

# NEVADA COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2010

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No. 2010/075

December 31, 2010

TO COUNTY ASSESSORS:

NEVADA COUNTY  
ASSESSMENT PRACTICES SURVEY

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2009. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The retired assessor, Mr. Flippin, and the current assessor, Honorable James Dal Bon, and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ John K. Thompson for

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 Nevada County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, and the Senate and Assembly; and to the Nevada County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable James Dal Bon, Nevada County Assessor, elected to file his 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.

## **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 Code<sup>1</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined in Rule 371.<sup>2</sup>

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.

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<sup>1</sup> 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.

Many of our recommendations concern portions of programs which 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 workload, appraiser certification, staff property procedures, assessment appeals, and exemptions. However, we made a recommendation for improvement of the assessment forms program.

In the area of real property assessment, the assessor has effective programs for declines in value and leasehold improvements. However, we made recommendations in the areas of change in ownership, new construction, California Land Conservation Act property, taxable possessory interests, and mineral property.

In the assessment of business property, we found no problems with the assessor's audit and business equipment valuation programs. However, we made a recommendation in the area of business property statements.

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

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

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

<b>RECOMMENDATION 1:</b>	Improve the use of assessment forms by using the most recent property tax forms. ....	12
<b>RECOMMENDATION 2:</b>	Attempt to obtain death notification data from the county health department. ....	14
<b>RECOMMENDATION 3:</b>	Classify wells as land in accordance with Rule 124. ....	20

- RECOMMENDATION 4:** Improve the California Land Conservation Act (CLCA) program by: (1) valuing property that is subject to nonrenewal pursuant to section 426, (2) sending agricultural questionnaires to property owners on a regular basis, (3) deducting operating expenses from gross income, and (4) using market rents. ....23
- RECOMMENDATION 5:** Improve the taxable possessory interest assessment program by: (1) obtaining copies of leases, (2) including a property tax component when developing the capitalization rate only where applicable, (3) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (4) revaluing taxable possessory interests at the end of their reasonably anticipated term of possession, and (5) issuing supplemental assessments for all qualifying possessory interests. ....25
- RECOMMENDATION 6:** Improve the mineral property assessment program by: (1) revising unpatented mining claim valuation methods to reflect changes in federal laws and California Property Tax Rules and (2) evaluating mining claims to determine if they should be combined into larger appraisal units. ....28
- RECOMMENDATION 7:** Improve the business property statement program by: (1) accepting only completed business property statements and (2) ensuring owners of vessels with a reported cost of \$100,000 or more annually file a vessel property statement pursuant to section 441. ....32

## OVERVIEW OF NEVADA COUNTY

Nevada County is located approximately 60 miles northeast of Sacramento. It was organized by an act of the State Legislature, approved on May 18, 1851. The county has a population of approximately 100,000 and encompasses approximately 980 square miles, of which about 17 square miles is water. Nevada County is bordered on the east by the state of Nevada, on the south by Placer County, on the west by Yuba County, and on the north by Sierra County.

The following table displays information pertinent to the 2009-10 assessment roll:

	<b>PROPERTY CLASS</b>	<b>ENROLLED VALUE</b>
<b>Secured Roll</b>	Land	\$5,790,150,031
	Improvements	\$10,908,730,584
	Fixtures	\$12,435,043
	Personal Property	\$58,572,697
	Total Secured	\$16,769,888,355
<b>Unsecured Roll</b>	Land	\$21,901,705
	Improvements	\$23,136,296
	Fixtures	\$59,921,158
	Personal Property	\$285,996,643
	Total Unsecured	\$390,955,802
<b>Exemptions</b>		(\$334,471,226)
	<b>Total Assessment Roll</b>	<b>\$16,826,372,931</b>

The next table illustrates the growth in assessed values during recent years:

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>CHANGE</b>	<b>STATEWIDE CHANGE</b>
2009-10	\$16,826,373,000	1.8%	-2.4%
2008-09	\$16,529,669,000	4.0%	4.7%
2007-08	\$15,890,158,000	9.4%	9.6%
2006-07	\$14,520,902,000	12.8%	12.3%
2005-06	\$12,872,864,000	12.5%	11.1%

## 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, exemptions, and assessment forms.

### ***Budget and Staffing***

To enable the assessor to perform his duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments as required before an appellate body, and provide information and service to the public as needed.

The Nevada County Assessor maintains staff in two offices; the main office is located in Nevada City, and a branch office is located in Truckee. Because of the economic atmosphere in California over the last few years, the assessor's staff has decreased 20 percent to conform to a smaller budget. Current staffing includes 24 full-time employees; this compares with 31 in our previous survey. For the 2009-10 roll year the assessor's permanent full-time staff includes the assessor, a supervising appraiser, an administrative services associate, 2 senior appraisers, an auditor-appraiser, a senior mapping technician, 5 real property appraisers, and 12 support staff.

The table below summarizes the assessor's budget over the last five years:

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE
2009-10	\$2,561,736	-9.7%
2008-09	\$2,837,100	14.9%
2007-08	\$2,470,233	8.5%
2006-07	\$2,276,146	-5.6%
2005-06	\$2,412,346	

### ***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 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.

We found that while market conditions have caused reductions in the number of property sales and construction starts, the assessor's workload has increased in the areas of decline-in-value assessments and assessment appeals.

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of ten certified appraisers on staff, including the assessor; six hold advanced appraiser's certificates. We found that the assessor and his 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.

A senior appraiser coordinates the training and certification program. The assessor uses in-house data, as well as data from the BOE's training unit to catalog courses completed. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible, which helps appraiser's promotional opportunities.

Our review showed no deficiencies in training hours as of the time of our field work for this survey. The assessor appears to be committed to his certified appraisers meeting their 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 properties in which they have ownership interests and to prevent conflicts of interest.

The assessor becomes aware of staff-owned properties through name recognition when a recorded deed is received in the office, through self-declaration by the staff member acquiring the property, and from the annual filings of the California Fair Political Practices Commission Form 700, Statement of Economic Interests, which requests information regarding employee ownership in any real property, other than a primary residence, as well any ownership interest in any business entity.

When an appraisal is required on a staff-owned property or business, the assignment is given to the supervising appraiser. If the property to be appraised is owned by the supervising appraiser or the assessor, the appraisal is assigned to an alternate certified staff member. The assessor reviews and approves all completed staff-owned property appraisals, with the exception of his own property, which is reviewed and approved by an alternate certified staff member. This process ensures no personal involvement by staff members in the assessment of property in which they have an interest.

We reviewed a number of staff-owned properties. We found no problems with their valuation.

### **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 for the hearing or the application is consolidated for hearing with another application by the same taxpayer.

The Nevada County Board of Supervisors nominates and appoints three members and one alternate to comprise the Nevada County Assessment Appeals Board; the county does not have hearing officers. Each member's term is three years and is staggered so that each term expires in a different year. The term for the alternate is one year. Once appointed, all members complete the training required by section 1624.02.

The appeals board clerk, who also functions as the board of supervisors' clerk, provides the applications for changed assessment to the public, processes the applications, forwards copies of completed applications to the assessor, schedules the hearings, and monitors the progress of the appeals to ensure resolution within the two-year time limit. The regular filing period for appeals in Nevada County is July 2 through November 30. If an appeal application is inadvertently sent to the assessor's office, the assessor forwards it to the clerk. Hearings are on the third Monday of each month.

Once the clerk validates an application, a copy of the application is sent to the assessor to inspect for completion, accuracy, and timeliness. Once the assessor reviews the application, the clerk

assigns it an appeal number. The appeal number is then forwarded to the assessor, who maintains a spreadsheet monitoring each appeal to ensure resolution within the two-year time limit.

A copy of the appeal application and the parcel file is then forwarded to the appraiser. An additional copy of the application and a copy of the updated appeal spreadsheet are given to the appraiser’s supervisor. If it is determined an error has been made and the appeal can be resolved by the roll correction process, the appraiser contacts the taxpayer and processes the roll correction. If the appraiser and the supervisor agree a stipulation is appropriate in resolving the appeal, the appraiser will contact the applicant. If the applicant agrees to the stipulation, the appraiser mails the stipulation to the applicant within ten business days. If an agreement is not reached, the appeals process continues and a hearing is scheduled. The appraiser who prepares the appeal makes the presentation to the appeals board. The supervising appraiser is also present and is responsible for responding to questions on items such as office policy and property tax laws and rules.

The following table illustrates the appeal workload over recent years:

<b>ASSESSMENT ROLL</b>	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>	<b>2005-06</b>	<b>2004-05</b>
Appeals Filed	190	178	56	84	72
Appeals Carried Over From Prior Year	74	20	51	32	15
<b>Total Appeals Workload</b>	<b>264</b>	<b>198</b>	<b>107</b>	<b>116</b>	<b>87</b>
Resolution:					
Withdrawn	105	91	78	26	41
Stipulation	11	0	0	17	1
Appeals Reduced	9	2	4	1	3
Appeals Upheld	3	12	1	4	1
Appeals Increased	0	0	0	0	0
Other Determination*	21	19	4	17	9
<b>Total Resolved</b>	<b>149</b>	<b>124</b>	<b>87</b>	<b>65</b>	<b>55</b>
To Be Carried Over**	115	74	20	51	32

\* 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.

No appeal in the last five years has gone unresolved for more than two years from the filing date. We reviewed a number of assessment appeals and attended assessment appeals hearings; the appeals prepared by the assessor's staff are well documented and the assessor's staff handles their appeals board presentations professionally. In our review, we found the appeals board clerk and the assessor's office cooperated as a team and communicated effectively with each other. We found the assessment appeals program fully complies with all statutory requirements.

**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 six church exemption claims and 45 religious exemption claims for the 2009-10 assessment roll. The following table sets forth church and religious exemption data for recent years:

<b>ROLL YEAR</b>	<b>RELIGIOUS EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>	<b>CHURCH EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2009-10	45	\$26,240,000	6	\$1,503,000
2008-09	49	\$29,435,000	5	\$1,343,000
2007-08	53	\$30,745,000	6	\$1,594,000
2006-07	53	\$31,846,000	5	\$1,624,000
2005-06	54	\$31,172,000	5	\$1,615,000

Our review indicates that the assessor properly processed church and religious exemption claim filings. We found no problems with these exemption programs.

**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, which have a qualified organization (OCC holder) as the managing general partner, that own and operate low-income housing. 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 non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table shows welfare exemption data taken from recent assessment rolls:

ROLL YEAR	WELFARE EXEMPTION	EXEMPTED VALUE
2009-10	234	\$273,818,000
2008-09	242	\$248,650,000
2007-08	222	\$197,578,000
2006-07	226	\$195,585,000
2005-06	224	\$184,573,000

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We inspected claims for hospitals and low-income housing properties, including properties owned by limited partnerships. Our review indicated the assessor is properly administering the welfare exemption. Accordingly, we have no recommendations in this area.

**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.<sup>3</sup> 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 duties.

<sup>3</sup> Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

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.

Our review noted one area where improvements can be made regarding assessment forms.

**RECOMMENDATION 1:** Improve the use of assessment forms by using the most recent property tax forms.

The assessor does not utilize current property tax forms. A review of all property tax forms used by the assessor revealed numerous forms that were one or two years out of date. To ensure changes in the law are implemented timely and uniformly across the state, assessors are required to adopt and use BOE-issued prototype forms pursuant to Government Code section 15606(d). The assessor should follow the forms approval process guidelines released annually, as well as adopt the current form revisions as they are released. Using outdated versions of forms could mislead property owners and create confusion about current procedures and filing requirements.

## ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures.

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.

### ***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.

### **County-Specific Programs**

The Nevada County Assessor and his staff pride themselves on educating the public about property tax issues and available tax relief programs. The assessor and his staff stress the importance of providing quality customer service to build a positive relationship with the public. The assessor is proactive in notifying property owners of potential change in ownership exclusions when certain questions on BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), or BOE-502-AH, *Change of Ownership Statement* (COS), indicate a possible need. Staff sends section 63.1 and section 69.5 claim forms and form explanation sheets to property owners. We commend the assessor for creating successful programs and for being proactive about public outreach.

### **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. Clerical staff process recorded documents evidencing transfers of real property. The documents are analyzed to determine if there has been a change in ownership and, if so, what property and what interests have transferred. Attention is given to potential exclusions and exemptions.

The county discovers lease transactions through recorded documents and business property statements. The county typically requests copies of all long term leases to discover lease terms

for reassessment purposes. The assessor also uses PCOR information to discover terms of leases in the absence of the actual lease.

The declining real estate market is reflected in the following table, which shows the total number of reappraisable transfers in Nevada County in recent years:

<b>ROLL YEAR</b>	<b>DOCUMENTS REVIEWED</b>	<b>PARCELS TRANSFERRED*</b>	<b>PARCELS REAPPRAISED**</b>
2009-10	8,031	7,130	2,605
2008-09	9,948	8,409	2,869
2007-08	11,068	9,262	3,088
2006-07	14,068	11,580	4,887
2005-06	20,191	12,458	5,370

\*Parcels Transferred includes reappraisals and exclusions.

\*\*Parcels Reappraised includes parcels that were initially processed as assessable events, but were later excluded upon receipt of completed claim forms with proof of applicable exclusion.

The recorder requires a PCOR accompany documents submitted for recordation for the transfer of ownership of real property unless exempt from the requirement. If a transfer document is received without a PCOR, the recorder applies a \$20 charge to the recording fee. PCORs are available at both the assessor's and recorder's offices. The recorder does not initially screen documents sent to the assessor. All recorded documents are sent electronically.

The assessor has a good program for discovering and processing change in ownership events; however, there is one area that requires improvement.

**RECOMMENDATION 2:** Attempt to obtain death notification data from the county health department.

The assessor does not have a proactive process in place for the discovery of changes in ownership resulting from the death of a property owner. Instead, he relies only on death notifications from surviving family.

The timely discovery of a property owner's death is a problem faced by all assessors. While administrators and executors of estates are required to report changes of ownership, there may be a time lag between the date of death and the receipt by the assessor of the required report. The assessor should implement a procedure to receive reports from the county health department that list death certificates filed with the department. This would allow the assessor timely access to the necessary data, which would reduce the number of roll corrections and escapes.

**Penalties**

If a PCOR is not filed with a recorded document that involves a change in ownership or if the PCOR is incomplete, the assessor sends a COS. After 45 days, a second "Penalty COS" is mailed

along with a penalty explanation and warning. This function is automated; the assessor's computer system automatically times the release of these mailings based on coding input during deed processing. If the second COS is not returned by the deadline, the property is reappraised. Once the full cash value has been determined, the penalty is assessed. The Nevada County Board of Supervisors has adopted a resolution to automatically abate a penalty if the assessee files the COS within 60 days of being notified of the penalty. We feel the county has an effective program for tracking and applying penalties for transfers.

## Transfer Lists

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers within the county of any interest in property, other than undivided interests, which have occurred within the preceding two-year period. Section 408.1(e) states the provisions of this section shall not apply to any county with a population under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of 26,346 in Nevada County in 1970, the assessor is not required to maintain a transfer list. The assessor chooses to offer this information to the public despite being exempt from such a requirement. A review of the transfer list revealed no confidential information is being disclosed, and the list closely adheres to section 408.1(c).

## Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a 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 of an interest in a legal entity.

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

Nevada County discovers potential changes in control or ownership of legal entities from news articles, commercial appraisers, word of mouth, and BOE reports.

When the county receives the monthly BOE LEOP reports, the reported parcel numbers located in Nevada County are checked against the assessor's database. An alpha check of assessee names is also done to determine if any other parcel numbers in the county may be affected.

Our review of several records indicated that the county does a thorough job in reviewing BOE LEOP reports and reassessing all property interests identified on BOE-100-B, *Statement of*

*Change in Control and Ownership of Legal Entities*, as well as additional properties not reported on the form. In recent years, the county has not discovered any late filings of BOE-100-B; therefore, penalties have not been applied.

### 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 between grandparents and 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.

In Nevada County, applications and information regarding this exclusion are available to the public at the assessor's office and on the assessor's website.

If a PCOR or COS indicates a transfer may be between parent and child or from grandparent to grandchild, the assessor sends interested parties a claim form along with guidelines explaining the exclusion. Staff in the change in ownership unit review all returned section 63.1 claim forms and determine if the exclusion will be accepted or denied. If a claim is denied, a letter is mailed to the property owner. The assessor granted 318 section 63.1 claims for the 2009-10 assessment roll year.

Nevada County 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 in Nevada County has exceeded the limit. If multiple properties transfer close in time, the assessor allows the property owner or representative to determine which property or properties to exclude and which to reassess. If parcels exceeding the limit are in counties other than Nevada County and the transfer dates are the same or close, the assessor will first contact the property owner to determine how they would like to have the excess allocated and reassessed. Then the assessor contacts the other county to confirm how each will handle the excess. If transfer dates are not the same or close, and the most recent transfer exceeding the limit occurred in Nevada County, the assessor will reappraise the property or the portion that exceeds the limit.

Pursuant to section 63.1(i), the assessor keeps all claim forms in a secure area that is locked each night. The information is not accessible to the public.

**Change in Ownership Exclusions – Section 69.5**

Section 69.5 generally allows persons over age 55, or who are severely and 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.

Applications and information regarding the exclusion 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 and granted in Nevada County in recent years:

<b>ROLL YEAR</b>	<b>SECTION 69.5 CLAIMS GRANTED</b>
2009-10	47
2008-09	86
2007-08	97
2006-07	133

If a PCOR or COS indicates a transfer may involve a section 69.5 exclusion, the assessor sends interested parties a claim form along with information explaining the exclusion. Appraisal and clerical staff determine if a base-year value transfer will be granted or denied. 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 construction completed.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. To avoid duplicate filings of section 69.5 claims, the assessor tracks all applications in a database. The assessor also reviews the quarterly *Duplicate SSN Report* from the BOE to determine if any claims made in Nevada County duplicate any claims made previously in another county.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on the claim form by allowing only authorized personnel to access the information. Claim forms are not available for public viewing.

## Valuation

Once a transfer has been determined to be a reappraisable event, the information is typically sent to an appraiser. Every reappraisable transfer is reviewed to confirm that the reported sales price accurately reflects market value. Typically, residential changes in ownership are valued using the market approach, while commercial changes in ownership are valued using the income approach. If the property is unique, the cost approach may also be considered. Field inspections are typically conducted if any condition issues are reported on the COS or PCOR, if there is a discrepancy with the property characteristics, if it is a high-end custom property, or if market data is not available.

## Improvement Bonds

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

Nevada County has a few improvement bond areas in Penn Valley and North San Juan. Bond balances are not added to a confirmed purchase price as the bond debt is rebuttably presumed to be reflected in the purchase price.

## **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), (d), and (e), and sections 73 through 74.7 address these exclusions.

Discovery

The assessor has written procedures, policies, and forms dealing with new construction. Building permits are the assessor's primary means of discovering new construction. Currently, the assessor receives building permits from three permit-issuing agencies: the county building department and the cities of Grass Valley and Truckee. Permits for wells and septic systems filed with the department of environmental health are issued by the county building department and forwarded to the assessor. Additional discovery methods include field inspections, newspaper articles, and business property statements.

Permit Processing

The permits from the county building department are received electronically on a daily basis. Each week an appraiser from the Truckee branch office picks up copies of permits from the City of Truckee. The City of Grass Valley mails copies of permits to the assessor's office on a monthly basis.

Once the permits are received in the assessor's office and encoded into the system, the assessment assistant (AA) reviews the permits and codes them with a "V" for void due to no value or an "O" for open, which requires an appraiser review. The AA matches the permit information sheet with the appraisal record and forwards the permit information and appraisal record to the assigned appraiser for determination of assessability and valuation.

The following table shows the declining number of building permits being issued, and the resulting decline in the number of assessments for new construction:

<b>ROLL YEAR</b>	<b>BUILDING PERMITS RECEIVED</b>	<b>NEW ASSESSMENTS</b>
2009-10	2,962	1,149
2008-09	3,812	1,680
2007-08	4,789	2,209
2006-07	5,924	2,448

Construction in Progress (CIP)

Section 71 requires the assessor to enroll construction in progress at its fair market value on each lien date. When the new construction is complete, it is assessed at its fair market value as of the date of completion and a base year value is assigned. We reviewed property records and found the assessor is correctly valuing new construction in progress by determining the market value using published costs, reported costs, and market analysis.

## Self-Reporting

Each appraiser is responsible for mailing questionnaires to taxpayers to obtain data for certain types of new construction. Once the information is returned, the appraiser is responsible for reviewing the information for reasonableness, determining if a field visit is necessary, and valuing the new construction. We reviewed appraisal records with new construction questionnaires and found the records to be well documented along with a clear understanding of the valuation.

## Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. Appraisers determine the completion status of new construction from field visits, direct contact with the building department, the recorded date of occupancy, or from the taxpayer.

The appraisers typically value residential new construction using the market approach and the cost approach. The income approach is also used in determining the value of new construction for commercial and industrial properties. The assessor uses a variety of sources to develop cost indicators of value for new construction. These sources include Assessors' Handbook Section 531, *Residential Building Costs*, the owner's reported cost, and, for commercial and industrial properties, the Marshall and Swift Valuation Service. Based on the type of permit, the appraiser will determine if a field inspection is necessary. Supplemental assessments are created and issued based on the date of completion.

Overall, we found the assessor's program for the assessment of new construction to be thorough and the values reasonable; however, there is one area where an improvement can be made.

**RECOMMENDATION 3:** Classify wells as land in accordance with Rule 124.

It is the assessor's policy to classify wells as structural improvements. Rule 124 provides that wells are to be classified as land. By not attributing any value to the land for value added by the new construction of domestic water wells, the assessor is underassessing the land and overassessing the improvements. In addition, incorrectly classifying wells as structural improvements rather than land may 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.

In Nevada County, the number of properties experiencing a decline in market value below the established FBYV has greatly increased due to the weakening of the local real estate market.

The following table shows the decline-in-value assessment statistics for the most recent years:

<b>ROLL YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2008-09	5,869
2007-08	5,626
2006-07	858
2005-06	742
2004-05	798

The assessor proactively seeks out properties experiencing declines in value due to market conditions. The methods vary depending on the type of property involved. For commercial, industrial, residential income, and agricultural properties, the assessor primarily relies upon property owner requests for appraisal review, as well as appraisers' knowledge of the area. To discover residential declines in value, the assessor uses the aforementioned methods, as well as an automated process called *indexing*. Indexing involves making a time adjustment to a property's sale price by multiplying the sale price by an index. To create the index, the assessor divided Nevada County into geographic areas and tracked the market change in price per square foot in each geographic area over time. Then the assessor entered the data from the index into the computer system to calculate the decline-in-value adjustments for each geographic area. To verify the computer-generated data, the assessor compared the data to third-party data, and the appraisers completed independent decline-in-value reviews and compared them to the results generated by the program.

When a property owner requests an assessment review for decline in value, the appraiser responsible for that geographical area reviews the claim. If the appraiser determines that the market value of the total property has declined below its FBV, the appraiser enrolls the market value; if the appraiser determines that the market value of the total property has not declined below its FBV, the appraiser contacts the property owner for further information. If none is available, the appraiser informs the property owner of their appeal rights and notes in the property file that a review was completed and a decline in value was not found.

Once a decline-in-value assessment is enrolled for a property, it is assigned a reason code of "N" in the computer system to prevent application of the annual inflation factor and to signal that the property requires annual review. The assessor annually reviews each decline-in-value property to determine its market value and whether the FBV should be restored pursuant to section 51(e). Due to the continually declining market, we were unable to review any properties that have been partially or entirely restored to their FBV.

The annual property tax bill is the owner's first notice of a change in the assessed value. In addition to informing the property owner of the new assessed value, the property tax bill includes notification of hearings by the appeals board, a statement of the filing period, and an explanation of the stipulation process.

During our examination of numerous assessment files for these properties, we found the files to be well documented and the values reasonable. We have no recommendations for this program.

### **California Land Conservation Act Property**

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, namely, 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.

The Nevada County Board of Supervisors passed Resolution 88-36 authorizing the implementation of the California Land Conservation Act effective January 19, 1988. For the 2009-10 roll year, Nevada County had 62 parcels totaling approximately 4,240 acres encumbered by 21 contracts. These parcels had a total land and improvement value of \$6,508,761. Although the resolution allows for Farmland Security Zone contracts, none currently exist. Additionally, Nevada County has not adopted the provisions of section 423.3, which limits the assessment of restricted land to a value no higher than a given percentage of the property's factored base year value. There is one contract in nonrenewal status at this time.

It is the responsibility of the assessor to discover, inventory, and value all CLCA properties in the county. The valuation of CLCA properties in Nevada County, including changes in ownership and new construction, is the responsibility of one senior appraiser. All of the rural properties in Nevada County under contract consist of pasture and grazing lands.

The assessor values restricted grazing land based on the animal unit months (AUM) the land can support. Rents vary based on the quality and production capability of the land. However, our review indicates the assessor does not gather information on possible compatible uses and makes no allowance for expenses. The gathering of reliable income and expense information not only aids in the appraisal of CLCA properties, but will enable the assessor to make more accurate appraisals of non-restricted agricultural properties.

Based on our review of the CLCA program, the following are a few areas where improvements can be made.

**RECOMMENDATION 4:** Improve the California Land Conservation Act (CLCA) program by: (1) valuing property that is subject to nonrenewal pursuant to section 426, (2) sending agricultural questionnaires to property owners on a regular basis, (3) deducting operating expenses from gross income, and (4) using market rents.

**Value property that is subject to nonrenewal pursuant to section 426.**

The assessor does not value CLCA properties in nonrenewal in accordance section 426. Instead, the assessor converts an additional 10 percent of the restricted value to market value for each year of the nonrenewal period. Section 426 outlines the procedure for nonrenewal valuation. The assessor's method and the method prescribed by section 426 are not mathematically the same. By not valuing CLCA properties pursuant to section 426, the assessor may be overvaluing or undervaluing CLCA properties during the nonrenewal interval.

**Send agricultural questionnaires to property owners on a regular basis.**

Our review indicates the assessor historically sent property owners requests for information concerning CLCA properties. However, questionnaires have not been sent in many years. The assessor has not enrolled any compatible uses on CLCA properties within the county.

The assessor should reinstitute requests for information for CLCA properties. The request should ask for income and expense information and contain wording specific to potential compatible uses. The request should ask for information not only about hunting and recreational uses, but also mineral or gas exploration rights, commercial enterprises, and microwave antenna or radio tower site leases. Such wording could lead a property owner to offer information they might not otherwise have considered relevant.

Requesting such information directly from property owners is a prudent assessment practice unless a periodic canvassing of all CLCA properties is done. Other sources for information on rents, expenses, land usage, and compatible uses are limited in Nevada County. Direct contact with the taxpayer through an agricultural questionnaire is a valuable and effective tool for obtaining the information needed to accurately value CLCA properties.

**Deduct operating expenses from gross income.**

The assessor fails to deduct allowable expenses from the gross income. AH 521 provides that allowed expenses should be deducted from the estimated economic rent. All properties, including grazing lands, will incur some expenses. Such expenses may include repair of fencing, property management, and insurance. Failure to deduct allowable expenses from gross income may lead to overassessments.

**Use market rents.**

For the past several years, the assessor has been using the same rents to value CLCA properties. The rents used appear to be considerably lower than market rents reported in the 2008 Nevada County *Annual Crop & Livestock Report*. Section 423(a)(1) calls for market rent to be used in the capitalization of CLCA income. By not using market rents to value CLCA properties pursuant to section 423, the assessor may be overassessing or underassessing CLCA properties.

**Taxable Possessory Interests**

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

For the 2009-10 roll year, the assessor enrolled 613 taxable possessory interests with a total value of \$43,060,973. These possessory interests are located on property owned by approximately 16 public agencies and include a wide variety of uses including, but not limited to, fairground vendors and concessionaires, employee housing, summer cabins, hangars and tie downs at municipal airports, and grazing permits. Nevada County Resolution No. 1997-97540 exempts low-value taxable possessory interests at fairgrounds and convention facilities with a value of \$15,000 or less.

Discovery of taxable possessory interests occurs primarily through contact with public agencies. Each lien date, the assessor contacts the government agencies within the county, requesting information from them on agreements with private parties. The assessor mails a form letter to each agency, which includes BOE-502-P, *Possessory Interests Annual Usage Report*, in an effort to collect current information on new or changed tenancies and rents.

The government agencies in Nevada County are generally cooperative and responsive. The assessor reports a response rate to the letters of approximately 90 percent. After the forms are returned, the senior appraiser reviews the information, values any new taxable possessory interests, adds notes to the appraisal records, and forwards values for enrollment.

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

**RECOMMENDATION 5:** Improve the taxable possessory interest assessment program by: (1) obtaining copies of leases, (2) including a property tax component when developing the capitalization rate only where applicable, (3) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (4) revaluing taxable possessory interests at the end of their reasonably anticipated term of possession, and (5) issuing supplemental assessments for all qualifying possessory interests.

**Obtain copies of leases.**

The majority of the taxable possessory interest appraisal records reviewed did not contain copies of current leases or permits. A review of the current lease is necessary to ensure the proper assessment of a taxable possessory interest.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Subdivision (d)(1) explains the stated term of possession is deemed to be the reasonably anticipated term of possession except in certain situations, and subdivision (e)(3)(C) of Rule 21 explains how to determine the net operating income for capitalization purposes. These steps in the valuation process cannot be completed if the contract conveying the possessory interest is not reviewed. For example, the assessor may have some information relating to the initial lease term, but may not know of any renewal options contained in the lease or know the lessor/lessee expense allocations.

By not reviewing copies of current leases, the assessor is unable to determine what terms were agreed to between the parties and, therefore, would be unable to accurately value the taxable possessory interests; this could lead to incorrect assessments.

**Include a property tax component when developing the capitalization rate only where applicable.**

It is the current practice of the assessor to include a 1 percent property tax component in the capitalization rate when using the direct method of the income approach to value taxable possessory interests, even though the tenant (lessee) is responsible for paying the property taxes.

Rule 8(f) provides that the capitalization rate should include a property tax component, where applicable. According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, when the landlord (lessor) is responsible for paying the property taxes, the capitalization rate should include a component for property taxes. However, if the tenant is responsible for paying the property taxes in addition to rent, the capitalization rate should *not* include a component for property taxes. With most taxable possessory interests, the property tax is paid by the tenant (lessee or possessor) in addition to rent and, therefore, the capitalization rate should *not* include a component for property taxes.

By including a component for property taxes in the capitalization rate when the tenant pays the property taxes, the capitalization rate being used is higher than it should be, causing the value to be lower and the assessor to underassess taxable possessory interests on the roll.

**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 stated terms of possession created by contract, we found several instances where the assessor is using a term of possession other than the stated term of possession.

Rule 21(d)(1) provides that the stated term of possession shall be deemed the reasonably anticipated term of possession used in valuing a taxable possessory interest unless it is demonstrated by clear and convincing evidence 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. We found no evidence of such an understanding or agreement.

The assessor's use of a term of possession different from the stated contract term is contrary to Rule 21 and may result in incorrect assessments.

**Revalue taxable possessory interests at the end of their reasonably anticipated term of possession.**

We found several instances where the assessor failed to revalue taxable possessory interests for changes in ownership at the end of the reasonably anticipated terms of possession.

Section 61(b) provides that a "change in ownership" includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property. Section 61(b)(2) provides that the assessor shall, at the end of the reasonably anticipated term of possession used by the assessor, establish a new base year value based on a new reasonably anticipated term of possession. Section 61(b)(2) also provides that the renewal or extension of a taxable possessory interest that occurs during the reasonably anticipated term of possession used to value the interest does not result in a change in ownership until the end of the reasonably anticipated term of possession.

By not revaluing taxable possessory interests as provided in section 61(b)(2), the assessor has not recognized the change in ownership occurring at the end of the reasonably anticipated term of possession and has been enrolling inaccurate assessments.

**Issue supplemental assessments for all qualifying possessory interests.**

We discovered the assessor does not issue supplemental assessments for taxable possessory interests assessed on the unsecured roll.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.5(b) excludes newly created taxable

possessory interests established by month-to-month agreements in publicly owned real property, having a full cash value of fifty thousand dollars (\$50,000) or less, from supplemental assessment. Section 75.11 provides that supplemental assessments, other than those excluded by 75.5(b), shall be issued following a change in ownership or completion of new construction.

The assessor's practice of not issuing supplemental assessments for taxable possessory interests has resulted in lost revenue for the county.

### ***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 and/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/or if additions are properly enrolled.

Proper classification of leasehold improvements as structural items or fixtures is important because fixtures are treated differently than structures for assessment purposes.

We found the assessor properly classifies reported structural improvements and fixtures. In addition, there is effective communication between the real property staff and the business property staff. The business property staff forward relevant portions of business property statements to the real property staff, and the real property staff inform business property staff of possible tenant improvements. This prevents double assessments and escape assessments.

### ***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.

Nevada County has no assessable high temperature geothermal or petroleum properties.

## Unpatented Mining Claims

Nevada County has nearly 600 active unpatented mining claims. These are claims to locatable minerals, typically gold, on federal land. Many of these claims are worked for recreational purposes, though a significant number in this county are held by corporate entities. Mining claims are administered under the Mining Law of 1872. Unpatented mining claims can be either a lode claim or a placer claim. The type of claim filed is related to the nature of the mineral deposit.

**RECOMMENDATION 6:** Improve the mineral property assessment program by:  
(1) revising unpatented mining claim valuation methods to reflect changes in federal laws and California Property Tax Rules and (2) evaluating mining claims to determine if they should be combined into larger appraisal units.

### **Revise unpatented mining claim valuation methods to reflect changes in federal laws and California Property Tax Rules.**

The assessor has written procedures and guidelines to value unpatented mining claims, but these have not been updated since 1990. Since that time the method of holding an unpatented mining claim has changed, and the property tax rules regarding the valuation of possessory interests have been amended to better reflect proper valuation procedures. The assessor's procedures, however, do not reflect these changes. Prior to 1993, to maintain a valid mining claim, claim holders were required to conduct assessment work on the claim worth at least \$100 each year. This often was recorded as improving access and determining the extent of the mineral deposit for further development. After 1993, the federal law was amended such that claims holders were required to pay the federal government a maintenance fee of \$100 for each claim they held. On June 29, 2009, the maintenance fee was increased to \$140 to account for inflation. There are exemptions available for those holding fewer than ten claims. The small miner exemptions require \$100 in annual assessment work be performed on each claim. The assessor's claim values do not reflect these changes.

In March 2002, the property tax rules relating to taxable possessory interests were amended. These amendments clarified the possessory interest valuation methods and the use of an anticipated term of possession when there is no explicit term. Unpatented mining claims have no stated term of possession; the claim holder or their successors can hold the claims as long as the annual requirements for maintaining the claims are met. Claim sales information is available to the assessor and COSs are available in the assessor's files for more recent transactions. The COSs should be reviewed to update the sales prices of unpatented mining claims.

The purchase price of a taxable possessory interest cannot be presumed to be the fair market value of the fee simple interest. The sales price represents only the equity value of the taxable possessory interest. The present value of any unpaid rent for the anticipated term of possession must also be included in order to arrive at the value of the taxable possessory interest. The assessor's prior analysis of a taxable possessory interest used an anticipated term of possession of ten years. Using appropriate discount rates, the \$140 annual maintenance fee, and the \$10

processing fee per claim, the capitalized value of future payments to hold the claim would be approximately \$750 to \$1000. Application of the Direct Comparison Method for valuing possessory interests, as found in Rule 21, would add the capitalized value of the future maintenance payments to the sales price to arrive at the taxable value of the possessory interest.

**Evaluate mining claims to determine if they should be combined into larger appraisal units.**

Nevada County has a low-value property tax exemption ordinance where properties below the threshold value (\$5,000) are exempt from property tax. Using the assessor's current assessment procedures, any unpatented mining claim smaller than 50 acres is exempt. This automatically exempts all lode claims and any claim owned by a corporation since these are restricted to 20 acres. Presently, the assessor does not evaluate multiple claims to determine if they could be combined into a larger appraisal unit that would exceed the low-value property tax exemption limitations. We found several mining claims that should be enrolled based on these criteria.

## **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 upon 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, and valuing business equipment.

### ***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 businesses 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 from 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.

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

<b>FISCAL YEAR</b>	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>	<b>2005-06</b>	<b>2004-05</b>
<b>Audit Workload:</b>					
Total audits scheduled	23	22	21	27	27
Audits carried forward	11	4	2	0	1
<b>Total Audit Work Load:</b>	34	26	23	27	28
<b>Total Audits Completed:</b>	22	15	19	25	28
<b>Audits Carried Forward:</b>	12	11	4	2	0

For the audits as required prior to January 1, 2009, we found they were completed timely or had signed waivers for assessment years outside the four-year audit period. Additionally, based on recent audit history, the assessor is conducting a sufficient number of audits to comply with the requirements of section 469 as amended.

### 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 in 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 he anticipates an audit will not be completed in a timely manner. During the current survey period, we found no problems with meeting statutory time limitations.

### Audit Quality

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

We found 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 controls to be well structured and maintained.

Overall, we found no problems with the assessor's audit program.

### **Business Property Statement Program**

Section 441 requires each person, owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more, to annually file a 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.

We reviewed the assessor's business property statement program, including methods of discovery, use of Board-prescribed forms, processing by non-certified staff, taxpayer interactions, application of penalties, real property division coordination, direct billing, and record storage and retention. We found two areas in the business property statement program that need improvement.

**RECOMMENDATION 7:** Improve the business property statement program by:  
(1) accepting only completed business property statements and (2) ensuring owners of vessels with a reported cost of \$100,000 or more annually file a vessel property statement pursuant to section 441.

#### **Accept only completed business property statements.**

We found the assessor accepted business property statements where the change of ownership section of the business property statement was not completed. This section contains questions that alert the assessor to possible changes in ownership, new leasehold improvements, remodeling, or a taxpayer's change in location. Additionally, we found that certain obvious assets, such as supplies, were not reported on the statements.

Data submitted on the business property statement serves as the basis for the subsequent business property assessment. In addition, a business property statement provides important information regarding changes in business ownership, location of the property, and the business start date at the current location. If the filing is incomplete, the assessor should reject the statement and send the taxpayer a request for a complete filing. Incomplete information as the basis of a valuation can result in erroneous assessments.

#### **Ensure owners of vessels with a reported cost of \$100,000 or more annually file a vessel property statement pursuant to section 441.**

We found instances where the assessor did not require owners of vessels with a reported cost of \$100,000 to file an annual property statement. Section 441(a) requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year to file a signed property statement with the assessor. By not requiring owners of vessels with a reported cost of \$100,000 or more to file a vessel property

statement, the assessor is not obtaining the latest data to help make the annual assessment of the vessel which may result in an incorrect assessment.

### ***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 and Percent Good and Valuation Factors* (AH 581).

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over their service lives. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment. The proper choice and application of valuation factors to historical cost of business equipment produces a reasonable estimate of market value.

Section 401.5 provides the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes AH 581. We have no recommendations for the business equipment valuation program.

## **APPENDIXES**

### ***A. County-Assessed Properties Division Survey Group***

#### ***Nevada 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

Andy Austin

Associate Property Appraiser

Bryan Bagood

Associate Property Appraiser

Dave Barbeiro

Associate Property Auditor-Appraiser

Angie Berry

Associate Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Nina Sidhra

Associate Property Appraiser

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

### ***Government Code***

#### **15640. Survey by board of county assessment procedures.**

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

#### **15641. Audit of records; appraisal data not public.**

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

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

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

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

**15642. Research by board employees.**

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

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

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

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

# COUNTY OF NEVADA

**JAMES J. DAL BON**

**ASSESSOR**

950 Maidu Avenue  
Nevada City, CA 95959-8600  
(530) 265-1232  
FAX 265-9858

December 16, 2010

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

Subject: Nevada County Assessment Practices Survey Response

Dear Mr. Kinee:

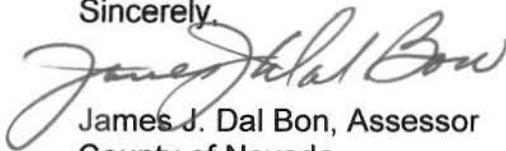
Enclosed is my response to the recommendations included in the State Board of Equalization Assessment Practices Survey of the Nevada County Assessor's Office. This response was prepared in accordance with Section 15645 of the California Government Code.

I and my staff congratulate your survey team under the leadership of Mr. Dale Peterson. While I was not Assessor at the time of the survey my staff advises me that your team conducted themselves in a highly professional and civil manner during their time in our office. I have always believed that constructive oversight of a ministerial office was an essential ingredient to assure full and fair administration of our laws.

As is the case in most California County Assessor's Offices, we have been confronted with a dramatic fluctuation in workload over the past five years. This was true both in the assessment of new construction and sales and transfers. Our peak came with the 2005-2006 years and since then we have dealt with dramatic declines in value requiring thousands of reappraisals. Compounding this challenge this office was subject to an almost 20% reduction in staffing in the 2009-2010 fiscal year. Although we are functioning with limited resources we appreciate the value of the recommendations and advice of State Board staff and will make every effort to implement the changes necessary to comply.

My office and the State Board of Equalization share the common goal of assuring that our assessment laws are administered in a fair and equitable manner. Our staff is dedicated to achieving that goal and maintaining the highest standards of public service during these difficult times.

Sincerely,



James J. Dal Bon, Assessor  
County of Nevada

**NEVADA COUNTY**  
**ASSESSMENT PRACTICES SURVEY**  
**DECEMBER 2010**  
**RECOMMENDATIONS AND RESPONSES**

**RECOMMENDATION 1:** Improve the use of assessment forms by using the most recent property tax forms.

**ASSESSOR'S RESPONSE:** We are in complete agreement with the State's recommendation.

Some misunderstanding arose when our staff provided State Board staff copies of forms used for the 2009/2010 roll instead of the forms we planned to use for the 2010/2011 roll. After a review of the letter from the State Board from Sherrie Kinkle dated December 9, 2010 listing the forms in question we did discover three instances where we used prior versions. In the future we will be more attentive to utilizing the most recent approved property tax forms.

**RECOMMENDATION 2:** Attempt to obtain death notification data from the county health department.

**ASSESSOR'S RESPONSE:** We are in complete agreement with the State's recommendation.

We have established a contractual agreement with the Nevada County Health Department to receive a monthly listing of those deceased in Nevada County along with the date of death and their residence address.

**RECOMMENDATION 3:** Classify wells as land in accordance with Rule 124. It is the assessor's policy to classify wells as structural improvements. Rule 124 provides that wells are to be classified as land. By not attributing any value to the land for value added by the new construction of domestic water wells, the assessor is under assessing the land and over assessing the improvements. In addition, incorrectly classifying wells as structural improvements rather than land may result in incorrect special assessments.

ASSESSOR'S RESPONSE : We are in complete agreement with the State's recommendation.

We have changed internal procedures to assure that all well permits are forwarded to the Valuation Division and that the value of the well be enrolled as a part of land value. Any other property associated with the well will be assessed as improvements.

RECOMMENDATION 4: Improve the CLCA program by: 1) valuing property that is subject to nonrenewal pursuant to Section 426, 2) sending agricultural questionnaires to property owners on a regular basis, 3) deducting operating expenses from gross income, and 4) using market rents.

ASSESSOR'S RESPONSE: We are in complete agreement with the State's recommendation.

Our office will be sending out agricultural questionnaires this January, 2011, which will serve to update the status of all contract properties and help to provide market rent information as well. Contacts within local cattle and sheep organizations will also be a source of rental information to update our data base. The hiring of staff with agricultural property experience will allow for updating and correcting our valuation procedures for CLCA restricted parcels.

RECOMMENDATION 5: Improve the taxable possessory interest assessment program by: 1) obtaining copies of leases, 2) including a property tax component when developing the capitalization rate only when applicable, 3) using the stated term of possession as the reasonable anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, 4) revaluing taxable possessory interests at the end of their reasonably anticipated term of possession, and 5) issuing supplemental assessments for all qualifying possessory interests.

ASSESSOR'S RESPONSE: We are in complete agreement with the State's recommendations.

We have recently retained staff with additional knowledge and skills in valuing taxable possessory interests and this will assist our office in standardizing the valuation process according to R & T Code requirements. We will be attentive to valuing taxable possessory interests in accord with applicable Property Tax Rules.

RECOMMENDATION 6: Improve the mineral property assessment program by: 1) revising unpatented mining claim valuation methods to reflect changes in federal laws, 2) evaluating

mining claims to determine if they should be combined into larger appraisal units.

ASSESSOR'S RESPONSE: We are in complete agreement with the State's recommendations.

We will follow the State's recommendations regarding combinations as time allows.

RECOMMENDATION 7: Improve the business property statement program by (1) accepting only completed business property statements and (2) ensuring owners of vessels with a reported cost of \$100,000 or more annually file a vessel property statement pursuant to section 441.

ASSESSOR'S RESPONSE (1): We are in complete agreement with the State's recommendation. Our staff will exercise more diligence in accepting Business Property Statements to insure that they are complete.

ASSESSOR RESPONSE (2): We are in complete agreement with the State's recommendation. Our staff will insure that the owners of all vessels with a cost of \$100,000 or more receive and annual vessel property statement.