded transfer documents from the recorder's system to the assessor through an automated reporting system that conveys essential information about each document. This report, which can be run at will, eliminates the need for clerical staff to manually create a workflow of transfer documents.

Some real property programs have areas where improvement is needed:

- The assessor does not timely apply the penalty for a failure to file a change in ownership statement.
- The assessor does not assess individual spaces in resident-owned mobilehome parks for a change in ownership as required by section 62.1.
- The assessor still does not issue supplemental assessments for newly constructed vineyard and orchard improvements and does not use current rental income when valuing California Land Conservation Act (CLCA) lands.
- The assessor does not follow BOE guidelines in determining the base year value of taxable government-owned properties.
- The assessor still does not issue supplemental assessments upon a change in ownership of a possessory interest, and does not account for expenses to the lessor when determining the value of possessory interests, and does not periodically review assessments of possessory interests having a stated term of possession for possible declines in value.
- The assessor inappropriately adds the present worth of advances for construction to the Historical Cost Less Depreciation indicator of value for California Public Utilities Commission (CPUC) regulated water company properties and does not enroll improvement values for unsecured CPUC regulated water company properties on the unsecured roll.
- The assessor still does not adjust the base year values for changes in mineral property reserves.

The assessor has effective programs for leased equipment and aircraft. In addition, in 2005 she began participating in the California Assessors' Association program for annual electronic filing of the business property statement. This is a good example of her commitment to improving service to taxpayers. However, some existing practices in the area of personal property and fixture assessments should be revised:

- The assessor continues to be behind in the timely completion of mandatory audits.
- The assessor does not properly classify agricultural wind machines as fixtures.
- The assessor inappropriately uses untrended acquisition costs when valuing photocopiers, pagers, and facsimile equipment.
- The assessor still does not issue supplemental assessment for changes in ownership of manufactured homes.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

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

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

- RECOMMENDATION 1:** Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170. ...14

- RECOMMENDATION 2:** Improve processing of assessment roll changes by:
 - (1) notifying the assessee that an escape assessment has been enrolled as required by section 534, (2) ensuring that penalty and interest are added when enrolling an escape assessment to correct a homeowners' exemption erroneously allowed due to assessee's error; and (3) entering penalties on the assessment roll as required by Rule 261(a).16

- RECOMMENDATION 3:** Correct errors in assessment forms.....21

- RECOMMENDATION 4:** Timely apply the penalty for failure to file change in ownership statements as prescribed in section 482(a).....23

- RECOMMENDATION 5:** Reappraise individual spaces in the resident-owned mobilehome park according to section 62.1.24

- RECOMMENDATION 6:** Revise CLCA appraisal procedures by: (1) issuing supplemental assessments for newly constructed vineyard and orchard improvements, and (2) valuing restricted lands according to section 423.....29

- RECOMMENDATION 7:** Establish base year values for taxable government-owned properties according to BOE guidelines.30

- RECOMMENDATION 8:** Revise the possessory interest assessment program by:
 - (1) issuing supplemental assessments on possessory interests, (2) deducting allowed expenses from gross income when valuing possessory interests by the income approach, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.32

RECOMMENDATION 9: Improve assessment of water company property by:
(1) placing a zero value on advances for construction reported
by regulated water companies, and (2) enrolling improvement
values for the unsecured regulated water company as required
by section 2189.6.35

RECOMMENDATION 10: Adjust the base year values of mineral reserves for depletions
and additions.36

RECOMMENDATION 11: Timely audit the books and records of professions, trades,
or businesses pursuant to section 469.39

RECOMMENDATION 12: Revise business equipment valuation procedures by: (1) using
Assessors' Handbook Section 581, *Equipment Index and
Percent Good Factors*, as intended and (2) classifying
agricultural wind machines as fixtures.42

RECOMMENDATION 13: Issue supplemental assessments for changes in ownership of
manufactured homes.44

RESULTS OF 2001 SURVEY

Change in Ownership

We recommended the assessor grant the parent-child exclusion only upon submission of a completed claim and report claims for transfer of base year value to the BOE every quarter. We also recommended the assessor properly round the BOE-announced California Consumer Price Index when factoring properties for inflation. The assessor has complied with these recommendations.

New Construction

We recommended the assessor value construction in progress at market value each lien date. The assessor has complied with this recommendation.

Supplemental Assessments

We recommended the assessor process all supplemental assessments, and process supplemental assessments for all changes in ownership or new construction. We found the assessor's practice has not changed and we repeat these recommendations.

Declines in Value

We recommended the assessor improve documentation of annual review of decline in value assessments. The assessor has implemented this recommendation.

Possessory Interests

We recommended the assessor improve documentation of possessory interest appraisal files. The assessor has implemented this recommendation.

Taxable Government Owned Properties

We recommended the assessor annually value taxable government-owned properties at the lowest of the restricted value, factored base year value, or current fair market value. The assessor has implemented this recommendation.

California Land Conservation Act Property (CLCA)

We recommended the assessor send periodic mailings of questionnaires to obtain rental and compatible use information. Since the assessor is obtaining this information from other sources, we do not repeat this recommendation. We also recommended the assessor value CLCA lands according to section 423.3 where appropriate. The assessor has implemented this recommendation.

Timberland Production Zone Property

We recommended the assessor send periodic mailings of questionnaires to discover nonexclusive compatible uses. The assessor has implemented this recommendation.

Leasehold Improvements

We recommended the assessor implement a positive response system to ensure coordination between the business property and real property staff. The assessor has implemented this recommendation.

Mining Property

We recommended the assessor establish base year value for reserves and all mineral property. We found the assessor's practice has not changed and we repeat this recommendation. We also recommended the assessor send Form BOE-560-A, *Aggregate Production Report*, to all mineral property operators. The assessor has complied with this recommendation.

Audit Program

We recommended the assessor bring the mandatory audit program to a current status. The assessor continues to be behind in completing mandatory audits and we, therefore, repeat this recommendation.

Equipment Evaluation

We recommended the assessor discontinue the use of arbitrary minimum valuation factors without supporting evidence. At that time, the assessor applied arbitrary minimum percents good to older equipment, contrary to the tables furnished in the Assessors' Handbook Section 581 (AH 581). Currently, we found that although the assessor has since adopted minimum percents good based on the Marshall Valuation Service salvage tables, she does not apply indexing to the acquisition costs of certain electronic equipment as is recommended in the AH 581. Based on this finding, we have restated our recommendation to address this practice.

Aircraft

We recommended the assessor adjust book values by 10 percent when appraising general aircraft. The assessor has complied with this recommendation. We also recommended the assessor ensure aircraft owners comply with all section 220.5 requirements before granting the historical aircraft exemption. Recent legislation has eliminated the requirement for signing the affidavit before a notary public or assessor's designee and, therefore, we do not repeat this recommendation.

Vessels

We recommended the assessor appraise pleasure vessels annually at market value. The assessor has complied with this recommendation.

Manufactured Homes

We recommended the assessor discontinue adjusting values from manufactured home guides for upgrades and deliveries. The assessor has complied with this recommendation.

OVERVIEW OF MENDOCINO COUNTY

Mendocino County is located approximately 90 miles north of San Francisco. It is one of California's original 27 counties, created in 1850 by the State Legislature. The county has a population of approximately 83,000 inhabitants, most of whom live in Ukiah, Fort Bragg, and Willits. Mendocino County encompasses approximately 3,510 square miles. Major industries are tourism, wine, and agricultural products. Mendocino County is bordered on the west by the Pacific Ocean; to the east by Lake, Glenn, and Tehama Counties; to the north by Humboldt and Trinity Counties; and to the south by Sonoma County.

The following table illustrates the growth in assessed values in recent years:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2004-05	\$6,811,903,054	6.88%	8.3%
2003-04	\$6,373,589,005	6.91%	7.3%
2002-03	\$5,961,404,363	5.95%	7.3%
2001-02	\$5,626,449,814	6.31%	9.4%
2000-01	\$5,292,297,064		

ADMINISTRATION

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

Budget and Staffing

Mendocino County Assessor's Office has a staff of 22 full time employees. This includes the assessor, the assistant assessor, the chief appraiser, eight real property appraisers, two auditor-appraisers, eight clerical staff and one drafting technician. Staffing has remained relatively constant over the past five years with minor changes due to retirements and promotions.

The assessor's budget has increased from \$1,315,796 in 2000-01 to \$1,444,762 for 2004-05. The following chart shows the assessor's budget over this period of time. Figures do not include State-County Property Tax Administration Program funds, which are accounted for in a separate budget account.

FISCAL YEAR	GROSS BUDGET	PERCENT CHANGE
2004-05	\$1,444,762	+19.66%
2003-04	\$1,207,341	+0.49%
2002-03	\$1,201,420	+3.66%
2001-02	\$1,159,025	-11.91%
2000-01	\$1,315,796	

State-County Property Tax Administration Program

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

⁴ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

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

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

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

Base funding for the PTAP program for Mendocino County is \$831,808 and 22 positions. Providing the county meets this base funding amount, the state provides additional funds in the amount of \$160,435. Using PTAP funding, Mendocino County augmented the assessor's staff with one additional position, (different positions over the years) to complete mandatory and non-mandatory audits, timely complete assessment appeals, review properties experiencing a decline in value, and discover escaped new construction and business accounts. PTAP funds have also been used to purchase new information technology hardware, software, and related staff training. The county auditor has certified that the assessor's office has met its obligation each year for the supplemental funding provided by PTAP.

Appraiser Certification

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

In Mendocino County, there are a total of 13 certified appraisers on staff, of whom 5 hold advanced certificates and 8 have permanent appraiser's certificates. We found that the assessor and her staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

Assessment Appeals

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

The Mendocino County Board of Supervisors also acts as the local board of equalization and hears all scheduled appeals on the first Monday of each month.

The clerk of the board receives and reviews assessment appeal applications for completeness, and forwards a copy to the assistant assessor. The assistant assessor reviews the applications and assigns the appeal to the appraiser who made the original assessment. The appraiser is responsible for organizing all market data and related information in order for the assistant assessor to present the findings to the board.

The assistant assessor tracks the progress of assessment appeals. On average, 79 appeals have been filed annually from 1999-00 through 2003-04:

	2003-04	2002-03	2001-02	2000-01	1999-00
Appeals Filed	61	112	75	68	79
Appeals Carried Over From Prior Years	9	31	4	0	4
Total Appeals Workload	70	143	79	68	83
Resolution:					
Withdrawn	13	27	22	29	18
Stipulation	29	66	21	29	61
Appeals Reduced	0	0	1	1	1
Appeals Upheld	5	11	0	1	0
Appeals Increased	0	0	0	0	0
Other Determination*	3	30	4	4	3
Total Resolved	50	134	48	64	83
To Be Carried Over**	20	9	31	4	0

*Note: Includes, but not limited to, late-filed appeals, failure to appear, and board denied application.

** Note: Includes appeals with time extensions by mutual agreement of the parties.

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

Disaster Relief

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

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he or she may revalue the property on lien date.

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

The Mendocino County Board of Supervisors adopted a disaster relief ordinance in 1974. This ordinance applies to a misfortune or calamity in an area subsequently proclaimed by the governor to be in a state of disaster. The ordinance was modified on November 18, 1975 to provide for the reassessment of property damaged without proclamation by the governor. Section 170 has been extensively modified since 1975.

In our review of the disaster relief program, we found the assessor's program reflects the current provisions of section 170. However, the county ordinance does not reflect these provisions.

The assessor discovers instances of disaster or calamity by reviewing newspaper articles and building permits, field canvassing, and taxpayer-initiated contacts. Upon discovery, the assessor mails an application to the property owner. Returned applications are logged in, analyzed, and processed if accepted. If denied, property owners are notified by telephone or letter. The following table lists the number of claims processed in recent years:

ROLL YEAR	CALAMITY APPLICATIONS PROCESSED
2003-04	18
2002-03	25
2001-02	22
2000-01	60

We found that the assessor reassessed property for disaster relief purposes only upon receipt of a properly completed, timely filed application in full compliance with section 170(d). However, the disaster relief ordinance needs to be revised.

RECOMMENDATION 1: Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.

Since the county disaster relief ordinance was modified in 1975, the board of supervisors has not revised the ordinance to conform to changes in section 170. The ordinance does not reflect the additions of subdivisions (h) through (l) of section 170. Without such changes, the assessor's current administration of the disaster relief program will continue to be in conflict with the provisions authorized by the board of supervisors.

Although the assessor is administrating the disaster program correctly, failure to update the county's disaster relief ordinance prevents the assessor from having the authority to do so.

Assessment Roll Changes

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

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

The assessor in Mendocino County processed 1,895 roll changes in the 2004 roll year. The following table shows the number of roll changes processed in recent years:

ROLL YEAR	ASSESSMENT ROLL CHANGES PROCESSED
2004-05	1,895
2003-04	1,807
2002-03	1,612
2001-02	1,811
2000-01	1,501

Only appraisers and auditor-appraisers may initiate roll changes involving value adjustments, such as escaped new construction or base year changes. Clerical staff may initiate roll changes not involving adjustment of property value, such as changes necessitated by clerical error or allowances for homeowners', veterans', or welfare exemptions.

Appraisal and clerical staff initiate roll changes on a roll correction form. All roll changes are reviewed by the assistant assessor before they are sent to clerical staff for data entry, then to the county auditor. In the case of an escape assessment, a *Notice of Proposed Escape Assessment* is sent to the assessee. We reviewed the assessor's notice form and found it meets mandatory requirements.

We reviewed documentation for assessment roll changes completed in 2004 and 2005. We found most roll changes are correctly prepared, well documented, and enrolled timely. However, we found some problem areas that should be addressed.

RECOMMENDATION 2: Improve processing of assessment roll changes by:
(1) notifying the assessee that an escape assessment has been enrolled as required by section 534, (2) ensuring that penalty and interest are added when enrolling an escape assessment to correct a homeowners' exemption erroneously allowed due to assessee's error; and (3) entering penalties on the assessment roll as required by Rule 261(a).

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

The assessor does not notify the assessee that an escape assessment has been enrolled. While the assessor sends the *Notice of Proposed Escape* to assessees before enrolling the escaped assessment, no notice is ever sent to assesses advising them that the escape had been enrolled. The assessor prepares escape assessments on an ongoing basis, and the county auditor-controller receives the roll change transmittal forms from the assessor on an ongoing basis, however, billing for the escape taxes is done only once each quarter of the fiscal year.

Section 534 requires the assessor to notify assessees after an escape assessment has been levied. The notice must apprise assessees of their rights to both an informal review of the assessment by the assessor and the right to file an appeal contesting the assessment. In Letter To Assessors 2003/066, dated November 4, 2003, the BOE notified assessors of statutory changes to section 534 (effective January 1, 2004) to make notification forms BOE-approved. The letter directs that the forms used by the assessor as a *Notice of Enrollment of Escape Assessment* must be submitted to the BOE for approval. Section 534 provides that specific items must be included in this notice.

The assessor's failure to send the notice required by section 534 precludes assessees being informed of their rights to an informal review of the assessment and to file an appeal contesting the assessment.

Ensure that penalty and interest are added when enrolling an escape assessment to correct a homeowners' exemption erroneously allowed due to assessee's error.

The assessor does not add a penalty when terminating an erroneous homeowners' exemption caused by the assessee's error, nor does she inform the county auditor of the necessity of adding interest to this type of roll change.

An improperly allowed exemption is considered an assessee's error if the assessee does not inform the assessor when the property is vacated. We found that documents submitted to the county auditor did not reference the interest required in section 506 and the assessor did not add the 25 percent penalty to the assessment.

Section 531.6 provides that the assessee who has filed a claim for the homeowner's exemption is responsible for notifying the assessor when the property is no longer eligible for exemption. If a homeowners' exemption has been incorrectly allowed as a result of an assessee's error, an escape assessment with interest as provided in section 506 shall be made. Section 531.6 further provides

that if the exemption was allowed because the claimant failed to notify the assessor in a timely manner that the property was no longer eligible for the exemption, the penalty provided by section 504 shall be added.

The assessor's practice does not conform to the specific requirements of section 531.6.

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

The assessor does not add penalty information to the assessment roll. Staff indicated such information is available on tax bill computer records only.

Rule 261(a) provides that a penalty imposed under sections 463, 503, or 504 shall be entered on the local roll. Rule 261 then lists three methods of adding penalty information to the tax roll.

By not showing penalties on the assessment roll, the assessor's practice does not conform to Rule 261.

Low-Value Property Exemption

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

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

In Mendocino County, the board of supervisors set the low-value threshold for cost-effective assessments at \$1,000 on January 7, 1992. Based on the board's decision, the assessor exempts all real property with a value of \$1,000 or less.

Appraisers enter the assessed value of property with a value less than \$1,000 into the computer system, which flags the account as low value. The system prevents the creation of a tax bill for the low-value assessment.

We examined several low-value accounts. The assessor's low-value property exemption program is well organized with no apparent problems.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code,

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

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

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

In Mendocino County, church, religious, and welfare exemption claims are processed by a staff assistant II (exemptions clerk). For guidance, this staff member relies on Assessors' Handbook Section 267, *Welfare, Church and Religious Exemptions* (October 2004), advisory Letters To Assessors issued by the BOE that deal with exemption issues, and a special handbook prepared for a BOE welfare exemption workshop conducted in 2004.

Field inspections of properties for which the church or religious exemption is claimed are performed only if the assessor has questions about whether the property would qualify for the claimed exemption, e.g., there is a large amount of apparently unused land involved. If a claimant for the religious exemption fails to return the annual religious exemption termination notice, the assessor may contact the claimant by telephone or letter to verify continued eligibility for the religious exemption.

If a field inspection results in a determination of only partial eligibility for exemption, the appraisal record will be documented with the appraiser's calculations.

The following table presents the number of properties and the amount of assessed value exempted under the church and religious exemptions in recent years:

ROLL YEAR	RELIGIOUS		CHURCH	
	Number	Exempted Value	Number	Exempted Value
2004-05	116	\$23,757,370	1	\$94,946
2003-04	116	\$22,855,020	1	\$93,388
2002-03	116	\$21,619,305	2	\$113,858
2001-02	111	\$18,754,678	1	\$21,663
2000-01	109	\$19,276,632	1	\$21,236

The assessor maintains an effective program for administering church and religious exemptions.

Welfare Exemption

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

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

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

The following table summarizes welfare exemptions granted on the local roll in recent years:

ROLL YEAR	WELFARE	
	Number	Exempted Value
2004-05	348	\$125,155,953
2003-04	330	\$108,799,196
2002-03	313	\$106,549,808
2001-02	257	\$91,114,060
2000-01	281	\$94,612,326

For 2004, the assessor examined a group of properties receiving partial religious exemptions and found that many were churches that included a parsonage on the property. Since living quarters may not receive the religious exemption but may qualify for the welfare exemption, the assessor proactively contacted the claimant religious organizations, which filed and qualified for the welfare exemption for their staff housing.

We reviewed a variety of welfare exemption claims on file at the assessor's office, including a special needs school, a theatre company, elderly and handicapped housing, churches with parsonages, thrift stores, religious retreat centers with staff housing, a nature center, adult group homes, an animal shelter, hospitals, and a community center. We found that the assessor is careful to require an OCC from each claimant, to apply late filing penalties when appropriate, and to allocate exempt and taxable areas of properties receiving partial exemptions.

We found no problems with the assessor's welfare exemption program.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.⁶ For the 2004 lien date, the BOE prescribed 75 forms for use by county assessors and 1 form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists and any rearranged forms to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10,

⁶ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

We noted a few areas that could lead to possible confusion or misunderstanding of assessment forms by taxpayers.

RECOMMENDATION 3: Correct errors in assessment forms.

The assessor has inappropriately added language to a BOE-prescribed form and also attaches a locally-developed instruction supplement to it. These are unacceptable alterations to a BOE-prescribed form.

In addition, the *Aircraft Property Statement* has an incorrect penalty reference. This locally-developed form references section 463, which authorizes a 10 percent penalty for failure to file or timely file an annual property statement. The correct reference authorizing a penalty for failure to file an aircraft statement is section 5367.

ASSESSMENT OF REAL PROPERTY

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

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

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

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership pursuant to section 110.1.

Discovery and Document Processing

The assessor's primary means of discovering properties that have changed ownership is to review deeds and other documents recorded with the county recorder. The assessor's computer system is connected to the recorder's system, facilitating the review of all recorded documents. The recorder requires that Form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, accompany documents submitted for recordation that transfer the ownership of real property. A \$20 fee is added to the recording fee when a PCOR is not received.

The assessment information supervisor analyzes PCOR's, deeds, and other recorded documents to determine the percentage of ownership transferred and if the events are reappraisable. The documents are tracked in the computer system and assigned to appraisers by geographic area. For the 2004-05 roll year, the assessor reviewed 10,175 transfer documents, resulting in 7,467 reappraisals.

We found the assessor establishes the correct base year, takes advantage of the presumption in Rule 2 that the sale price reflects the full cash value of the property, and uses reasonable

appraisal techniques. She also correctly values partial interest transfers, and enrolls supplemental assessments. There are no improvement bond districts.

In our 2001 survey, we recommended the assessor revise her change in ownership program by: (1) granting section 63.1 parent-child exclusions only upon submission of a complete claim, (2) reporting claims for transfer of base year value to the BOE every quarter, and (3) applying the proper annual inflation adjustment as required by section 51. The assessor has implemented these recommendations.

Change in Ownership Statements

When a transfer document is received without a PCOR, the assessor mails Form BOE-502-AH, *Change of Ownership Statement* (COS), to the new owner. If there is no response after 45 days, a second request is sent with a cover letter stating section 482(a) penalties will be imposed if the second request is not received within 15 days of the date of the letter. We found that the assessor does not apply the section 482(a) penalty until 45 days or longer after the second request has been sent.

RECOMMENDATION 4: Timely apply the penalty for failure to file change in ownership statements as prescribed in section 482(a).

Section 482(a) provides that if, upon written request from the assessor, a required party fails to file the statement within 45 days, a specific penalty shall be applied. If the transferee fails to file a COS within 45 days of a written request by the assessor, the assessor should apply the section 482(a) penalty instead of mailing a second request. Filing the COS is mandatory for the transferees when they receive a written request from the assessor.

The information contained in a properly completed COS assists the assessor's staff with the verification of specific transfer details. Timely application of the section 482(a) penalty is also mandatory. By not timely applying the penalty, the assessor is not in compliance with applicable statutes.

Parent-Child Exclusions and Base Year Value Transfers

Certain transfers may be excluded from reassessment or may be subject to special assessment procedures, provided a claim is timely filed with the assessor and certain other requirements are met. Section 63.1 allows for the exclusion from change in ownership of certain properties transferred between a parent and child, or grandparent and grandchild when the parent is deceased. Section 69.5 allows qualified homeowners over the age of 55, or any severely and permanently disabled persons, to transfer the base year value of their principal residence to a qualifying replacement dwelling.

We reviewed several claims for these exclusions and special assessments processed by the assessor. We found that the claim forms for the exclusions were filed timely, included the required information, and all required signatures were present. On claim forms for persons over 55 years of age, or disabled persons, the assessor is diligent in verifying property values and transfer dates for both the original and replacement dwellings, and confirming eligibility for the

homeowners' exemption. A similar degree of diligence was noted on the parent-child transfer exclusion claims reviewed. Additionally, the assessor contacts taxpayers when more information is necessary.

Legal Entity Ownership Program (LEOP)

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

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

We reviewed a number of properties on the LEOP list for Mendocino County and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor processes LEOP notices properly and timely reappraises all LEOP changes in control.

Resident-Owned Mobilehome Parks

Sections 62.1 and 62.2 exclude certain transfers of mobilehome parks from change in ownership if the park is ultimately purchased by at least 51 percent of the tenants renting the individual spaces of the park. Qualifying conversion to resident ownership under these sections permits the residents of the park to retain the base year value of the previous park owner, rather than triggering a reassessment of the park to current market value.

There is currently one resident-owned mobilehome park (ROP) in Mendocino County. When the residents acquired the ROP, the assessor correctly excluded the transfer from reappraisal as a change in ownership. However, we found that the assessor has not correctly applied the requirements of section 62.1 to transfers of individual spaces within the ROP.

RECOMMENDATION 5: Reappraise individual spaces in the resident-owned mobilehome park according to section 62.1.

The assessor has not corrected the base year values of those ROP spaces that transferred between January 1, 1989, and January 1, 2002. Instead, she has valued only the manufactured home on the space. In addition, she has applied this same practice to those park spaces and manufactured

homes that transferred since January 1, 2002; only the manufactured home has been reassessed in such transfers. The individual park spaces have not been reassessed.

Sections 62.1(b)(1) and (b)(2) provide that these transfers of ROP spaces are changes in ownership. Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks* (AH 511), recommends that, for purposes of valuing these spaces, if the purchase price was negotiated in the open market at arm's length, then the assessor should enroll the entire amount in the combined assessments of the manufactured home and the underlying interest in the park. The most reasonable way of allocating the value between the two assessment components would be to extract from the purchase price the value of the manufactured home using one of the recognized value guides, and then assign the residual purchase price to the interest in the park. This method of allocation will ensure that the market value attributable to the location of the space being transferred within the park is recognized.

In addition, Letter To Assessors No. 99/87, dated December 31, 1999, recommends that a resident's ownership share value of the park should be derived by subtracting the market value of the manufactured home from the combined price paid for the manufactured home and the share or interest in the park. This residual value would be the share value and this is the value that should be enrolled for the land and the prorata share of common park amenities.

The assessor's practices are contrary to statutory provisions and have resulted in underassessment of the spaces in the ROP.

New Construction

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

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

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

Most new construction activity in Mendocino County is discovered through the assessor's review of these permits, delivered daily from the three permit-issuing agencies within the county (the County of Mendocino and the cities of Ukiah and Willits). The assessor may also discover new construction during field canvassing by appraisers in their assigned areas, through a review of business property statements, or during a review of changes in ownership of real property. When

new construction is noted on Form BOE-571-L, *Business Property Statement (BPS)*, the auditor-appraiser sends a copy of Schedule B from the BPS to the real property division and keeps a log of dates sent and follow-up data.

The assessor receives all building permits issued in the county and normally does not reappraise property where permits are submitted for items that do not constitute new construction under article XIII A of the California Constitution, such as roof replacement. However, appraisers perform field reviews of permits, including repair and replacement, to verify that no square footage has been added. The assessor also disregards very low-valued new construction that does not add value to the entire property.

The assessor processed 1,338 building permits for 2004-05. The following table lists building permits worked by the assessor's staff in recent years:

ROLL YEAR	NUMBER OF PERMITS RESULTING IN ASSESSED NEW CONSTRUCTION
2003-04	1,789
2002-03	2,247
2001-02	1,200
2000-01	1,596
1999-00	3,500

The assessor tracks new construction through the computer system. Appraisers log building permit data on the computer system and flag the hard copy file. When new construction is completed, the flag is removed from the building record. The assessor enters building permit numbers, "open" and "close" dates for new construction review, assessed values of new construction projects, and base year values assigned to each new construction project. Appraisers also note building permit data on building records.

Appraisers find most escaped new construction during field review of their assigned work areas. The assessor enrolls escaped new construction as of the date completed and enrolls supplemental assessments for new construction on its completion date.

In our 2001 survey, we recommended the assessor value new construction in progress at market value on each lien date. The assessor established market costs on the initial lien date, and then used the same costs when reviewing new construction in progress on subsequent lien dates. During our current survey, we found the assessor values new construction at each lien date based on current market values. The assessor has complied with our previous recommendation.

In addition, we found the assessor properly makes note of cost sources on the property record, prepares diagrams of newly constructed buildings, exempts newly planted orchards for the first four years and vineyards for the first three years, includes the value of fire sprinkler systems when valuing new structures, and adds no value for underground storage tanks repaired or

replaced to comply with environmental regulations. We found no problems with the assessor's new construction program.

Declines in Value

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

Similar to many California counties, Mendocino County has experienced recent increases in property values. Consequently, the assessor removed many properties from decline-in-value status. The assessor currently declines the value of approximately 400 to 500 properties, including some commercial properties.

The assessor has no formal program designed to aid in discovering declines in value. Instead, the assessor depends on taxpayer requests for appraisal review and appraiser knowledge of their assigned areas. On occasion, declines in value may be discovered during reappraisals of real property that have changed ownership. For example, the assessor declined values of all lots in one subdivision after noticing declining resale values in the community.

The assessor currently provides taxpayers with a form titled, *Request for Current Taxable Value Adjustment (Prop 8)*, when such adjustment is requested. In addition, when an appraiser determines a downward value adjustment is warranted while examining sales comparisons, such adjustments can be made without requiring the claim form.

When returning a property to its factored base year value under article XIII A of the California Constitution, whether wholly or partly, the assessor sends the taxpayer a card that includes the factored base year value, the current market value, and information about filing assessment protests and stipulation procedures. The assessor's notice provides the information required by section 619(c).

The assessor reviews all decline-in-value properties annually. Properties currently in decline-in-value status are tracked on the assessor's computer system using the code "P," which allows staff to print a list of properties needing annual review. Upon review, the assessor may add value to land only, to improvements, or to both, depending on appraiser judgment of the property's market value. The assessor's primary tool for tracking decline-in-value properties is a listing of comparable sales kept at each appraiser's desk.

In our 2001 survey, we concluded the assessor's records for decline-in-value properties were incomplete. The assessor's records are currently adequate and in compliance with our previous recommendation. Further, we found the assessor's decline-in-value program meets mandated guidelines, including that fixtures be treated as a separate appraisal unit when reducing values of commercial properties. We found no problems with the assessor's decline-in-value program.

California Land Conservation Act Property

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

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

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

For the 2004-05 roll year, Mendocino County had approximately 485,000 acres encumbered by CLCA contracts, including 12,000 acres in nonrenewal status. The total assessed value for CLCA land and living improvements for 2004-05 was approximately \$325 million.

Most of the rural property in Mendocino County consists of rangeland, land with fruit and nut crops, and timberland. The bulk of the agricultural revenue generated in Mendocino County is derived from grapes, pears, timber, and livestock.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though they were a separate appraisal unit and traded in that manner.⁷ In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite. We found that this is the assessor's policy and practice.

Valuation of CLCA Property

The valuation of CLCA properties in Mendocino County is the responsibility of two real property appraisers. A computerized system calculates restricted values using the correct capitalization rate. Rents are updated based on information reported in the county crop report and the appraiser's knowledge of the market. The computer program compares the restricted

⁷ Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, October 2003, page II 51.

value, the factored base year value, and the current market value, and enrolls the lowest value. Homesites are valued according to section 428. Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land and living improvements. The assessor recognizes that the risk component varies according to the risks associated with the development of the income to be capitalized by using 1.5 percent for land and 3 percent for tree and vine income.

The assessor has complied with the recommendation we made in our 2001 survey report to value CLCA property in accordance with section 423.3. The assessor has not complied with our other recommendation that periodic mailings of questionnaires be utilized to obtain current rental and compatible use income. However, the assessor does obtain this information from the county's crop report and by discussions with property owners. Since there is no evidence that the failure to send the suggested questionnaires has impacted the assessor's CLCA program in a negative manner, we do not repeat this recommendation.

Overall, the assessor's practices are reasonable and efficient. However, we did note two areas that need to be addressed.

RECOMMENDATION 6: Revise CLCA appraisal procedures by: (1) issuing supplemental assessments for newly constructed vineyard and orchard improvements, and (2) valuing restricted lands according to section 423.

Issue supplemental assessments for newly constructed vineyard and orchard improvements.

We found the assessor does not issue supplemental assessments for newly constructed vineyard and orchard improvements. Sections 75.10 and 75.11 require the assessor to issue supplemental assessments for newly constructed nonliving improvements. The assessor is not in compliance with statutory provisions, and her practice results in loss of tax revenue.

Value restricted lands according to section 423.

The assessor values all orchard and vineyard living improvements annually using rental and production information obtained from the county's crop report. However, the land is valued incorrectly. Since 1997, dry grazing land, irrigated pasture, and vineyard and orchard land have not been revalued. For several years the assessor annually adjusted the risk rate, based on changes in the BOE-announced interest component of the capitalization rate, to achieve the same land value as in the prior year. In recent years, no adjustment has been made to the risk rate. Instead, the assessor has simply rolled over the prior year's land value rather than recalculating the restricted value using the current interest component and other elements of the capitalization rate specified in section 423.

Section 423(a)(1) provides that the annual income to be capitalized shall be determined, where sufficient rental information is available, by using the fair rent which can be imputed to the land being valued based upon rent actually received for the land by the owner and upon typical rentals

received in the area for similar land in similar use. Section 423(b)(1) describes the annual capitalization rate to be used in valuing CLCA land and living improvements.

Since 1997, the interest component of the capitalization rate has decreased from 7 percent to 5.25 percent for 2004. Absent annual changes in net income to land or restricted living improvements, a declining capitalization rate results in an increased taxable value. By not annually revaluing CLCA lands using the current yield rate and current rental income, the assessor has markedly underassessed these lands, resulting in a substantial loss of taxable value.

Taxable Government-Owned Property

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

In Mendocino County, there were 43 taxable government-owned parcels on the 2004-05 assessment roll with a total assessed value of approximately \$985,000.

The assessor determines the taxability of government-owned properties at the time of acquisition by the local agency by comparing tax-rate area maps to the county's list of government agencies located within each tax-rate area. We randomly reviewed several parcels on the county's list of government-owned properties and verified that all were tax exempt and not taxable government-owned properties. We also found the assessor correctly does not issue supplemental assessments when there is a change in ownership of taxable government-owned properties.

In our 2001 survey, we recommended the assessor annually value taxable government-owned properties at the lowest of (1) the restricted value, (2) the factored base year value, or (3) the current fair market value. The assessor has implemented this recommendation.

We reviewed all 43 taxable government-owned properties. The assessor valued most properties correctly; however, we did note one incorrect procedure.

RECOMMENDATION 7: Establish base year values for taxable government-owned properties according to BOE guidelines.

The assessor establishes the base year value of taxable government-owned properties at the time of acquisition at the current market value, contrary to BOE guidelines.

Letter To Assessors 2000/037, dated June 23, 2000, *Guidelines for the Assessment of Taxable Government-Owned Properties*, provides that base year values for taxable government-owned properties acquired after March 1, 1975, are established at either the lower of current market value or the restricted value as of the date of change in ownership. The assessor's practice has

resulted in overassessments of taxable government-owned properties because, in most cases, at the time of transfer, the restricted value was lower than the market value.

Timberland Production Zone Property

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

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

Mendocino County has 5,644 TPZ parcels comprising 845,000 acres. For the 2004-05 roll year, the total assessed value of TPZ lands was approximately \$161 million.

In our 2001 survey, we recommended the assessor send annual questionnaires to TPZ property owners to discover existing, nonexclusive compatible uses. The assessor has complied with this recommendation. Our review of several records showed that the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ land. The tax recoupment fee for rezoned TPZ parcels is calculated pursuant to Government Code section 51142. The assessor values homesites and improvements on TPZ lands at the lower of the current market value or the factored base year value. When there is a change in ownership, the assessor correctly issues supplemental assessments for homesites and improvements on TPZ land, and does not issue supplemental assessments for restricted TPZ land.

Taxable Possessory Interests

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

For the 2004-05 roll year, the assessor enrolled 558 taxable possessory interests (PI's) with a total assessed value of \$13,279,861. The senior auditor-appraiser is responsible for the assessment of all PI's.

To discover PI's and to update property files, the assessor annually requests government agencies owning property in the county to submit a property usage report. The appraisal staff also attempts to discover PI's by periodically inspecting government-owned property and phone calls to various agencies.

In our 2001 survey, we recommended the assessor increase documentation in all PI appraisal files. In our current survey, we found that the assessor has implemented this recommendation. The assessor's files now contain copies of contracts, if available, terms of possession and documentation of rents and cap rates used to value these properties. However, there are areas where the PI program can be improved.

RECOMMENDATION 8: Revise the possessory interest assessment program by:

- (1) issuing supplemental assessments on possessory interests,
- (2) deducting allowed expenses from gross income when valuing possessory interests by the income approach, and
- (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

Issue supplemental assessments on possessory interests.

It is the assessor's policy not to issue supplemental assessments for PI's.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable PI is a change in ownership. Section 75.11 provides that supplemental assessments shall be issued following a change in ownership or new construction. Section 75.55(b) allows a county board of supervisors to adopt an ordinance authorizing the assessor to cancel supplemental assessments that would result in a tax liability less than the cost of assessing and collecting the taxes. However, under no circumstances does this subsection allow any supplemental assessment to be canceled if the resulting taxes exceed \$50. At the time of our current survey, the Mendocino County Board of Supervisors had not adopted such an ordinance.

The assessor's policy of not issuing supplemental assessments on PI's results in a loss of revenue and is contrary to statute.

Deduct allowed expenses from gross income when valuing possessory interests by the income approach.

When valuing PI's the assessor does not deduct operating expenses from the gross income before discounting the income stream into a value.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent.

A public owner will incur some management expense with each PI. Other lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By estimating the fair market value using gross income rather than net income to the lessor, the assessor is inflating this value indicator.

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

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

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

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

Leasehold Improvements

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

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

When real property is reported on Form BOE-571-1, *Business Property Statement (BPS)*, coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser and an auditor-appraiser. Both divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

The assessor's principal means of discovering leasehold improvements is through tenant reporting on Form BOE 571-L, *Business Property Statement (BPS)*. Leasehold improvements may also be noted on building permits. According to the assessor, leasehold improvements reported as fixtures are valued by business property appraisers and those reported as structures are valued by the real property appraisers.

The assessor investigates only those reported leasehold improvements that appear questionable. There is no set value limit for determining whether or not reported leasehold improvements will be investigated.

We examined numerous leasehold improvements reported on the BPS. We found most reported leasehold improvements were processed correctly and the documentation supporting the assessor's leasehold improvement program was excellent. We also found the assessor correctly values foreign improvements and billboards, and applies supplemental assessments to structural leasehold improvements.

In our 2001 survey, we recommended the assessor implement a positive response system to ensure coordination between the business property and real property staff. We found the assessor has established a follow-up log in the business property division for reported structural improvements. When the auditor-appraiser discovers a structural leasehold improvement reported on the BPS, he or she sends a copy of Schedule B or Schedule D, if relevant, to the real property division. The auditor-appraiser enters into the log, the parcel number, the business name, the person provided with the copy of Schedule B or D, the date the copy was sent, and the result reported by the real property division.

Periodically, the real property division receives building permits for leasehold improvement fixtures. Although the real property division does not maintain a follow-up log for permit information sent to the business property division, the real property division does maintain a computerized permit-tracking database.

The assessor has complied with our previous recommendation.

Water Company Property

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

The assessor currently enrolls assessments for properties owned by a small number of water companies, including three water companies regulated by the California Public Utilities Commission (CPUC). The following table shows the number of companies listed on the assessor's roll and their property value on the 2004-05 roll:

WATER COMPANY TYPE	NUMBER ENROLLED	ENROLLED VALUE
CPUC-Regulated	3	\$4,704,819
Mutual	0	0
Municipal	0	0
Private Water Companies	3	\$112,605

The assessor has reviewed the articles of incorporation for each of the mutual water companies in Mendocino County and found that the companies were nonprofit corporations whose purpose was to deliver water to shareholders only. The nonprofit status of these corporations and the delivery of water to shareholders only indicate that the value of land and improvements of these companies is correctly reflected in the market value of the shareholders' lots.

The assessor requires all water companies to file Form BOE-540-S, *Mutual or Private Water Company Property Statement*. We also found copies of Form BOE-571-L, *Business Property Statement*, and CPUC reports in some CPUC-regulated water company files. According to the assessor, filing response is very high. The assessor assigns a parcel number prefix to all properties assessed as water companies.

We examined all of the assessor's water company files and found that all CPUC-regulated water companies were identified and their properties assessed using the historical cost less depreciation (HCLD) approach to value. In addition, the assessor is currently auditing two CPUC-regulated water companies and correctly assesses properties owned by these water companies at the lesser of market or factored base year value. The assessor's water company program is very well documented and most program procedures are correct. However, we found some problem areas that should be addressed.

RECOMMENDATION 9: Improve assessment of water company property by:
 (1) placing a zero value on advances for construction reported by regulated water companies, and (2) enrolling improvement values for the unsecured regulated water company as required by section 2189.6.

Place a zero value on advances for construction reported by regulated water companies.

The assessor incorrectly adds the present worth of advances for construction (advances) to the calculation of historical cost. The assessor adds the present worth of advances, when reported, to every annual HCLD calculation of value.

Page 15 of Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, provides that when HCLD is a valid indicator, advances, similar to CIAC, generally have

a zero value for property tax assessment purposes because CPUC rules do not allow the utility to earn a return on the property advanced. Therefore, by including the present worth of advances for construction in the HCLD indicator of a CPUC-regulated water company, the assessor may have overstated its taxable value.

Enroll improvement values for the unsecured regulated water company as required by section 2189.6.

The assessor's roll currently includes three CPUC-regulated water companies, one of which is located on land owned by others. The assessor enrolled this company's improvements on the unsecured roll and has not placed a notation on the secured roll indicating that these assessments cannot become a lien on land where they are located.

Section 2189.6 provides that improvements that constitute component parts of a water distribution system located in whole or in part on property assessed to a person other than the assessee of the land on which they are located shall be assessed as improvements on the secured roll. However, those assessments shall not be a lien on the land on which those improvements are located and that fact shall be noted on the secured roll.

By placing these improvements on the unsecured roll and not placing a notation on the secured roll that such assessments cannot be a lien on the land, the assessor is not following the requirements of section 2189.6.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties, and are specific to mineral properties only.

Mining Properties.

Mendocino County has a significant number of mineral properties. In our 2001 survey, we recommended the assessor send Form BOE-560-A, *Aggregate Production Report*, to all aggregate producers to improve reporting and collection of mineral data and adjust the proved reserves for depletions and additions. Currently, we found that the assessor is mailing taxpayers the BOE-prescribed forms but is still not adjusting the proved reserves.

RECOMMENDATION 10: Adjust the base year values of mineral reserves for depletions and additions.

As with other types of property, mineral properties have an established base year value. Since minerals are a depleting resource, the base year value is adjusted for continuing production, resulting in a reduction of reserves. Reserve changes for reasons other than depletion will also

affect the value of the property and may change from year to year. There could be increases in proved reserves caused by changes in physical, technological, or economic conditions. Changes to base year values are governed by provision in Rule 469.

By not adjusting the value of proved reserves for depletions and additions, the assessor is not assessing proved reserves according to Rule 469 and may be overassessing the property.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

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

Audit Program

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

Mandatory Audits

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

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

ASSESSMENT ROLL	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2003-04	22	22	0	\$2,757,342
2002-03	58	27	31	\$9,708,680
2001-02	34	Not Available	34	\$963,464
2000-01	38	Not Available	38	\$1,721,650

Because the assessor is still behind in the mandatory audits, we repeat our recommendation from our 2001 survey report that the assessor timely completes all mandatory audits.

RECOMMENDATION 11: Timely audit the books and records of professions, trades, or businesses pursuant to section 469.

For the 2003-04 roll, the assessor had a workload of 44 mandatory audit accounts. As of June 30, 2004, a total of 22 audits were completed, with the remaining 22 accounts in process or yet to be scheduled for audit.

Section 469 and Rules 192 and 193 establish the requirement to audit accounts having locally assessable trade fixtures and business tangible personal property valued at \$400,000 or more and owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade, or business. The mandatory audit program verifies the reporting of the largest business property accounts and forestalls any potentially large assessment errors.

By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to permanently escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

Nonmandatory Audits

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

The assessor has completed 103 nonmandatory audits over the past four years. Although the assessor is under no obligation to perform nonmandatory audits, we found the assessor maintains a satisfactory and well documented nonmandatory audit program.

Statute of Limitations

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

We found that the assessor attempts to obtain waivers whenever possible, although in some cases the assessee did not return the waiver form.

Business Property Statement Program

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

The assessor has an efficient discovery program. Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovering assessable business property include field canvassing; reviewing fictitious business name filings, newspaper articles and advertisements, and city and county business licenses; referrals from other counties; and BOE notifications. Our review shows that the assessor's office effectively employs various methods to discover taxable business property.

The number of business property statements processed by the assessor in recent years and the dollar volume of the statements processed are shown in the following tables:

Roll Year	Secured Accounts	Assessment	Unsecured Accounts	Assessment	Total Accounts	Total Assessment
2004-05	3,102	\$188,628,805	6,798	\$221,796,506	9,901	\$410,425,311
2003-04	3,128	\$204,165,959	6,992	\$222,618,386	10,120	\$426,784,345
2002-03	3,112	\$227,182,617	7,054	\$222,363,269	10,166	\$449,545,886
2001-02	2,771	\$249,671,696	6,485	\$227,902,005	9,256	\$477,573,701
2000-01	2,779	\$250,182,748	6,471	\$219,199,722	9,250	\$469,382,470

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing assessment procedure is beneficial to both the taxpayers and the assessor. Direct billing streamlines processing, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be handled by the assessor.

For the 2004-05 roll, there were 417 accounts in the direct billing program. The assessor's main criteria for the determination of accounts eligible to participate in the program are: (1) the account is not agricultural, and (2) the assessed value must be less than \$10,000.

Overall, the assessor has an effective direct billing program.

Pollution Control Equipment

Section 44515 of the Health and Safety Code established the California Pollution Control Financing Authority (CPCFA). The CPCFA either acquires or finances the acquisition of devices or facilities necessary to mitigate air and water pollution caused by private industrial operations.

If the CPCFA acquires the device or facility and leases it to a private company, then section 201.5 provides that a possessory interest in this type of equipment or facility owned by

the CPCFA, whether in real or personal property, is taxable. If the CPCFA finances the device for a taxpayer, then the device is assessable to the taxpayer.

To help identify such equipment or facility, the BOE furnishes all assessors with an annual Letter to County Assessors Only (CAO) entitled *Listing of Companies Entering Into Contract With the Pollution Control Financing Authority*. The CAO lists the pollution control financing bonds issued during the previous year, with project location by county, the name of the lessee or owner, and the amount of each bond.

CAO 2002/004, dated May 9, 2002, notified the Mendocino County Assessor that CPCFA issued pollution control bonds of over \$13 million for the acquisition of pollution control equipment by two industrial entities doing business in Mendocino County.

A copy of the CAO is in the file of the business entities. One of the business entities reported \$9 million in pollution control equipment acquisition cost on their 2004 business property statement. The assessor had contacted the other business entity regarding the remaining pollution control equipment. We found no problems with the assessor's administration of the pollution control equipment.

Overall, the assessor properly processes business property statements and we have no recommendation for improvement to her program.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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

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

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

Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to historical cost produces a reasonable estimate of market value.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issues valuation factors for computer and related equipment. In AH 581, Table 7: Computer Valuation Factors, the BOE provides valuation factors for use when valuing computers and related equipment.

The Mendocino County Assessor's business property staff properly uses the composite valuation factors provided by the BOE in their valuation of non-production computers and related equipment.

There are areas in which the business equipment valuation program could be improved.

RECOMMENDATION 12: Revise business equipment valuation procedures by: (1) using Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended and (2) classifying agricultural wind machines as fixtures.

Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in the AH 581 with one exception. The CAA recommends that costs of specific types of equipment, (e.g., pagers, facsimile equipment and photocopiers) should not be trended for rising price levels. Currently, neither the CAA nor the assessor has conducted any studies to support this method.

The assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA, is contrary to the AH 581 and should be discontinued.

Classify agricultural wind machines as fixtures.

The assessor currently classifies agricultural wind machines as personal property. Rule 122.5(e)(10) includes agricultural wind machines in its definition of fixtures.

Pursuant to Rule 122.5(e)(10), when an agricultural wind machine is physically annexed to the realty with the intent that it be annexed indefinitely, it is properly classified as real property and assessed as a fixture. In a typical application, a wind machine is physically annexed to the realty because it is attached to, imbedded in, or permanently resting upon land or improvements.

By classifying agricultural wind machines as personal property, the assessor may assign them an incorrect, shorter economic life, resulting in an inaccurate valuation.

Leased Equipment

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

Assesseees are required to provide the assessor with information concerning the type of property, the year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address.

When property is on lease, lessors should report such property on their annual property statement. At the end of such leases, the lessees may keep the equipment or return it to the lessors. A procedure should be in place to identify the disposition of leased equipment upon termination of a lease. When lessees obtain ownership and retain possession of equipment at the end of such leases, the assessor should check to ensure that lessees report that property. Cross-checking information reported by lessors and lessees verifies the accuracy of the reported information and prevents leased equipment from escaping assessment or being double assessed.

We found that the assessor has sufficient procedures for tracking and cross-checking leased equipment.

Manufactured Homes

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

For the 2004-05 assessment roll, a total of 1,093 manufactured homes were assessed in Mendocino County at approximately \$32 million. The following table summarizes this activity:

Roll Year	MH In Parks	Assessment	MH on Fee Land	Assessment	Total	Assessment
2004-05	909	\$26,381,628	184	\$5,689,617	1,093	\$32,071,245
2003-04	896	\$25,370,717	183	\$5,825,533	1,079	\$31,196,250
2002-03	872	\$23,483,721	192	\$6,049,795	1,064	\$29,533,516
2001-02	864	\$22,016,373	195	\$5,735,048	1,059	\$27,751,421
2000-01	841	\$20,954,919	200	\$6,424,758	1,041	\$27,379,677

The primary methods of discovering manufactured homes are through reviewing the State Department of Housing and Community Development's listing of transfers, applications for voluntary conversions to property tax assessment, and registrations of new manufactured homes. This method is augmented by manufactured home dealers' reports of sales and building permits for installing manufactured homes.

In our 2001 survey, we recommended the assessor discontinue adjusting values derived from manufactured home guides for upgrades and deliveries. The assessor has implemented our recommendation. Currently, the assessor is using Assessors' Handbook Section 531.35, *Manufactured Housing*, which contains unit costs for manufactured homes, and makes no adjustments for upgrades or delivery and set-up charges.

RECOMMENDATION 13: Issue supplemental assessments for changes in ownership of manufactured homes.

We found several instances of changes in ownership of manufactured homes where the assessor did not issue supplemental assessments.

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the new value resulting from the change in ownership or new construction. Section 75.5 specifically includes taxable manufactured homes within the definition of property subject to supplemental assessment.

The assessor is not in compliance with statutory provisions.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the

BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The following table shows the number and assessed value of all aircraft in Mendocino County for the period 2000 – 2004:

ROLL YEAR	GENERAL	HISTORICAL	CERTIFIED	ASSESSED VALUE
2004-05	163	6	1	\$7,321,485
2003-04	157	6	1	\$7,229,416
2002-03	169	8	1	\$7,965,686
2001-02	166	0	1	\$8,891,406
2000-01	169	0	1	\$7,442,093

The assessor primarily uses the *Bluebook* for appraising general aircraft. This value guide provides for adjustments due to engine hours, extra equipment, and general aircraft condition, all of which are required to be disclosed by aircraft owner on the aircraft property statement. Additional information is gathered from other counties, aircraft brokers, airport operators' tenant listings, Federal Aviation Administration reports, and websites such as www.landings.com.

In our 2001 survey, we recommended the assessor reduce the indicated value from the *Bluebook* by 10 percent for aircraft in average condition when appraising general aircraft. Our current review noted that the assessor has implemented this recommendation and is correctly valuing general aircraft.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

There is only one scheduled air cargo airline operating out of Mendocino County. The assessor values certificated aircraft using methodology that is consistent with section 401.15. We found no problems with the certified aircraft program.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is

an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

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

In our 2001 survey, we recommended the assessor comply with section 220.5 requirements by having a claim for historical exemption filed each year and having it signed before a notary public or assessor's designee. Currently, the assessor requires all historical aircraft exemptions to be filed yearly. Recent legislation has eliminated the requirement for signing the affidavit before a notary public or assessor's designee.

Vessels

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

The following table shows the assessor's vessel assessment data for recent years:

ROLL YEAR	PLEASURE VESSELS		DOCUMENTED VESSELS	
	NUMBER	ASSESSED VALUE	NUMBER	ASSESSED VALUE
2004-05	1,614	\$9,316,427	123	\$320,701
2003-04	1,736	\$9,093,317	156	\$478,097
2002-03	1,998	\$9,165,272	161	\$421,566
2001-02	2,087	\$8,888,633	-	-
2000-01	2,153	\$9,454,633	-	-

The assessor continues to have an effective discovery program for vessels. The assessor reviews reports from the Department of Motor Vehicles, reviews information on the official U.S. Coast Guard website, and analyzes referrals from other counties. Additionally, a field canvass is conducted at the Noyo Public Harbor each year.

In our 2001 survey, we recommended the assessor appraise pleasure vessels at market value. The assessor has since modified the approach to annually assess all pleasure vessels at market value by the use of the *N.A.D.A. Marine Appraisal Guide*. The assessor now applies a fixed

depreciation only when the vessel is no longer listed in the value guide. We believe that this is a reasonable value judgment and do not repeat the recommendation.

Animals

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and by Rule 133.

The taxable animals in Mendocino County are horses held as brood stock or rented for trail rides. The assessor has enrolled accounts for all taxable animals that have been discovered in the county. We have no recommendation for improvement in this area.

APPENDIXES

A. County Property Tax Division Survey Group

Mendocino County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

Jim McCarthy

Senior Petroleum and Mining Appraisal Engineer

Lloyd Allred

Associate Property Auditor-Appraiser

David Barbeiro

Associate Property Auditor-Appraiser

Manny Garcia

Associate Property Auditor-Appraiser

Zella Cunningham

Associate Property Appraiser

Kim Trotto

Associate Property Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

(a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

(1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

(3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

MARSHA A. WHARFF

ASSESSOR - COUNTY CLERK - RECORDER

REGISTRAR OF VOTERS

COMMISSIONER OF
CIVIL MARRIAGES



SUSAN M. RANOCHAK
ASSISTANT ASSESSOR

PHONE (707) 463-4311
FAX (707) 463-6597

COUNTY OF MENDOCINO

OFFICE OF THE COUNTY ASSESSOR
501 LOW GAP ROAD, RM. 1040
UKIAH, CALIFORNIA 95482
e-mail: acr@co.mendocino.ca.us

June 13, 2006

Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0062

Dear Ms. Stuckey:

In accordance with Government Code Section 15645, I am including herewith the Assessor's Response to the State Board of Equalization's Assessment Practices Survey for Mendocino County.

I am pleased that overall, the Survey Report reflects the high quality of the assessment practices in Mendocino County. This report also supports my goals in conducting an efficient operation which meets statutory requirements and provides the best possible service to the citizens of Mendocino County. Though I am in agreement with most of the Board's recommendations, there are some with which I disagree. As you will note in my response, most of your recommendations have already been implemented and others will be as soon as time and personnel resources are available.

I wish to acknowledge and thank the employees of the Assessor's Office for their dedication and hard work in providing outstanding service to the citizens of our County. I would also like to thank Arnold Fong, Peter Gaffney, Glenn Danley and the remainder of the State Board's Survey Team for the professional manner in which the Survey was conducted.

Very truly yours,

MARSHA A. WHARFF
Assessor-County Clerk-Recorder

Encl.

RECEIVED

JUN 16 2006

County Property Tax Division
State Board of Equalization

RESPONSE TO MENDOCINO COUNTY ASSESSMENT PRACTICES SURVEY

RECOMMENDATION 1: Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.

RESPONSE #1: We agree and will request that the Board of Supervisors amend this ordinance.

RECOMMENDATION 2: Improve processing of assessment roll changes by: (1) notifying the assessee that an escape assessment has been enrolled as required by section 534, (2) adding penalty and interest when terminating erroneous homeowners' exemptions where the assessee's error caused the exemption to be allowed, and (3) entering penalties on the assessment roll as required by Rule 261(a)

RESPONSE #2:

- (1) We agree.
- (2) We agree.
- (3) We agree and are in discussion with our Information Services Department to correct his problem.

RECOMMENDATION 3: Correct errors in assessment forms.

RESPONSE #3: We disagree. You have indicated that our attachment of a 2" x 8 ½" inch blue sheet (a copy of which is attached) to form BOE 58-AH makes the form incorrect. We are using the correct form. The blue sheet is only encouraging taxpayers to file and has been very successful in gaining compliance.

RECOMMENDATION 4: Timely apply the penalty for failure to file change in ownership statements as prescribed in section 482(a).

RESPONSE #4: We agree.

RECOMMENDATION 5: Reappraise individual spaces in the resident-owned mobile home park according to section 62.1.

RESPONSE #5: We agree.

RECOMMENDATION 6: Revise CLCA appraisal procedures by: (1) issuing supplemental assessments for newly constructed vineyard and orchard improvements, and (2) valuing restricted lands according to section 423.

RESPONSE #6:

- (1) We agree.
- (2) We agree.

RECOMMENDATION 7: Establish base year values for taxable government-owned properties according to BOE guidelines.

RESPONSE #7: We disagree. The Assessor is not in agreement with the interpretation of law as presented in LTA 2000-37 and believes that base year values for all taxable government-owned properties within the county have been properly established per Section 50, which refers to base year value determination according to Section 110.1 (the full cash value on the date on which a purchase or change in ownership occurs). The Assessor does not dispute that the taxable value enrolled the initial year following acquisition is the lower of the current fair market value or the restricted value, merely that this value would then establish the base year value if it were the restricted value. That a restricted value enrolled the initial year would become the base year value is in conflict with the tax Code. The purpose of Section 11 is to prevent the erosion of a county's property tax base and consequent loss of property tax revenues. If the restricted value is established as the base year value, such erosion would occur each year subsequent, as the inflationary indexing factor has always been lower than the increase in the Philips Factor between years. In addition, establishing a restricted value as of the date of change in ownership to be the base year value is completely contrary to the establishment of a base year value for property subject to Section 423. Properties subject to Section 423, similar to Section 11 properties, are taxed each year at the lesser of three (3) values: restricted, market, or factored base year. The factored base year value is the value determined to be the full cash value as of the change in ownership adjusted by the annual inflationary factor.

RECOMMENDATION 8: Revise the possessory interest assessment program by: (1) issuing supplemental assessments on possessory interests, (2) deducting allowed expenses from gross income when valuing possessory interests by the income approach, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

RESPONSE #8: (1) We agree.
(2) We agree.
(3) We agree.

RECOMMENDATION 9: Improve assessment of water company property by: (1) placing a zero value on advances for construction reported by regulated water companies, and (2) enrolling improvement values for the unsecured regulated water company as required by section 2189.6.

RESPONSE #9: (1) We agree. However, we feel the manual contradicts itself and it is our understanding that the manual is going to be revised to correct this problem.
(2) We agree.

RECOMMENDATION 10: Adjust the base year values of reserves for depletions and additions.

RESPONSE #10: We agree. This will be done as time and staffing allow.

RECOMMENDATION 11: Timely audit the books and records of professions, trades, or businesses pursuant to section 469.

RESPONSE #11: We agree. We now have two full-time auditor appraisers in our Business Division to deal with the audit backlog.

RECOMMENDATION 12: Revise business equipment valuation procedures by: (1) Using Assessors' Handbook Section 581, Equipment Index and Percent Good Factors, as intended and (2) classifying agricultural wind machines as fixtures.

RESPONSE #12: (1) We disagree. Our Business Division uses both the AH581 and recommendations made by the CAA. The recommendations are reviewed annually by the CAA Business Property Subcommittee and Business Division Chiefs. We will continue to follow the CAA's recommendations.

(2) Due to a programming error discovered by the survey team, the computer was including the valuation of the wind machines in the personal property total. We have since corrected the problem and the value of the wind machines now appears as a fixture value in our computer system.

RECOMMENDATION 13: Issue supplemental assessments for changes in ownership of manufactured homes.

RESPONSE #13: We agree.