

MENDOCINO COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2011

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2011/043

December 7, 2011

TO COUNTY ASSESSORS:

MENDOCINO COUNTY
ASSESSMENT PRACTICES SURVEY

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 Susan M. Ranochak, Mendocino County Assessor-Clerk-Recorder, 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 and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from January through June 2010. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Ranochak 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:ps
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Mendocino County Assessor-Clerk-Recorder's 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, and the State Legislature; and the Mendocino County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Susan M. Ranochak, Mendocino County Assessor-Clerk-Recorder, 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* at page 2) 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 C.

Our survey of the Mendocino County Assessors-Clerk-Recorder'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 that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2009-10 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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.

The assessor has improved the overall operation of the office by embracing new technology. The following are a few examples of the improvements the assessor has made in Mendocino County since the last survey:

- The assessor has placed most commonly used property tax forms on the county's website, which are available for downloading;
- The assessor transitioned to electronic map processing and implemented Geographic Information System capability for staff to access maps; and
- The assessor utilizes aerial photos from the United States Department of Agriculture.

Many of our recommendations in this survey concern programs that are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In our review of the assessor's administration programs, we noted the assessor is satisfactorily handling staffing, appraiser certification, staff property procedures, assessment appeals, and assessment forms programs. However, we did note the workload, disaster relief, low-value property exemption, and exemptions programs are in need of improvement.

In the area of real property assessment, the assessor has effective programs for the assessment of Timberland Production Zone (TPZ) property and leasehold improvements. We found several other real property assessment programs in need of improvement, which include change in ownership, new construction, declines in value, supplemental assessments, California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property.

In the assessment of personal property and fixtures, the assessor has effective programs for conducting audits, processing business property statements, and valuing business equipment. However, we found improvement is needed in the assessment of manufactured homes.

Despite the recommendations noted in this report, we found most properties and property types are assessed correctly.

The Mendocino County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2009-10 assessment roll indicated an average assessment ratio of 99.81 percent, and the sum of the absolute differences from the required assessment level was 1.70 percent. Accordingly, the BOE certifies that Mendocino County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1:	Improve the workload program by reporting complete statistics as requested by the BOE pursuant to section 407.....	9
RECOMMENDATION 2:	Request the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.....	13
RECOMMENDATION 3:	Assess all property that is not otherwise exempt from taxation.....	14
RECOMMENDATION 4:	Review annual claims for nonqualifying uses and include a property use report with all claims.....	15
RECOMMENDATION 5:	Grant exemptions only for years which the organization files claims and, if necessary, apply appropriate late-filing penalties.	17
RECOMMENDATION 6:	Improve the disabled veterans' exemption program by: (1) complying with the filing and prorating guidelines regarding the disabled veterans' exemption, and (2) calculating late-filing penalties on the low-income disabled veterans' exemption on the amount over the basic exemption.	18
RECOMMENDATION 7:	Properly apply the inflation factor as required by section 51.....	20
RECOMMENDATION 8:	Correctly implement the penalty process in accordance with section 482(a).....	22
RECOMMENDATION 9:	Improve the valuation of new construction by classifying wells as land pursuant to Rule 124.	28
RECOMMENDATION 10:	Improve the decline-in-value program by: (1) developing a comprehensive appraisal program for review of properties that experience a decline in value, and (2) documenting and supporting full cash value estimates for properties experiencing declines in value.	29

RECOMMENDATION 11: Improve the supplemental assessment program by:
(1) issuing supplemental assessments for taxable possessory interests, (2) processing all supplemental assessments, regardless of value, unless exempted by the board of supervisors, (3) processing all negative supplemental assessments, and (4) processing supplemental assessments upon the change in ownership of a manufactured home.31

RECOMMENDATION 12: Improve the valuation of CLCA properties by:
(1) annually computing the restricted values on CLCA property, (2) recognizing and including compatible uses and the corresponding income to the income stream when valuing CLCA property, and (3) not adding a reversionary value in the appraisal of restricted living improvements.34

RECOMMENDATION 13: Improve the taxable possessory interest program by:
(1) obtaining current copies of all lease agreements for taxable possessory interests, (2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (3) periodically reviewing taxable possessory interests with stated terms of possession for declines in value, (4) deducting allowable expenses from gross income when valuing taxable possessory interests, and (5) revaluing land and improvements upon the creation, renewal, extension, or assignment of a taxable possessory interest.....37

RECOMMENDATION 14: Establish base year value for reserves of mining properties and adjust annually as required by Rule 469.41

RECOMMENDATION 15: Do not arbitrarily increase assessments of mining claims for failure to file annual statements.41

RECOMMENDATION 16: Improve the manufactured home assessment program by:
(1) periodically reviewing the values of manufactured homes for potential declines in value, and (2) reappraising the ownership interest in a resident-owned mobilehome park upon the change in ownership of a manufactured home within the park.47

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 86,000 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 displays information pertinent to the 2009-10 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$4,504,090,487
	Improvements	\$5,273,728,678
	Personal Property & Fixtures	\$265,515,094
	Total Secured	\$10,043,334,259
Unsecured Roll	Land	\$12,446,376
	Improvements	\$54,843,332
	Personal Property & Fixtures	\$296,574,309
	Total Unsecured	\$363,864,017
Exemptions³		(\$259,917,125)
	Total Assessment Roll	\$10,147,281,151

The following table summarizes the changes in assessed values in recent years:⁴

ASSESSMENT ROLL	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2009-10	\$10,147,281,000	3.5%	-2.4%
2008-09	\$9,805,157,000	6.4%	4.7%
2007-08	\$9,214,446,000	8.8%	9.6%
2006-07	\$8,466,748,000	8.8%	12.3%
2005-06	\$7,783,886,000	8.3%	11.1%

³ The Homeowners' Exemption value is not included in the exemption value noted in this table.

⁴ State Board of Equalization Annual Report, Table 7.

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, workload, appraiser certification, staff property procedures, assessment appeals, disaster relief, low-value property exemption, exemptions, and assessment forms.

Budget and Staffing

The following table sets forth the change in budget levels over recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2009-10	\$1,436,882	-3.26%	20
2008-09	\$1,485,308	-2.67%	22
2007-08	\$1,526,064	4.04%	22
2006-07	\$1,466,757	-3.12%	22
2005-06	\$1,513,993	--	22

At the time this survey was conducted, the assessor's office had 20 full-time employees. The staff included the assessor, assistant assessor, 1 chief property appraiser, 6 property appraisers, 1 senior auditor-appraiser, 2 auditor-appraisers, 1 administrative assistant, 1 assessment information supervisor, 1 mapping coordinator, 4 staff assistants, and 1 property tax technician.

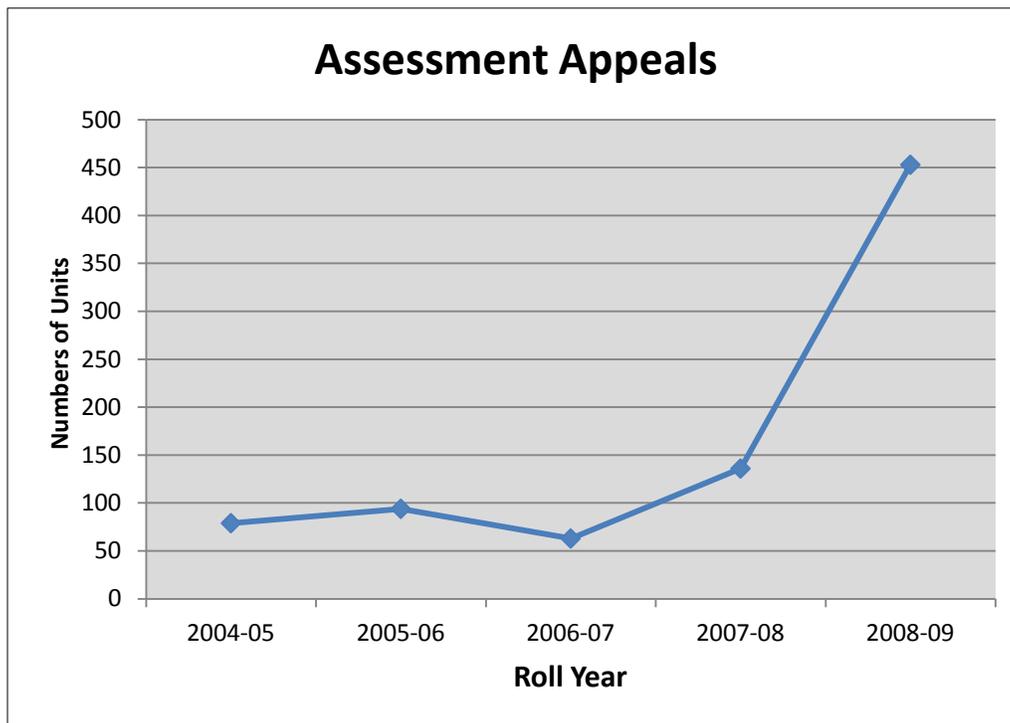
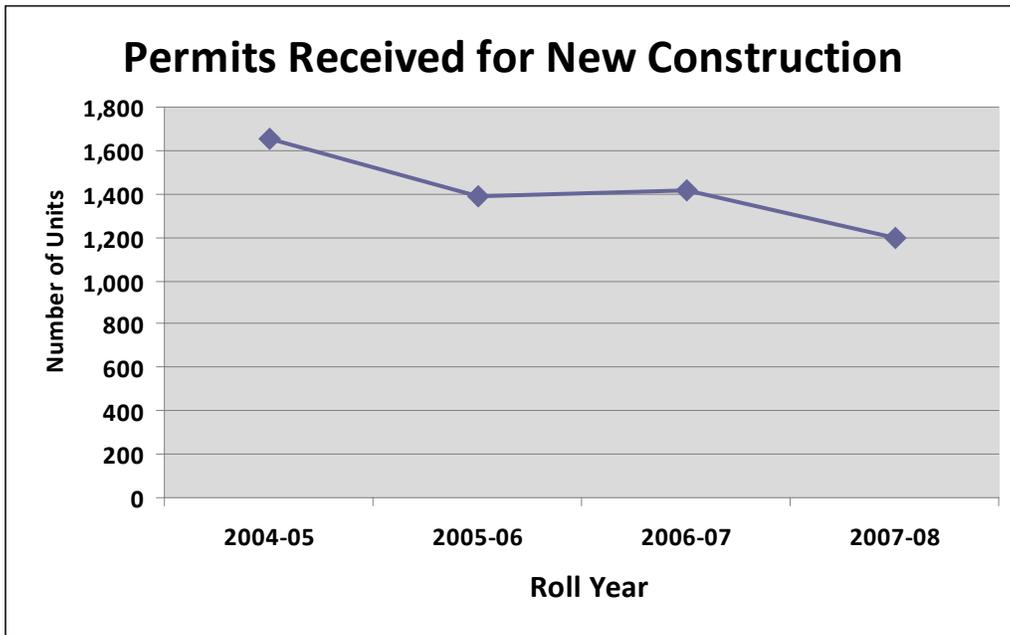
Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. To accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

According to the prior two tables, the total roll value has increased each of the past five years, while the gross budget has been sporadic, most recently decreasing. Staffing decreased over the last year by two funded positions. In addition, the assessor's workload has fluctuated over recent years. The number of permits received for new construction has been decreasing, while the number of assessment appeals filed has increased significantly.

The following charts illustrate these changes:



During our review of the workload program, we found one area in need of improvement.

RECOMMENDATION 1: Improve the workload program by reporting complete statistics as requested by the BOE pursuant to section 407.

During the survey, we requested statistics for various topics and were informed by staff that the assessor's computer program does not allow for them to provide certain requested statistics and we would have to refer to the *A Report on Budgets, Workloads, and Assessment Appeals Activities* as provided by the BOE for any necessary statistics. However, when we referred to these reports we found the assessor only reported some of the requested statistics for years 2004-05, 2005-06, 2006-07, and 2007-08, while reporting no statistics for 2008-09.

Section 407 provides that the assessor shall transmit a statistical statement to the BOE annually, on the second Monday in July, supplying any statistical information which the BOE may require, and shall supply from time to time any other information required by the BOE.

By not reporting accurate and complete statistics to the BOE, the assessor may be incorrectly estimating their own statistics, which may keep her from making accurate decisions in regards to staff, workload, and the budget needed to complete the roll in a timely and efficient manner.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are a total of 12 certified appraisers on staff, including the assessor; 7 hold advanced appraiser's certificates. We found that the assessor and her staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Mendocino County, the assistant assessor and the assessor's administrative assistant oversee the training and certification program for appraisers and track individual appraisal education using the BOE annual training reports. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible; however, the assessor does not provide any financial incentive to obtain an advanced certificate. All travel and training was cancelled for the 2009-10 fiscal year due to budget constraints.

According to the BOE training reports and the county's records, only one auditor-appraiser was deficient in training hours as of June 30, 2009. The assessor and the appraiser are aware of the appraiser's training needs and are taking steps to address this challenge of meeting education requirements with a limited budget. The assessor is conscientious about ensuring their certified appraisers meet the continuing education requirements.

Staff Property Procedures

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from

being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests.

Form 700 requests information regarding ownership in any real property, other than a primary residence, as well as any ownership interest in any business entity. Information provided includes the nature of the interest and the percentage of ownership. The assessor uses name recognition on building permits, as well as on recorded deeds, to discover changes in ownership and new construction of staff-owned property.

When an appraisal for either a change in ownership or completed new construction is required on a staff-owned property, the assignment is given to the appraiser of that geographical area or the chief property appraiser for assessment. When the appraisal is completed, it is forwarded to the assistant assessor or assessor for review and approval. For properties owned by the assessor, the assessor requests another county to perform any necessary appraisals.

We reviewed a number of staff-owned properties and found no problems.

Assessment Appeals

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

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

In Mendocino County, the five-member board of supervisors serves as the county board of equalization and hears all assessment appeals. The filing period for appeals in Mendocino County is July 2 through November 30. No appeal has been held for more than two years without obtaining the proper waiver.

The following table sets forth the appeal workload over recent years:

ASSESSMENT ROLL	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	453	136	63	94	79
Appeals Carried Over From Prior Year	99	69	32	16	20
Total Appeals Workload	552	205	95	110	99
Resolution:					
Withdrawn	106	38	6	14	17
Stipulation	262	39	19	35	48
Appeals Reduced	0	2	1	2	2
Appeals Upheld	2	0	0	0	0
Appeals Increased	0	0	0	0	0
Other Determination*	69	27	0	27	16
Total Resolved	439	106	26	78	83
To Be Carried Over**	113	99	69	32	16

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

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

The majority of appeals in Mendocino County involve residential properties. The decrease in property values in 2008 is reflected in the increase in the number of appeals filed for the 2008-09 assessment roll. Property owners are given an opportunity to request an informal review by the assessor for a decline in market value of the property. If the property owner still disagrees with the assessment, the property owner can begin the formal appeal process by submitting BOE-305-AH, *Application for Changed Assessment*, obtained from the clerk of the board of supervisor's office.

As of July 1, 2009, a nonrefundable processing fee of \$55.00 is applied to each submitted application. When the clerk of the board receives the completed application, the clerk date stamps it, reviews it for timeliness and completeness prior to forwarding a copy to the assessor, and schedules the appeal for a hearing. The application information is entered on a spreadsheet and assigned an appeal number. In compliance with section 1605.6, the clerk sends a letter to the applicant with notification of the time, date, and place of the hearing. Also included with the letter are applications for postponement and withdrawal. If the applicant or applicant's designated representative and the assessor agree to a reduced noticing period, a waiver of the 45-day hearing notice is mailed to the applicant or applicant's designated representative for signature and return.

The assistant assessor receives a copy of each appeal from the clerk. The assistant assessor reviews the appeal, tracks the appeal, and assigns the appeal to an appraiser. The assigned appraiser attempts to contact each applicant prior to the scheduled hearing to explain the assessment, understand the applicant's concerns, and try to come to an agreement.

If an applicant is satisfied with the explanation of the assessment, the appraiser suggests that the applicant withdraw the appeal by sending the withdrawal letter received with the hearing letter packet to the clerk. Once the withdrawal letter is received, it is reviewed and is placed on the agenda for approval at the next scheduled appeals hearing. If the applicant and the appraiser can resolve the concerns by agreeing to a value different from what is on the roll (stipulated value), the appraiser prepares a stipulation and cover letter outlining the details of the assessment changes. The stipulation is reviewed by the assistant assessor, and three copies are mailed to the applicant to sign and return. After the assessor, applicant, and county counsel sign the stipulation, the assessor sends it to the appeals board for approval. The stipulation is then added to the appeals agenda to be reviewed and approved at the next scheduled hearing. Once the stipulation has been approved, a copy is retained by both the clerk and the assessor, and one copy is mailed to the applicant. If no agreement can be reached, the appeals process continues and the scheduled hearing takes place.

Assessment appeal hearings are held six times per year. During our current survey, no appeals hearings were scheduled. However, we reviewed an appeal packet presented by the assessor from a prior hearing and found the file to be well organized.

Overall, the assessor's appeals program is well administered, and we have no issues or concerns.

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 relief is available to any assessee whose property suffers damage exceeding \$10,000 (without fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assesseees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

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 reductions in current market value and reduce the assessed values by those percentages.

The assessor discovers calamities through building permits issued for repairs, field canvassing, taxpayer notification, and newspaper articles. The assessor also has access to an online fire reports log that is reviewed on a daily basis.

Upon discovery of a property that has suffered from a misfortune or calamity, the assessor mails an application to the property owner. The application is also available on the Mendocino County

website. When an application is received from the taxpayer, staff logs it, date stamps it, and assigns it by geographical area to an appraiser for handling.

The following table shows the number of disaster relief claims over recent years:

ROLL YEAR	CLAIMS FILED
2007-08	12
2006-07	22
2005-06	40
2004-05	41

We reviewed records of properties that were granted disaster relief. The assessor verified the damage, noted the damage amount on the records, and reduced the assessment when appropriate. If denied, the taxpayer was notified by letter. We further verified that proper notification was sent to the owners advising them of the reduced value and their appeal rights.

Overall, the assessor's disaster relief program is well administered. However, we found one area of concern regarding the disaster relief ordinance.

RECOMMENDATION 2: Request the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.

The Mendocino County Board of Supervisors adopted a disaster relief ordinance (Ordinance 1265) in 1974. This ordinance applied to property damaged or destroyed by misfortune or calamity in an area subsequently proclaimed by the Governor to be in a state of disaster. The original ordinance was amended in 1975 (Ordinance 1597) to provide for reassessment of property damaged or destroyed by misfortune or calamity without the fault of the owner and without proclamation by the Governor. However, section 170 has been extensively modified since 1975. Since the board of supervisors has not revised the ordinance since 1975, it is not in conformity with 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.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt from taxation all real property with a base year value, and personal property with a full cash 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 from taxation property with a total base year value or full cash value of more than \$5,000 (effective January 1, 2010, the maximum amount that can be exempted under a "low value" local ordinance was increased to \$10,000), or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property exemption ordinance 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 property exemption threshold for cost-effective real property assessments at \$1,000 on January 7, 1992. Based on the board's decision, the assessor exempts all property with a value of \$1,000 or less. When appraisers enter an assessed value of less than \$1,000 into the assessment system, the system prevents the creation of a tax bill.

We reviewed properties with an assessed value of \$1,000 or less. We found one problem area with the low-value property exemption program.

RECOMMENDATION 3: Assess all property that is not otherwise exempt from taxation.

The assessor is exempting low-value personal property without authority. For example, unsecured personal property accounts are assessed only if the total value exceeds \$1,000. Section 155.20 authorizes the county board of supervisors to enact a resolution exempting from taxation all real and personal property with a value so low that the total taxes, special assessments, and subventions would amount to less than the cost of assessing and collecting. In this case, the county board of supervisors enacted a resolution exempting from taxation all real property with a full value of \$1,000 or less. Since the resolution only includes real property, the assessor has no authority to exempt low-value personal property not otherwise exempt.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, 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 is also 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. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

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

The assessor processed 83 religious exemption claims and 1 church exemption claim for the 2009-10 roll year. The following table summarizes religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2009-10	83	\$24,640,058	1	\$1,045
2008-09	81	\$23,826,817	0	\$0
2007-08	82	\$23,197,203	0	\$0
2006-07	81	\$22,848,605	0	\$0
2005-06	83	\$22,460,175	0	\$0

The assessment information supervisor and one staff assistant process all church and religious exemption claims. When a claim is filed, an exemption code is assigned. The assessor refers to Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267), for guidance in processing these exemptions.

We reviewed a number of religious and church exemption claims. We found one area where improvement is needed.

RECOMMENDATION 4: Review annual claims for nonqualifying uses and include a property use report with all claims.

For 2009, the assessor granted a religious exemption for property used solely by a public school. However, public school use alone is not a qualifying use for the religious exemption and is a possible reason for denying the exemption. A careful review of BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, should have prompted the assessor to contact the claimant and discuss the use of the property and possible use of a different exemption; in this case, either the public school or the lessor's exemptions would have been appropriate. Had the property not qualified for additional exemptions, the assessor would have been required to issue an escape assessment for the property.

Monitoring the use of property receiving an exemption is a vital part of an exemptions program. One of the reasons for filing annual claims is to review and discover any changes in a property's ownership or use and adjust the exemption accordingly. A particularly useful tool in this process is a property use report that can be designed by the assessor and included with exemption claims. The property use report can request information on use by outside organizations, frequency of that use, the area used, and any fees charged. This provides both assessor and claimants a history of property use and is an invaluable instrument in the administration of exemptions for individual properties.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by

organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. 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. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships that own and operate low-income housing and have a qualified organization (OCC holder) as the managing general partner. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim, based on nonqualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The assessor processed 445 welfare exemption claims for the 2009-10 roll year. The following table summarizes welfare exemption data for recent years:

ROLL YEAR	WELFARE EXEMPTION	EXEMPTED VALUE
2009-10	445	\$204,156,945
2008-09	426	\$193,137,026
2007-08	422	\$179,505,852
2006-07	434	\$168,986,659
2005-06	432	\$147,706,999

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. During our review of welfare exemption claims, we inspected claims for low-income housing property, including properties owned by a limited partnership. Our review indicated the assessor verifies an organization applying for the welfare exemption for the first time has an OCC or SCC, if applicable, issued by the BOE, conducts field inspections for both first-time filing claims and added locations, verifies that supplemental affidavits are submitted with claims for the welfare exemption when required, and correctly allocates exemption values and taxable values of properties receiving partial exemptions. However, we found an area where improvement to the welfare exemption program is needed.

RECOMMENDATION 5: Grant exemptions only for years which the organization files claims and, if necessary, apply appropriate late-filing penalties.

We found a number of instances in which the assessor granted an exemption for years when the organization did not file a claim and occasions when late-filing penalties should have applied, but were not. The assessor allowed exemptions for years when no claim was filed, because she believed the claimant had intended to file.

Section 254 requires a claim for any year in which an organization seeks exemption. Section 270 outlines the late-filing provisions of the welfare exemption. Besides the requirements of statutes, a claimant should file for each year to attest to the exempt use of the property for the period it claims the exemption. A basic premise of property tax exemptions is that the use of the property returns a benefit to the community in lieu of taxes that would have been paid. A standardized approach to the administration of property tax exemptions is essential to any well-run program. Fairly administering any late-filing penalties is an important part of that program.

By not requiring claims to be submitted, the assessor is in danger of allowing exemptions for periods for which the property did not qualify. Additionally, inconsistent application of late-filing penalties is unfair to organizations that do file timely and to those who have incurred late-filing penalties.

Disabled Veterans' Exemption

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

The disabled veterans' exemption at the \$100,000 basis requires a one-time filing, while the low-income exemption at the \$150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The assessor processed 227 disabled veterans' exemption claims for the 2009-10 roll year. The following table shows disabled veterans' exemption data for recent years:

ROLL YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2009-10	227	\$23,645,357
2008-09	219	\$21,742,355
2007-08	205	\$20,183,416
2006-07	198	\$18,813,575
2005-06	194	\$17,441,040

We found a few areas of concern in the assessor's disabled veterans' exemption program.

RECOMMENDATION 6: Improve the disabled veterans' exemption program by:
(1) complying with the filing and prorating guidelines regarding the disabled veterans' exemption, and
(2) calculating late-filing penalties on the low-income disabled veterans' exemption on the amount over the basic exemption.

Comply with the filing and prorating guidelines regarding the disabled veterans' exemption.

It is the assessor's practice to impose late-filing penalties if a disabled veterans' exemption was first filed after February 15. Additionally, we found the assessor prorated exemptions from the first day of the month following the month of the effective date of disability.

Section 276.1 permits the exemption beginning on the effective date of a 100 percent disability when a claim is filed "...the later of 30 days (90 days, effective 1/1/2011) of receipt of the disability rating from the United States Department of Veterans' Affairs or on or before the next following lien date." First-time filing for the disabled veterans' exemption is independent of the February 15 deadline for other exemption claims. February 15 only relates to disabled veterans' exemptions for the renewal of the low-income provision.

Granting the exemption from the first day of the month following the month of effective disability is not provided for in code and the assessor should be granting the exemption as of the effective date of disability. The assessor's practice denies disabled veterans the full exemption to which they are entitled.

Calculate late-filing penalties on the low-income disabled veterans' exemption on the amount over the basic exemption.

We found it is the assessor's practice to apply the 90 percent or 85 percent late-filing penalty to the entire amount of the low-income disabled veterans' exemption. The penalty for late-filing should be calculated on the amount that exceeds the basic exemption per section 276(b). For example, the basic exemption for 2009 was \$114,634 and the low-income exemption was \$171,952. Applying a 90 percent late-filing penalty on the entire low-income exemption results in a penalty of \$17,195 versus the correct penalty of \$5,731 calculated on the amount over the basic exemption. In tax dollars, this equals \$172 versus \$57, which is a significant difference.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.⁵ Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment

⁵ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

duties. However, such forms may not be used as substitutes for Board-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

To enforce the use of prescribed forms, the BOE annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

We have no recommendations for the assessor's assessment forms program.

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.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Article XIII A Annual Inflation Factor

Pursuant to section 51(a), the inflation factor shall be the annual percentage change in the California Consumer Price Index (CCPI) for all items, as determined by the California Department of Industrial Relations, rounded to the nearest one-thousandth of 1 percent. Each year, the BOE issues a Letters To Assessors (LTA) announcing the year's CCPI adjustment to be applied.

We found one in area in need of improvement when applying the inflation factor.

RECOMMENDATION 7: Properly apply the inflation factor as required by section 51.

While reviewing files during the survey, we found several property files where the assessor did not properly apply the inflation factor to the base year value when doing manual calculations for the following lien date. The assessor applied the inflation factor as prescribed by the BOE for the given year, and if the value resulted in a number ending with a decimal of less than 0.50, the assessor correctly rounded the value down. However, if the value resulted in a number with a decimal of 0.50 or greater, the assessor rounded the value up, causing the resulting value to increase more than the annual CCPI adjustment as announced by the BOE for the given year. For example, property with a land value of \$3,275 X 2% annual inflation factor = \$3,340.5, the assessor would round up and enroll \$3,341. However, the assessor should round the value down or truncate the value and enroll \$3,340 in order not to exceed the Board-announced inflation factor and to avoid a possible increase of more than 2 percent in any given year.

Section 51(a)(1) provides that the taxable value of real property shall be its base year value, compounded annually since the base year by an inflation factor. When applying the inflation factor to the base year value, according to section 51(a)(1)(D), in no event shall the percentage increase for any assessment year exceed 2 percent of the prior year's value.

By rounding the base year value up after applying the inflation factor, the assessor is enrolling overstated assessments and is not following statutory guidelines.

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 the definition of change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor's primary source of discovering properties that have changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, to accompany documents submitted for recordation for the transfer of ownership of real property. If a transfer document is received without a PCOR, the recorder's office will apply a \$20 charge to the recording fee. PCORs are available at both the assessor's and recorder's offices, as well as on the county's website. Local ordinance requires the assessor's parcel number (APN) on all deeds.

The Mendocino County Assessor also functions as the County Clerk and County Recorder. Recorded documents, based on a set of parameters, are sent electronically from the recorder's office to the assessor's office. PCORs are picked up by the assessor's mapping coordinator twice a month.

The mapping coordinator confirms the property description, verifies the APN, and makes any necessary splits or lot line adjustments. The tax technician verifies the ownership of the property and determines the assessability of the transfers. If a possible exclusion applies, a staff assistant will send applicable claim forms to the property owner. Assessable transfers are assigned to the appropriate appraiser based on assigned geographical areas.

We examined several recorded documents and found the assessor conducts a proper and thorough review of assessable and nonassessable events.

Leases

The county discovers lease transactions through recorded documents, appraiser canvassing, business property statements, and phone calls from taxpayers. Although there are very few long-term leases, the assessor is proactive in obtaining a copy of any long-term leases. If a copy of the lease is not obtained at the time of the transfer, a phone call is made to obtain details and terms of the lease. Once lease documents have been processed and determined to be assessable events, the information is sent to the appropriate appraiser or auditor-appraiser for valuation.

Penalties

When a recorded document is received without a PCOR, a staff assistant mails BOE-502-AH, *Change in Ownership Statement (COS)*, to the property owner. A tracking slip is filled out with

the property owner's information and the date the notice was mailed. The staff assistant reviews the slips on a monthly basis to track the response to the COS mailings. If the COS is not returned, a letter and a second COS are sent to the property owner requesting a response within 15 days. Upon the next monthly review, if the second COS is not returned, a letter and third COS are sent to the property owner requesting a response within 15 days. If there is still no response after another month, the property is reassessed. A final letter is then mailed to the property owner with the amount of the penalty and the date it will be added to the tax bill. The assessor cannot automatically abate a penalty; the property owner has to file an appeal. Although the assessor is attempting to be proactive in obtaining a COS, we recognize this is an area in need of improvement.

RECOMMENDATION 8: Correctly implement the penalty process in accordance with section 482(a).

It is the assessor's current practice to send multiple requests for submission of a COS, allowing the property owner 60 days or more to provide the requested information. Thereafter, it can be up to a year or more before the assessor notifies the taxpayer they are applying penalties for failure to file the COS.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars (\$100), or (2) 10 percent of the taxes applicable to the new base year value reflecting the change in ownership of the real property or manufactured home, whichever is greater, but not to exceed two thousand five hundred dollars (\$2,500), shall be added to the assessment made on the roll. The assessor should allow the property owner only 45 days to return a completed COS before applying penalties for failure to file as described in section 482(a).

The information contained in a properly completed COS assists the assessor in making an accurate assessment. By allowing the property owner more time to file the requested COS than described in section 482(a), the assessor is not in compliance with statutory guidelines.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The list is available in hard-copy format at the assessor's office. As allowed by section 408.1(d), a \$10.00 fee is charged for inspection of the transfer list. Pursuant to section 408.1(b), the transfer list is divided into geographical areas by APN. Pursuant to section 408.1(c), the transfer list contains the names of the transferee and transferor, the APN, the situs address, the date of transfer, the date of recording, recording reference number, and the transfer tax if applicable. The assessor observes the confidentiality provisions of section 481, which precludes the disclosure of information on a PCOR or COS.

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 any entities under its ownership

control. 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 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 document evidencing a transfer of an ownership interest in a legal entity.

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor 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, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 45 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 45 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

The assessor checks the monthly LEOP reports regarding legal entity transfers to see if the event has already been identified. The county discovers potential changes in control or ownership of legal entities from newspaper articles, the Internet, and business property statements.

When the assessor receives the monthly LEOP reports, they are reviewed to determine if any entities listed on the reports owned real property within Mendocino County. The reported APNs located in the county are reviewed along with other potential properties affiliated with the entity to ensure all of the entity's real property is reassessed.

The assessor is aware the BOE's LEOP section should be notified utilizing BOE-100-BR, *County Assessor Legal Entity Transfer Referral*, if a change in control is discovered. If the transfer results in an assessable event, the information is given to an appraiser for valuation.

Mendocino County does not encounter many transfers of legal entities. Our review of records shows the county does a thorough job in reviewing LEOP reports and reassessing all property interests identified on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*.

Change in Ownership Exclusions – Section 63.1

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

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. Even if an assessor opts not to report quarterly to the BOE, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have been granted the exclusion for property over their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website. The following table represents section 63.1 claims filed in Mendocino County in recent years:

ROLL YEAR	SECTION 63.1 CLAIMS FILED
2008-09	528
2007-08	818
2006-07	662
2005-06	804
2004-05	535

If a PCOR or COS indicates there may be a transfer may between parent(s) and child(ren) or from grandparent(s) to grandchild(ren), the assessor is proactive in notifying interested parties of a possible exclusion. The assessor sends interested parties a claim form along with a letter explaining the exclusion and requesting a response within 30 days. Claim forms are tracked in a database. After 30 days with no response, a second letter and claim form are sent requesting a response within 15 days. If there is no response, the property is reassessed and a supplemental bill is issued. Although the letters give the taxpayer a deadline to return the completed form, the assessor allows additional time. A staff assistant typically reviews all section 63.1 applications and determines if the exclusion will be accepted or denied; the accuracy of the determination is double checked by the assessment information supervisor.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property exceeding the limit is in Mendocino County or another county. The assessment system allows tracking of such transfers by social security number. If multiple properties transfer within the county, contact is made with the property owner or representative to determine which parcel(s) the property owner wants to have reappraised. If parcels exceeding the limit are in counties other than Mendocino and the most recent transfer is in another county, contact is made with the other county to ensure a reappraisal is completed.

Pursuant to section 63.1(i), the assessor keeps all claim forms in a secure area, which is locked each night, to protect property owner confidentiality. The information is not accessible to the public, only to individuals named in the section.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely or permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Mendocino County does not accept base year value transfers from other counties. Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website.

The following table represents section 69.5 claims filed in Mendocino County in recent years:

ROLL YEAR	SECTION 69.5 CLAIMS FILED
2008-09	17
2007-08	21
2006-07	11
2005-06	26
2004-05	62

If a PCOR or COS indicates a transfer may involve a base year exclusion, an appraiser is given the transfers for review. All base year transfer claims are reviewed by appraisers to determine if the claim will be accepted or denied. The appraiser checks the assessment system to determine if the property owner has previously been approved for a base year transfer in the county and reviews the quarterly *Duplicate SSN Report* from the BOE to determine if any claims have been made in other counties. If the transferee has not previously been approved for the exclusion, the appraiser sends interested parties a claim form along with a letter and information sheet regarding the exclusion. The appraisers determine the fair market value of both the replacement and original properties, and apply the appropriate percentage based on the date the replacement property was purchased or the new construction was completed. If the claim is accepted, the

property owner receives a notice of changed assessment. If a claim is denied, a letter is mailed to the property owner.

Pursuant to section 69.5(n), the assessor keeps all claim forms in a secure area, which is locked each night, to protect property owner confidentiality. The information is not accessible to the public, only to individuals named in the section.

Valuation

Once a transfer has been determined to be an assessable event, the tax technician notifies the appraiser of the area to reassess the property. The sale price is not automatically enrolled and may be overridden if data is available to disprove the purchase price presumption. To confirm the listed sale price accurately reflects market value, appraisers generally rely on the cost approach and comparable sales for both residential and commercial properties. Field inspections of a property are conducted on the majority of the transfers. If an appraiser is unable to gain access to the property, the appraiser will use an aerial viewing system.

We reviewed a number of transfers, which included residential, commercial, and partial interest transfers. We found the assessor is following proper procedures for valuations and is correctly processing supplemental assessments.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements that generally enhance the land value of privately owned real property, such as sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payment of the construction loan.

Section 110(b) provides that there is a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration.

Mendocino County has one district of 272 parcels encumbered by 1915 improvement bonds. The tax collector oversees the listing of parcels encumbered with assessment bonds.

We reviewed properties with a change in ownership and found no problems with the assessor's handling of improvement bonds. Consistent with section 110(b), it is the assessor's policy not to add value to the property for improvement bonds unless the market indicates otherwise.

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 the 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) and (d), and sections 73 through 74.7 address these exclusions.

Discovery

Building permits are the assessor's primary means of discovering new construction activity in Mendocino County. Currently, the assessor receives building permits from six permit-issuing entities: County of Mendocino Planning and Building Services, County of Mendocino Health and Human Services, City of Willits, City of Ukiah, City of Fort Bragg, and Department of Housing and Community Development (HCD). Well and septic permits are issued by the County of Mendocino Health and Human Services. Manufactured home installation and accessory permits are received from HCD. Additional sources used by the assessor for the discovery of new construction include field inspections, anonymous reports, newspapers, aerial photography, and reviews of properties listed for sale.

The following table shows the building permits received by the assessor for recent years:

ROLL YEAR	PERMITS RECEIVED
2007-08	1,195
2006-07	1,412
2005-06	1,391
2004-05	1,654

Permit Processing

Permits and building plans are received by the assessor in hard-copy format from the permit-issuing agencies. The clerical staff date stamps the permits as received and forwards them to the chief property appraiser for review and assignment. The chief property appraiser filters out all maintenance and repair permits before assigning the permits to the appraiser. He then enters data on the remaining permits into a spreadsheet for tracking and verifies parcel and address information for accuracy. The permits are assigned in batches and are routed to the appraiser assigned to the geographical area in which the permit work will be done. Nonassessable permits are discarded. Once the assigned appraiser values the new construction, or portions thereof, the new value along with permit information and other pertinent data is entered into the assessment

system by clerical staff. If there are any concerns regarding the new construction resulting in a new assessment, it is forwarded to the appraiser for review.

Construction in Progress

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. The appraiser must determine the completion status of new construction at each lien date and attribute a value based upon the percent complete. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. The assessor is currently valuing new construction in progress pursuant to section 71.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The appraiser determines the completion status of new construction through direct contact with the building department, new construction questionnaires, on-site inspections, and the recorded date of occupancy. The assessor relies primarily on the cost and market approaches to value new construction, but also utilizes the income approach to value when applicable. When using the cost approach to value new construction, the assessor uses a variety of sources to develop a cost indicator of value, including Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Assessors' Handbook Section 534, *Rural Building Costs* (AH 534), the owner's reported costs, and *Marshall Valuation Service*. It is the assessor's practice to field inspect all property with new construction activity. Only when access is deemed impractical or dangerous are field inspections not completed.

The assessor also sends new construction questionnaires or *Residential Property Statements* (RPS) for some permit activity. The appraisers review permits forwarded to them on a monthly basis and determine which permits require an RPS be sent for additional information. When the RPS is returned, the appraiser compares the reported data with other sources to determine the validity of the cost information provided by the taxpayer.

We reviewed a number of the assessor's records with new construction activity and found assessment records were adequately documented and the new construction appropriately valued. Supplemental assessments are created and issued based on the date of completion for new construction activity. However, we found an area where improvement is needed.

RECOMMENDATION 9: Improve the valuation of new construction by classifying wells as land pursuant to Rule 124.

We found that the assessor does not consistently classify water wells as land and sometimes combines the well value and septic system value, classifying both as improvements. Rule 124 provides that wells are land. By not attributing any value to the land for value added by the new construction of water wells, the assessor is underassessing the land and overassessing the improvements. This may also result in incorrect special assessments.

Declines in Value

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

According to the assessor, Mendocino County saw a peak in the residential real estate market in September 2005 before beginning a slow, continual decline through 2009. The commercial property values seemed to lag behind residential property values, not experiencing a decline until 2009.

The assessor does not have a proactive program in place to discover or identify possible declines in value. The assessor's main source of discovery is from the taxpayer filing an informal request for review. Occasionally, properties are discovered through appraisers' knowledge of declining property values. Also, if there is a decline discovered in a homogeneous area, the appraiser will lower the value of all properties in that area; however, this does not occur very often, since Mendocino County does not have many homogeneous areas.

Properties experiencing a decline in value are reviewed by the appraiser assigned to the geographical area. Each appraiser is responsible for annually reviewing existing declines in value in their area and discovering new declines in value. Each property that receives a reduction in value is coded with a "P" in the assessment system, so it is easily identified for annual reviews and the inflation factor is not applied. The system also tracks the property's FBYV to ensure the value is never restored above the FBYV.

The assessor sends a *Notice of Change in Value* card to property owners when the assessed value has changed due to a decline in value or if the decline in value has been fully or partially restored. This notice includes the new assessed value, the FBYV, and the notification of hearings by the appeals board, including the appeals filing period, the stipulation process, and the location of the clerk of the board.

We reviewed several assessment records for properties experiencing a decline in value and found several areas in need of improvement.

RECOMMENDATION 10: Improve the decline-in-value program by: (1) developing a comprehensive appraisal program for review of properties that experience a decline in value, and (2) documenting and supporting full cash value estimates for properties experiencing declines in value.

Develop a comprehensive appraisal program for review of properties that experience a decline in value.

The assessor does not have an active decline-in-value program in place to discover properties on the roll that are in excess of current market value. Typically, the taxpayer must file an informal request for review before the assessor will review the property for a possible decline in value.

While the assessor reduces the value on some properties based on the appraiser's knowledge of the area, this does not happen often, and the vast majority of the properties with declines in value are discovered when taxpayers request an informal review. In addition, the assessor's informal request for review form instructs the taxpayer to provide evidence to support their opinion of value. The form states, "A simple statement that property values have declined is not sufficient to justify a reduction." This statement implies the assessor will not reduce the property value unless the taxpayer provides sufficient evidence.

Section 2(b) of article XIII A of the California Constitution requires the assessor to recognize declines in value if the current market value of the property on the lien date falls below its FBYV. Section 51(a) requires the assessor, as of the lien date, to enroll the lesser of the property's FBYV or its full cash value, as defined in section 110. Rule 461(d) states that the assessor shall prepare an assessment roll containing the base year value appropriately indexed or the current lien date full value, whichever is less. According to Letters To Assessors No. 92/63, dated September 25, 1992, it is the assessor's responsibility to prepare an assessment roll that appropriately reflects both constitutional and statutory provisions. Not only does the assessor have a responsibility to reassess property when a change in ownership or new construction occurs, the assessor also has the responsibility to discover properties where assessments are on the roll in excess of their current market value.

Further, while the assessor may give the taxpayer the option to include supporting evidence, such as comparable sales, the assessor may not require the taxpayer to do so before allowing for a decline in value. The assessor is required to enroll the lesser of the property's current market value or FBYV as of the lien date, regardless of the taxpayer notifying or providing evidence of a reduction to the assessor.

By not actively identifying properties on the roll exceeding current market value, the assessor is not complying with proper statutes and may be enrolling overstated values. Also, by instructing the taxpayer to provide evidence of comparable sales to justify a reduction of the property value, the assessor is incorrectly placing the burden of proof for a reduction in value on the taxpayer.

Document and support full cash value estimates for properties experiencing declines in value.

We found limited or no support for value estimates enrolled for properties in decline-in-value status. In some instances, the assessor decreased values by 10 percent without a supporting market study, and in others cases values were increased by 2 percent without any comparable sales to indicate the value increase was appropriate. Additionally, on some properties, the assessor estimated the market value for the appraisal unit and then deducted the total loss in value from the improvement value, while enrolling the FBYV for the land. There was no documented market data to support applying the total loss in value only to the improvements or to support that the FBYV for the land was lower than the land's full cash value.

In a declining market, both land and improvements typically will reflect a decline in value. The assessor can determine the full cash value of the property by using the comparable sales approach, income approach, and cost approach. An appropriate allocation of the value between land and improvements should then be determined using one of several accepted techniques,

such as reviewing current land sales in the area to determine a value for the land and applying the remainder to the improvements or using the cost approach to determine a value for the improvements and applying the remainder to the land.

By not adequately documenting appraisal records, the assessor's value conclusions, even if correct, may not be fully understood by taxpayers or other appraisers. Also, enrolling inaccurate allocations between land and improvement values may result in incorrect special assessments being issued.

Supplemental Assessments

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

In Mendocino County, supplemental assessment notices are computer generated once the appraisal staff has completed a value change and the values are posted to the supplemental roll. We reviewed a number of parcels subject to supplemental assessments and noted that the assessment proration, tax bill amounts, time periods, and ownership tracking were done appropriately. However, we did find several areas where improvement is needed.

RECOMMENDATION 11: Improve the supplemental assessment program by: (1) issuing supplemental assessments for taxable possessory interests, (2) processing all supplemental assessments, regardless of value, unless exempted by the board of supervisors, (3) processing all negative supplemental assessments, and (4) processing supplemental assessments upon the change in ownership of a manufactured home.

Issue supplemental assessments for taxable possessory interests.

The assessor does not issue supplemental assessments on any taxable possessory interests.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that in most cases supplemental assessments shall be issued following a change in ownership or completed new construction. According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

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

Process all supplemental assessments, regardless of value, unless exempted by the board of supervisors.

We found the assessor was, in effect, cancelling small supplemental assessments by not sending revised supplemental assessments generating small tax bills to the auditor. The dollar amounts cancelled varied depending on the appraiser's judgment.

Section 75.55 permits the assessor to cancel a supplemental assessment if the taxes to be collected are less than the cost of assessing and collecting the taxes. However, the assessor can exercise this authority only if the county board of supervisors passes a resolution authorizing such cancellations. The Mendocino County Board of Supervisors has not adopted an ordinance giving the assessor authority to cancel small supplemental assessments. Not until adoption of an ordinance by the board of supervisors can the assessor legally cancel small supplemental assessments.

The assessor's failure to assess small supplemental assessments results in a loss of revenue and is contrary to statute.

Process all negative supplemental assessments.

We found the assessor does not send all negative supplemental assessments to the auditor.

Section 75.11 provides that the assessor shall make supplemental assessments for changes in ownership and completion of new construction. Section 75.41(e) provides that if a supplemental assessment results in a negative amount, the auditor shall follow procedures to determine the amount of the refund.

The assessor's failure to process all negative supplemental assessments results in overassessments to some taxpayers and unequal treatment in the supplemental assessment process.

Process supplemental assessments upon the change in ownership of a manufactured home.

The assessor's policy for the issuance of supplemental assessments on manufactured homes is inconsistent. Supplemental assessments are not processed upon the change in ownership of a manufactured home in a mobilehome park other than for those in a resident-owned mobilehome park. Manufactured homes situated in mobilehome parks, including resident-owned parks, are classified as personal property. The assessor's explanation for not issuing supplemental assessments was that manufactured homes are classified as personal property and supplemental assessments do not apply to personal property. Supplemental assessments are processed for mobilehome accessories classified as improvements.

The law generally provides that while manufactured homes are to be classified as personal property, they receive a treatment similar to that afforded most real property under article XIII A. Sections 75 and following provide that the assessor is to appraise property at its full cash value

upon a change in ownership or the completion of new construction and to issue supplemental assessments based upon the new assessed value and the event date. Section 75.5 provides the definition of "property" and specifically states "property" includes taxable manufactured homes.

By not consistently processing supplemental assessments upon the change in ownership of taxable manufactured homes, the assessor is not treating taxpayers equally and is not in compliance with statutory provisions. Additionally, this practice results in lost property tax revenue.

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 on agricultural income-producing ability (including income derived from compatible uses such as 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 guidance for the appraisal of these properties.

Most of the rural property in Mendocino County is devoted to agricultural use with timber and wine grapes, the top two largest commodities by value of production. The county accounted for \$175.6 million in gross production value of agricultural commodities in 2008, a decrease of over 15 percent from the prior year. Wine grapes alone accounted for over \$62 million of agricultural production value in 2008.

For the 2009-10 roll year, Mendocino County had 4,659 parcels encumbered by CLCA contracts, totaling 487,186 acres with a total assessed value of \$291,788,150. This included 4,833 acres in nonrenewal status. The number of agriculturally restricted properties entering nonrenewal status in Mendocino County is expected to grow in coming years. Nonrenewal values are calculated according to section 426. In accordance with Government Code section 51283, the assessor determines the cancellation value for CLCA properties by determining the current fair market value of the land as if unrestricted.

In Mendocino County, two real property appraisers are responsible for the valuation of CLCA and Timberland Production Zone (TPZ) properties. CLCA questionnaires are mailed out periodically, but not annually, due to budget and workload constraints. Income and expenses are derived from a market analysis that utilizes data from the Mendocino County Crop Report, questionnaires from property owners, and other published data. We found the income and expense estimates used in CLCA valuations are adequately supported.

In developing the capitalization rate used in the valuation of CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE, and adds a risk component and a tax rate component. The risk rates used by the assessor in the capitalization rate are 1.5 percent for grazing land and 3 percent for irrigated farmland. The irrigated farmland rate is also used for tree and vine cropland. We found that homesites are correctly valued according to section 428 and supplemental tax bills are issued on these unrestricted portions of CLCA properties when appropriate.

We reviewed several CLCA assessments and found the assessor is working toward an efficient and well-organized program to value these properties. However, we found areas where improvement is needed.

RECOMMENDATION 12: Improve the valuation of CLCA properties by:
(1) annually computing the restricted values on CLCA property, (2) recognizing and including compatible uses and the corresponding income to the income stream when valuing CLCA property, and (3) not adding a reversionary value in the appraisal of restricted living improvements.

Annually compute the restricted values on CLCA property.

Although the two appraisers responsible for the valuation of agricultural land are working on a system to efficiently revalue all CLCA property on an annual basis, we found that the current practice falls short of this goal. The assessor does not annually calculate a restricted value pursuant to section 423 for all CLCA properties.

Pursuant to section 423, the assessor should annually calculate the restricted value of the land under CLCA contract, so that a three-way comparison between the section 423, market, and factored base year value can be made, with the lowest of these three values enrolled as the taxable value of the restricted property.

By not annually calculating a restricted value for the restricted portion of CLCA property, the assessor cannot make the three-way comparison necessary to correctly value such property pursuant to section 423. This practice may lead to an incorrect assessment of CLCA property.

Recognize and include compatible uses and the corresponding income to the income stream when valuing CLCA property.

Several CLCA properties include tasting rooms, which the assessor has properly identified as a compatible use. The tasting room improvements are unrestricted and the assessor correctly values such improvements according to article XIII A. However, we found the land on which the improvements are situated is not being properly valued.

The AH 521 (page II-15) provides the net income attributable to the compatible use, in this case, the net income attributable to the land on which a tasting room is situated, should be separately estimated; added to the other restricted land income; and capitalized using the restricted capitalization rate.

By not properly estimating and capitalizing compatible use income, the assessor is undervaluing the property.

Do not add a reversionary value in the appraisal of restricted living improvements.

In reviewing the valuation of living improvements, we found that the assessor estimates a reversionary value for the vines and adds the present worth of the reversion to the present worth of the capitalized income attributable to the vines.

The addition of a reversionary value to the capitalized vine income is contrary to the procedure for valuing living improvements provided in AH 521 (pages II-36 through 39). The income stream attributable to the vines should be estimated over the remaining economic life of the vines, after which, by definition, the vines have no value. Adding a reversionary value to the income stream incorrectly assumes the vines have value past the end of their economic life. In circumstances where the estimated economic life of the vines has been miscalculated, the assessor should re-estimate the remaining economic life, adding years onto the income stream during the declining stage of the life cycle.

Adding a reversionary value to the vines overstates the 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 is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435).

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

Mendocino County had 5,761 TPZ parcels comprising 840,693 acres of pine-mixed conifer for the 2009-10 roll year. The following table summarizes data pertaining to TPZ parcels for recent years:

ROLL YEAR	PARCELS	ACRES	LAND VALUE	HOMESITE VALUE
2009-10	5,761	840,693	\$136,241,471	\$23,968,896
2008-09	5,741	840,826	\$135,508,511	\$22,337,839
2007-08	5,662	840,085	\$134,626,181	\$19,088,728
2006-07	5,620	841,508	\$140,703,382	\$16,547,783
2005-06	5,632	841,921	\$144,149,014	\$14,927,434

Our review showed that the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ parcels. The assessor updates TPZ values annually based on the site

class values provided by the BOE. Currently, there are no TPZ parcels in nonrenewal status. However, should the situation arise, the assessor is prepared to value the TPZ parcels in nonrenewal pursuant to section 426. All of the land zoned as TPZ is identified on the assessment roll with the notation "TP."

The assessor identifies and properly assesses compatible uses on TPZ properties. Any improvements located on TPZ parcels are identified and properly assessed at the lower of factored base year value or current market value. Homesites, additional land, residences, and other structures were properly valued, and supplemental assessments were issued correctly for change in ownership.

Our review of TPZ lands in Mendocino County indicates that the assessor is in compliance with all applicable statutes.

Taxable Possessory Interests

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

The assessor has 486 taxable possessory interests on the 2009-10 assessment roll totaling approximately \$14,117,000. The majority of the taxable possessory interests consist of concessionaires at the fairgrounds, aircraft hangars, and employee housing.

The assessor's program for discovering taxable possessory interests includes annually contacting government entities owning real property within the county and requesting information about agreements with private parties involving the use of such property. The assessor contacts 19 public agencies by letter, telephone, or in person. The assessor also sends form letters to the majority of the existing taxable possessory interest holders in an effort to verify the taxable possessory interest is still in effect and to confirm ownership and address data on the account. The valuation and monitoring of taxable possessory interest assessments are the responsibility of the assistant assessor.

In our review of the assessor's program for the assessment of taxable possessory interests, we noted several areas in need of improvement.

RECOMMENDATION 13: Improve the taxable possessory interest program by: (1) obtaining current copies of all lease agreements for taxable possessory interests, (2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (3) periodically reviewing taxable possessory interests with stated terms of possession for declines in value, (4) deducting allowable expenses from gross income when valuing taxable possessory interests, and (5) revaluing land and improvements upon the creation, renewal, extension, or assignment of a taxable possessory interest.

Obtain current copies of all lease agreements for taxable possessory interests.

The assessor does not have current leases or use permits on file for reference when valuing taxable possessory interests, even though such documents are the primary source of several valuation variables necessary for valuation. Instead, the assessor estimates the values of such variables. For example, rather than using the stated term of possession in the lease or permit as the reasonably anticipated term of possession, the assessor simply estimates a reasonably anticipated term of possession. Economic rents are estimated without considering the contract rents.

Rule 21 describes the various approaches to value for taxable possessory interests. Several steps in the valuation approaches cannot be properly completed without the information contained in the contract or permit conveying the possessory interest. For example, the assessor may have some information relating to the initial lease term, but without a copy of the lease may not know of renewal options or the lessor/lessee expense allocations prescribed in the lease.

Without access to necessary information contained in the lease or permit creating taxable possessory interests, the assessor is not able to correctly value such interests.

Use the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests.

When valuing taxable possessory interests with a stated term of possession created by a contract, we found several instances where the assessor used a term of possession different from the stated term of possession as the reasonably anticipated term of possession without any supporting documentation.

Rule 21(d)(1) provides that the stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. In several cases where the term used by the assessor was different from the stated term of possession, we found no evidence of a mutual understanding or agreement such that the term used by the assessor should be deemed the reasonably anticipated term of possession.

With respect to the assessment of taxable possessory interests of a stated term, the assessor's use of a term of possession different from the stated term of possession without any support is contrary to Rule 21 and may result in incorrect assessments.

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

We found that the assessor does not review taxable possessory interests with stated terms of possession for subsequent declines in value. Instead, the assessor enrolls the factored base year value until the contract term expires or there is otherwise a change in ownership.

Rule 21(d)(1) provides that the stated term of possession shall be deemed to be the reasonably anticipated term of possession unless there is clear and convincing evidence the lessor and lessee anticipate a different term is appropriate through a mutual agreement or understanding.

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as the remaining period of possession as of the date specified in the lease, agreement, or permit, including any options to renew or extend the specified period of possession. Therefore, the stated term of possession declines each year, which may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual agreement or understanding as to a longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on the lien date based on the remaining term of the contract, compare this value with the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

Deduct allowable expenses from gross income when valuing taxable possessory interests.

When valuing taxable possessory interests by the income approach, the assessor typically capitalizes the economic rent without making any deductions from the gross rent for management and other operating expenses incurred by the public lessor.

Rule 21(e)(3)(C) provides that to arrive at the income to be capitalized, any expense necessary to maintain the income from the taxable possessory interest must be deducted from the gross economic rent if the expenses will be paid out of the gross economic rent.

A public owner will, at a minimum, incur some management expense associated with each taxable possessory interest. Some agreements also may require the public owner to pay for insurance, maintenance, or utilities. Capitalizing the gross income without deducting management and other property related expenses paid by the public lessor from the gross income overstates the value of the taxable possessory interest.

Revalue land and improvements upon the creation, renewal, extension, or assignment of a taxable possessory interest.

When valuing a taxable possessory interest at the local airport due to a change in ownership, we found the assessor had reassessed the land, but not the hangar (improvements). The hangar remained assessed at its existing factored base year value without recognition of a change in ownership. This was the case even though our review of the lease indicated that the hangar (improvements) became the property of the public owner upon termination of the lease.

Our current advice on the matter is found in Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), at page 6. We advise that if the lease or use permit creating the taxable possessory interest in land provides that improvements constructed by the possessor become the property of the public lessor at the termination of the lease, then such improvements should be valued as a taxable possessory interest with the underlying taxable possessory interest in land and not valued separately as if owned in fee by the possessor.

As noted above, according to the lease, the hangar at the airport becomes the property of the public owner at termination of the lease and, therefore, should be valued as a taxable possessory interest together with the taxable possessory interest in land. The improvements also should be subject to reassessment when there is a change in ownership of the taxable possessory interest.

By not revaluing both the land and the improvements as part of the taxable possessory interest upon a change in ownership, the assessor is enrolling an incorrect assessment.

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 time, they may add or 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 BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape 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 if additions are properly enrolled.

Coordination between the business property and real property divisions is essential for the proper assessment of leasehold improvements. Procedures should be designed to ensure all new construction improvements are valued at the appropriate amount, not assessed to multiple accounts, and are assessed to the proper person.

Our review indicates the assessor does not have any formal written procedures for the discovery and assessment of leasehold improvements in the county. A section of the BPS (Schedule B) deals specifically with real property owned or improved by the owner or tenants of premises housing business ventures. Taxpayers are required to annually list additions, alterations, or deletions of real property improvements by reporting costs detailing changes to land, land improvements, and structures. In this way, taxpayers report costs of additions or alterations to tenant improvements. These changes must, by law, be reviewed and reflected in the property assessment if they qualify as new construction.

When tenant improvements are reported on a BPS, the business property division sends the real property division a copy of each BPS. Responsibility for the assessment of structural leasehold improvements generally falls upon the real property appraisers. However, there are situations where the business property technician and the real property appraiser will make the final decision together. The real property appraisers generally send notes to the business property personnel to notify them of personal property items.

The primary discovery tools for leasehold improvements are BPSs and building permits. Other discovery tools include surveys of tenants in commercial buildings, review of leases, field observation during audits, and audits of business records. All reported costs not clear as to classification are investigated. Considering the small size of the office in this county, the practice seems acceptable.

We reviewed a number of these files and found the improvements correctly assessed. The assessor's leasehold improvement program complies with the current statutes.

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.

Mendocino County has no assessable high temperature geothermal properties or petroleum properties. Mendocino County does not separately report the value of mineral properties on its tax roll.

Mining Property

There are several mining properties located in Mendocino County. The mining properties are assigned to the audit section which also values the related equipment and fixtures. In past years, the assessor has had difficulty getting compliance from taxpayers with respect to filing annual reports on mineral extraction properties. A renewed effort to improve compliance is ongoing and a greater number of taxpayers are now filing reports.

RECOMMENDATION 14: Establish base year value for reserves of mining properties and adjust annually as required by Rule 469.

Mineral right values are included on the tax roll under land acquisition values. However, reserves are not tracked, and no annual adjustments are made to base year values to account for depletion or other changes to reserves. A review of property records for mining properties shows that the assessor has not implemented procedures to follow Rule 469, which requires establishing a base quantity of reserves, monitoring production from active mining properties, and depleting the base reserves by the annual production. A review of property statements filed by a taxpayer show that their geologic review of several properties' reserves resulted in a decrease in those reserves. This was reported, but no indication could be found that this resulted in a decrease in the adjusted base year value for these properties as required by Rule 469(e)(1)(A). Failure to reduce the base year value for depletion of reserves can result in overassessment of the mineral right interests in the property.

Unpatented Mining Claims

In Mendocino County, there are 93 unpatented mining claims grouped into eight appraisal units. Unpatented mining claims are appraised by the audit section. The assessor sends BOE-560-C, *Mining Claim Production Reports*, to taxpayers to verify ownership.

RECOMMENDATION 15: Do not arbitrarily increase assessments of mining claims for failure to file annual statements.

We found two groups of mining claims that had been discovered by the assessor on the same day and enrolled as possessory interests unpatented mining claims. The only difference between the two parcels was that one comprised six claims and the other five claims. Beginning in 2006, the owner of the parcel with five claims failed to file an annual statement, even though Bureau of Land Management data indicates that the claims are still active and under the same ownership. A penalty was assessed, but the base year value of the parcels was not adjusted by the index factor. In subsequent years, it appears that the assessor arbitrarily increased the assessment of the parcel in addition to assessing a penalty for failure to file a report. We found no justification in the file for the increased assessment.

The taxpayer for the other group of claims continued to file annual reports until 2008. No similar adjustments or increased assessments were made with respect to this parcel. The proper index factor was applied in 2006 to the base year value.

There are only eight mining claim assessments in the county and this case appears to be an erroneous assessment related to a single parcel. However, there is no legal authority for increasing an assessment based on the failure to file an annual statement. The parcel with five claims has been over-valued by nearly 50 percent.

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 programs for conducting audits, processing business property statements, valuing business equipment, and assessing manufactured homes.

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.

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer had assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

During the 2009-10 roll year, the assessor completed 30 audits. According to the assessor's calculations and Letters To Assessors No. 2009/049, the amended statute requires the assessor to complete 22 audits per year hereafter. Based on past years' production, as well as recent audit

production, it appears the assessor will complete the newly defined number of audits required pursuant to section 469.

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 period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor requests waivers of the statute of limitations from taxpayers when she anticipates an audit will not be completed in a timely manner.

Audit Quality

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

We found audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. In addition, we found the assessor's audit procedures, audit review, and audit controls to be well structured and maintained. We commend the assessor for her excellent audit program.

Business Property Statement Program

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

Workload

The following table presents the assessor's workload of secured and unsecured BPSs and assessments for recent years:

ROLL YEAR	SECURED ACCOUNTS	ASSESSMENT	UNSECURED ACCOUNTS	ASSESSMENT
2009-10	3,078	\$201,543,706	7,399	\$336,651,695
2008-09	2,985	\$199,198,312	7,264	\$306,513,202
2007-08	2,948	\$205,717,767	7,164	\$274,402,820
2006-07	2,842	\$194,955,217	7,086	\$262,765,049
2005-06	2,863	\$188,623,484	6,971	\$257,023,176

The assessor utilizes 1 senior auditor-appraiser, 2 auditor-appraisers, 1 staff assistant, and assessment clerks for the business personal property appraisal functions and the processing of BPSs.

General Statement Processing

BPS processing begins with the staff assistant, who reviews the submitted BPSs for completeness. Any changes in owner name, business name, situs, or mailing address are noted, and all data is updated and input into the assessment program. BPSs are forwarded to an auditor-appraiser or property appraiser for review and valuation.

We reviewed the BPS program, including processing procedures, use of Board-prescribed forms, processing by noncertified staff, completeness of the BPSs, authorized signatures, application of penalties, real property division coordination, and record storage and retention.

Filing Procedures

Under section 441.5, in lieu of completing the BPS as printed by the assessor, information required of the taxpayer may be furnished to the assessor as attachments to the BPS provided the attachments (1) are in a format as specified by the assessor, (2) include a copy of the actual BPS signed by the taxpayer and carries appropriate reference to the data attached, or (3) the BPS is filed electronically and authenticated as provided in section 441(k). The assessor allows taxpayers to submit attachments in lieu of completing BPSs as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits the signed original of the BPS.

Our review included verifying the assessor's procedures for processing late-filed and non-filed BPSs. We found that the assessor properly applies the late-filing penalty as required by section 463. We found no problems with the assessor's filing procedures for BPSs.

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 BPS. An initial value is established and continued for several years with only periodic BPSs 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 BPSs that must be handled by the assessor.

For the 2009-10 roll year, there were approximately 400 accounts in the assessor's 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 is less than \$10,000.

Overall, the assessor has an effective direct billing program.

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. Taxpayer self-reporting and real property appraiser referrals are significant means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing city and county business licenses, business directory services, sales tax permits, BOE notifications, and pollution control equipment financing bonds. We found the assessor employs effective methods for discovering business personal property.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical 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 and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

The assessor uses a codification system to identify and designate the use of specific valuation tables to business property accounts in the assessment system. We reviewed the written procedures and standardized valuation policies related to business property valuation and found them to be in order.

Construction and Agricultural Mobile Equipment Percent Good Factors

The assessor utilizes appropriate factor tables for new and used construction and agricultural mobile equipment pursuant to the instructions on Table 5 and Table 6 in AH 581. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both construction and agricultural mobile equipment when the taxpayer does not indicate on the BPS whether the equipment was acquired new or used. When the condition upon purchase is known, the assessor should use the "new" or "used" table. We found the Board-recommended cost index and depreciation tables to be correctly applied.

Manufactured Homes

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

In Mendocino County, there are 940 manufactured homes in 57 mobilehome parks, including two resident-owned parks. The 2009-10 assessment roll value of these homes is approximately \$36,000,000.

The assessor assigns each locally assessed manufactured home in a park a fictitious parcel number beginning with "700." Manufactured homes not situated in a mobilehome park are assigned the parcel number for the underlying land, but with a modified suffix of "70." The manufactured homes are classified as personal property and enrolled on the secured roll. Homes that were previously manufactured homes but are now improvements for property tax purposes (as appropriate per section 18551 of the Health and Safety Code) are classified and enrolled as improvements.

The assessment of manufactured homes is assigned to various property appraisers depending on geographic location. Upon receipt of information from the Department of Housing and Community Development (HCD), dealer reports of sale, building permits, or appraisers, tax clearance certificates are obtained and the assessment work is forwarded to the appropriate appraiser. The appraisers use both market sales information and Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), for valuing the manufactured homes. All accessories such as decking, awnings, and skirting are included and documented in the cost estimate. Overall condition and age are also considered in the cost analysis. When deemed appropriate by the appraiser, adjustments for site value, based on market data, are deducted from the purchase price. Upon a change in ownership, supplemental assessments are processed for the accessories, but not for the manufactured home. This issue is addressed in the Supplemental Assessments section of this survey report.

Resident-Owned Mobile Home Parks

Sections 62.1 and 62.2 exclude certain transfers of mobilehome parks from a change in ownership when the park is ultimately purchased by at least 51 percent of the tenants renting the individual spaces in the park. Qualifying conversions to resident ownership under these sections permit 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.

With respect to transfers of mobilehome parks, where a change in ownership was excluded by section 62.1(a)(2), since the individual residents may have ownership interests in the park, subsequent transfers are treated as changes in ownership just as any other transfer of an interest in real property, including forms of "share" ownership (such as condominiums or stock cooperatives). Ownership interests in the park may encompass the outright ownership of a particular manufactured home, the exclusive right to occupy a space within the park, and the right to participate in the management of the park and the governance of the corporation.

There are currently two resident-owned mobilehome parks in Mendocino County. When the residents acquired the parks, the assessor correctly excluded the transfers from reassessment. However, the assessor has not correctly applied the requirements of section 62.1 to subsequent transfers within the parks.

We found two areas for improvement in the assessor's manufactured home program.

RECOMMENDATION 16: Improve the manufactured home assessment program by: (1) periodically reviewing the values of manufactured homes for potential declines in value, and (2) reappraising the ownership interest in a resident-owned mobilehome park upon the change in ownership of a manufactured home within the park.

Periodically review the values of manufactured homes for potential declines in value.

We found the assessor does not review manufactured homes for declines in value. The assessor enrolls the current market value of the manufactured home as of a change in ownership and enters a code into the assessment system to ensure the assessed value does not get factored by the annual inflation factor. We found assessed values have remained unchanged for manufactured homes that have not experienced a change in ownership within the last five years.

Section 5813 provides the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its full cash value, as determined pursuant to section 110, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. While the assessor may consider an annual review for this value comparison unnecessary, a periodic review is a responsible procedure. Additionally, once the base year value of real property is lowered to reflect a decline in value, it must be annually reappraised until its market value once again exceeds the factored base year value.

While perhaps not the intention, when a value lower than the factored base year value is enrolled, the assessor is effectually enrolling a decline in value. If the assessor does not use appropriate review procedures for properties that have experienced declines in value, the properties may be assessed at other than the appropriate taxable value.

Reappraise the ownership interest in a resident-owned mobilehome park upon the change in ownership of a manufactured home within the park.

We found the assessor does not reappraise the transfers of individual interests in resident-owned parks. Upon the sale of a manufactured home in a resident-owned mobilehome park, the assessor reassesses the manufactured home and accessories, but does not reassess the interest in the park, if any, that transferred with the sale of the manufactured home. In one of the two resident-owned parks in the county, there have been no sales of manufactured homes since the formation of the park. In the other resident-owned park, most of the homes have changed ownership since the park was formed.

Sections 62.1(b)(1) and 62.1(b)(2) provide that transfers of real property in resident-owned parks are changes in ownership. Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks* (AH 511), also provides that 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. In addition, AH 511 recommends that a resident's ownership share value of the park could be derived by subtracting the market value of the manufactured home from the reported purchase price paid for the manufactured home and the share or interest in the park. This residual value represents the underlying interest in the park.

By not recognizing that the underlying interest in the resident-owned park may have changed ownership when a manufactured home in the park sells, underassessment of the park, including land and park improvements, may result.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Mendocino County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck

Supervising Property Appraiser

Survey Team Leader:

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Patricia Lumsden

Senior Specialist Property Appraiser

Andy Austin

Associate Property Appraiser

Bryan Bagood

Associate Property Appraiser

Angie Berry

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Paul Stueber

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁶ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁷

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

Base year properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁶ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁷ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

New construction. Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

Non-Proposition 13 properties. Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, Timberland Production Zone property, and taxable government-owned property.

Unsecured properties. Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, that is, the "unexpanded" sample, to over-represent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? Was there a decline in value?

New construction -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? Do we concur with the value enrolled? Was the base year amount trended forward properly (for the allowed inflation adjustment)? Was there subsequent new construction? Or, was there a decline in value?

Non-Prop 13 properties -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

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

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

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

The board may, for good cause, extend the period for filing the response.

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

SUSAN M. RANOCHAK

ASSESSOR-COUNTY CLERK-RECORDER

REGISTRAR OF VOTERS

COMMISSIONER OF
CIVIL MARRIAGES



PHONE (707) 463-4311

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COUNTY OF MENDOCINO

OFFICE OF THE COUNTY ASSESSOR

501 LOW GAP ROAD, RM. 1020

UKIAH, CALIFORNIA 95482

E-MAIL: acr@co.mendocino.ca.us

RECEIVED

SEP 23 2011

County-Assessed Properties Division
State Board of Equalization

September 14, 2011

State Board of Equalization
County-Assessed Property Division
P. O. Box 942879
Sacramento, CA 94279-0064

Attn: Mr. Dean R. Kinnee, Chief

Dear Mr. Kinnee:

In accordance with Government Code Section 15645, I am including 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. Though I am in agreement with most of the Board's recommendations, there are some that I disagree with or feel we are already accomplishing. As you will note in my response, many of the recommendations have already been implemented and others will be as soon as time, personnel resources and budget constraints allow.

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 Mendocino County. I would also like to thank Benjamin Tang, Sally Boeck, Dale Peterson and the remainder of the State Board Sample and Survey Team for the professional manner in which the survey was conducted.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Susan M. Ranochak', is written over a faint, larger version of the same signature.

Susan M. Ranochak,
Assessor County Clerk-Recorder

Enclosed: 3

SMR/scm

MENDOCINO COUNTY ASSESSMENT PRACTICES SURVEY REPORT

RESPONSE

RECOMMENDATION #1: Improve the workload program by reporting complete statistics as requested by the BOE pursuant to section 407.

RESPONSE #1: We agree and will implement as time, staffing and budget constraints allow.

RECOMMENDATION #2: Request the board of supervisors revise the disaster relief ordinance to conform to the current provision of section 170.

RESPONSE #2: We agree. We will submit a request to County Counsel to rewrite our county ordinance.

RECOMMENDATION #3: Assess all property that is not otherwise exempt from taxation.

RESPONSE #3: We agree. Our current ordinance has been in place since 1992. We will submit a request to rewrite the low value exemption ordinance to include all properties and classification within the county.

RECOMMENDATION #4: Review annual claims for non-qualifying uses and include a property use report with all claims.

RESPONSE #4: We agree and the recommendation has been implemented.

RECOMMENDATION #5: Grant exemptions only for years which the organization files claims and, if necessary, apply appropriate late-filing penalties.

RESPONSE #5: We agree and the recommendation has been implemented.

RECOMMENDATION #6: Improve the disabled veterans' exemption program by:
(1) complying with the filing and prorating guidelines regarding the disabled veterans' exemption, and
(2) calculating late-filing penalties on the low-income disabled veterans' exemption on the amount over the basic exemption.

RESPONSE #6: (1) We agree and the recommendation has been implemented.
(2) We agree and the recommendation has been implemented.

RECOMMENDATION #7: Properly apply the inflation factor as required by section 51.

RESPONSE #7: We agree. This was an isolated problem related to a new appraiser in the office. All properties affected have been reviewed and the appropriate corrections have been processed.

RECOMMENDATION #8: Correctly implement the penalty process in accordance with section 482(a).

RESPONSE #8: We agree and will implement as time, staffing and budget constraints allow.

RECOMMENDATION #9: Improve the valuation of new construction by classifying wells as land pursuant to Rule 124.

RESPONSE #9: We agree.

RECOMMENDATION #10: Improve the decline-in-value program by:
(1) developing a comprehensive appraisal program for review of properties that experience a decline in value, and
(2) documenting and supporting full cash value estimates for properties experiencing declines in value.

RESPONSE #10:
(1) We agree and will implement as time, staffing and budget constraints allow.
(2) We disagree. The majority of our decline-in-value status properties are supported by a minimum of three comparables. In some instances the appraiser does apply an across the board reduction. The knowledge that the appraiser has for their appraisal area is sufficient to make this decision.

RECOMMENDATION #11: Improve the supplemental assessment program by:
(1) issuing supplemental assessments for taxable possessory interests,
(2) processing all supplemental assessments, regardless of value, unless exempted by the board of supervisors,
(3) processing all negative supplemental assessments, and
(4) processing supplemental assessments upon the change in ownership of a manufactured home.

RESPONSE #11:
(1) We agree and will implement as time, staffing and budget constraints allow.
(2) We agree. Our current ordinance has been in place since 1992. We will submit a request to County Counsel to rewrite our low value exemption ordinance to include all properties and classifications with the county.
(3) We agree and the recommendation has been implemented.
(4) We agree and will implement as time, staffing and budget constraints allow.

RECOMMENDATION #12: Improve the valuation of CLCA properties by:
(1) annually computing the restricted values on CLCA property,
(2) recognizing and including compatible uses and the corresponding income to the income stream when valuing CLCA property, and
(3) not adding a reversionary value in the appraisal of restricted living improvements.

RESPONSE #12:
(1) We agree and will implement as time, staffing and budget constraints allow.
(2) We agree and feel that this recommendation is already in place based on a review of our office procedures.
(3) We agree and have implemented this recommendation.

RECOMMENDATION #13: Improve the taxable possessory interest program by:
(1) obtaining current copies of all lease agreements for taxable possessory interests,
(2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests with stated terms of possession for declines in value,
(3) periodically reviewing taxable possessory interests with stated terms of possession for declines in value,
(4) deducting allowable expenses from gross income when valuing taxable possessory interests, and

(5) revaluing land and improvements upon the creation, renewal, extension, or assignment of a taxable possessory interests.

- RESPONSE #13:**
- (1) We agree but feel that this recommendation is already in place. We are diligent in trying to obtain all lease agreements for possessory interests.
 - (2) We agree and the recommendation has been implemented.
 - (3) We agree and the recommendation has been implemented.
 - (4) We agree and the recommendation has been implemented.
 - (5) We agree and the recommendation has been implemented.

RECOMMENDATION #14: Establish base year value for reserves of mining properties and adjust annually as required by Rule 469.

RESPONSE #14: We agree and will implement as time, staffing and budget constraints allow.

RECOMMENDATION #15: Do not arbitrarily increase assessments of mining claims for failure to file annual statements.

RESPONSE #15: We agree. This was an isolated problem related to a new appraiser in the office. The property affected has been reviewed and appropriate corrections have been processed.

RECOMMENDATION #16: Improve the manufactured home assessment program by:

- (1) periodically reviewing the values of manufactured homes for potential declines in value, and
- (2) reappraising the ownership interest in a resident-owned mobile home park upon the change in ownership of a manufactured home within the park.

- RESPONSE #16:**
- (1) We agree and the recommendation has been implemented.
 - (2) We agree and the recommendation has been implemented.