

PLUMAS COUNTY ASSESSMENT PRACTICES SURVEY

MAY 2006

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May 12, 2006

TO COUNTY ASSESSORS:

RAMON J. HIRSIG
Executive Director

PLUMAS COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2006/021

A copy of the Plumas 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 Charles W. Leonhardt, Plumas 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 Plumas County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

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

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Plumas 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 BOE, the Senate and Assembly, and the Plumas County Grand Jury, Board of Supervisors, 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 Charles W. Leonhardt, Plumas 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*) 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 Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Plumas County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Plumas County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2004 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

EXECUTIVE SUMMARY

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

In our 2001 Plumas County Assessment Practices Survey, we made 15 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented three of the recommended changes. Five recommendations no longer apply because of legislative changes, the lack of a statutory requirement, or no problems were found as the result of non-implementation. The remaining seven recommendations that were not implemented are repeated in this report.

In the area of administration, we noted that the assessor participates in the State-County Property Tax Administration Program and the exemption program is effective. Several components of administrative programs need improvement:

- The assessor is using noncertified personnel to value property.
- The assessor does not wait at least ten days to enroll an escape assessment after sending the *Notice of Proposed Escape Assessment*, does not send a *Notice of Enrollment of Escape Assessment*, and does not add penalties and interest to escape assessments.
- The assessor still does not apply the county's low-value property exemption to qualifying low-value mining claims.
- The assessor did not submit all the forms checklists or the final prints of all forms to be used for the 2004-05 roll year to the BOE.

In the area of real property assessment, the assessor has an effective program for the enrollment of Timberland Production Zone property. Other programs have areas where improvement is needed:

- The assessor is not assessing the section 482(a) penalty for failure to file a *Change of Ownership Statement*, is granting claims for parent/child exclusions where the applications are incomplete and/or not submitted timely, and does not submit quarterly reports on exclusions granted as required by section 69.5(b)(7) to the BOE.
- The assessor does not assess all construction in progress at market value for each lien date.
- The assessor does not review all decline-in-value property annually to enroll the lower of the factored base year value or the current market value as required by section 51(e).

- The assessor does not provide all information required by section 75.31 when notifying a taxpayer of a supplemental assessment.
- The assessor does not enroll the value of all unrestricted land when it is located on the same parcel as restricted land, and does not deduct expenses from gross revenue when using the income approach in valuing California Land Conservation Act property.
- The assessor is not assessing taxable government-owned property at the lowest of current market value, restricted value, or factored base year value, and continues to not assess all taxable government-owned property.
- The assessor still does not assess all taxable possessory interests in the county, is still not adding the present worth of unpaid future contract rents to the sale price of a possessory interest, does not value all possessory interests as prescribed in Rule 21², and does not recognize lessor expenses when valuing possessory interests by the income approach.
- The assessor does not assess personal property in timeshare rental units.
- The assessor incorrectly values property owned by a water company regulated by the California Public Utility Commission (CPUC).
- The assessor does not enroll the lower of the current market value or the factored base year value of unpatented mining claims and does not adjust for the depletion of reserves due to production as required by Rule 469.

In the area of the assessment of personal property and fixtures, some programs should be revised:

- The assessor is not current on mandatory audits and does not obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.
- The assessor accepts unsigned business property statements.
- The assessor does not enroll all manufactured homes as personal property.
- The assessor still does not use the *Aircraft Bluebook Price Digest* as the primary guide for the valuation of aircraft and is granting the historical aircraft exemption incorrectly.
- The assessor is not including sales or use tax as an element of value when appraising vessels.

The Plumas County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2004-05 assessment roll indicated an average assessment ratio of 98.59 percent, and the sum of the absolute differences from the required assessment level was

² All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

2.77 percent. Accordingly, the BOE certifies that Plumas County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Use only certified personnel to value property.....11

RECOMMENDATION 2: Improve assessment roll change procedures by: (1) enrolling an escape assessment ten days after sending the *Notice of Proposed Escape Assessment*; (2) sending a *Notice of Enrollment of Escape Assessment*, as required by section 534; and (3) ensuring that both penalty and interest are added to escape assessments.13

RECOMMENDATION 3: Apply the low-value property exemption to all eligible property.....14

RECOMMENDATION 4: Timely submit all assessment forms checklists and the final prints of all assessment forms to the BOE.18

RECOMMENDATION 5: Improve the change in ownership program by: (1) assessing the section 482(a) penalty for failure to file a *Change of Ownership Statement*, (2) granting parent/child exclusions only if the transferees submit a complete claim, and (3) submitting quarterly reports to the BOE as required by section 69.5(b)(7).....21

RECOMMENDATION 6: Assess all construction in progress at market value for each lien date.....24

RECOMMENDATION 7: Annually review all decline-in-value properties as required by section 51(e).....25

RECOMMENDATION 8: Include all information on the *Notice of Supplemental Assessment* as required by section 75.31.26

RECOMMENDATION 9: Revise the CLCA assessment program by: (1) enrolling the value of all unrestricted land, and (2) deducting expenses from revenue when capitalizing the income.28

RECOMMENDATION 10: Revise assessment procedures for taxable government-owned property by: (1) assessing taxable government-owned property at the lowest of current market value, restricted value, or factored base year value; and (2) assessing all taxable government-owned property.30

RECOMMENDATION 11: Revise the taxable possessory interest assessment program by: (1) assessing all taxable possessory interests in the county, (2) adding the present worth of unpaid future contract rents to the sale price of a possessory interest, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (4) recognizing lessor expenses when valuing taxable possessory interests by the income approach.32

RECOMMENDATION 12: Assess taxable personal property in rental timeshare units.35

RECOMMENDATION 13: Correctly value property owned by a water company regulated by the CPUC.36

RECOMMENDATION 14: Improve the mineral property assessment program by: (1) enrolling the lower of the current market value or the factored base year value of unpatented mining claims, and (2) adjusting the base year value of mineral property for depletion due to production as required by Rule 469.37

RECOMMENDATION 15: Improve the audit program by: (1) timely auditing the books and records of profession, trade, or business pursuant to section 469; and (2) obtaining a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.39

RECOMMENDATION 16: Accept only a signed BOE-prescribed property statement.42

RECOMMENDATION 17: Enroll manufactured homes as personal property.43

RECOMMENDATION 18: Improve the aircraft assessment program by: (1) using the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft, and (2) granting the historical aircraft exemption only for qualifying claims.45

RECOMMENDATION 19: Include sales tax as a component of market value when appraising vessels.46

RESULTS OF 2001 SURVEY

Assessment Roll Changes

We recommended the assessor include the section 533 notation on the current year's assessment roll for escape assessments. Due to legislative changes, the notation on the assessment roll is no longer required.

Low-Value Property Exemption

We recommended the assessor comply with the county's low value ordinance. The assessor was assessing low-value mining claims that qualified for exemption under the county exemption. The assessor has not implemented this recommendation and it is repeated in this report.

Assessment Forms

We recommended the assessor use only BOE-prescribed property statements. Seven of the 52 forms used by the assessor at that time were outdated forms. The assessor has implemented this recommendation.

Taxable Possessory Interests

We recommended the assessor review all private uses at the county fairground. Since the assessor has not implemented this recommendation, and we found a number of escaped taxable possessory interests, we repeat the recommendation here as assessing all taxable possessory interests.

We recommended the assessor develop a tracking system to recognize reappraisable possessory interests. Although the assessor has not implemented this recommendation, we found no problems due to the lack of a tracking system and do not repeat the recommendation.

We recommended the assessor add the present worth of unpaid future contract rents for the estimated remaining term of possession to the sales price of a possessory interest as required by Rule 25. The assessor has not implemented this recommendation. Although Rule 25 has been repealed and replaced with Rule 21, this rule procedure and the assessor's practice have remained unchanged. Thus, we repeat this recommendation in this report.

We recommended the assessor identify the specific agencies that have jurisdiction of lands owned by the federal government or state government. The assessor has not implemented this recommendation; however, no instances were found where this issue led to taxable property escaping assessment. Therefore, we are not repeating this recommendation.

Taxable Government-Owned Property

We recommended the assessor enroll all taxable properties owned by government agencies that are located outside the agencies' boundaries. Since we again found government-owned property outside its agencies' boundaries that is not assessed, we are repeating this recommendation.

Mineral Property

We recommended the assessor enroll a taxable value for unpatented mining claims that is the lesser of factored base year value or current market value. The assessor has not implemented the recommendation and we repeat it in this report.

We recommended the assessor follow the procedure specified in Rule 469 when valuing mineral properties in production. The assessor has not implemented this recommendation. Therefore, we repeat this recommendation.

Audit Program

We recommended the assessor audit all locally assessed water companies meeting the mandatory audit criteria of section 469. The assessor has implemented this recommendation.

We recommended the assessor institute a nonmandatory audit program because the assessor was not performing any nonmandatory audits. Because the assessor is under no statutory obligation to perform nonmandatory audits, we are not repeating this recommendation.

Business Property Statement Processing

We recommended the assessor comply with Rule 261 when applying a section 463 penalty. The assessor has a new assessment system and is complying with the intent of Rule 261.

Manufactured Homes

We recommended the assessor train appraisal staff to use the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide* when assessing manufactured homes. The assessor implemented this recommendation.

Aircraft

We recommended the assessor use the *Aircraft Bluebook-Price Digest* as the primary guide for valuing aircraft. The assessor has not implemented this recommendation and we are repeating it in this report.

OVERVIEW OF PLUMAS COUNTY

Plumas County lies in the northeastern portion of the state, about 150 miles northeast of Sacramento and 75 miles northwest of Reno, Nevada. The county encompasses about 2,600 square miles, of which about 70 percent is national forest, and has more than 100 lakes and 1,000 miles of rivers and streams. Plumas County is bordered by the counties of Lassen and Shasta to the north, Lassen to the east, Sierra and Yuba to the south, and Butte and Tehama to the west. This county was chartered in 1854 with Quincy as the county's seat of government. Currently, Plumas County has a population of about 22,000, which equates to about eight people per square mile. Portola, with a population of about 2,500, is the only incorporated city.

The following table displays information pertinent to the 2004-05 assessment roll:

	PROPERTY CLASSIFICATION	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	Land		\$959,839,530
	Improvements		\$1,564,475,944
	Personal Property		\$20,660,332
	Exemptions		(\$75,950,675)
	Total Secured	24,360	\$2,469,025,131
Unsecured Roll	Land		\$8,792,495
	Improvements		\$30,233,631
	Personal Property		\$38,301,114
	Exemptions		(\$2,508,160)
	Total Unsecured	3,984	\$74,819,080
	Total Assessment Roll	28,344	\$2,543,844,211

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

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2004-05	\$2,543,844,211	8.9%	8.3%
2003-04	\$2,336,807,822	11.2%	7.3%
2002-03	\$2,100,671,527	7.7%	7.3%
2001-02	\$1,951,085,505		

ADMINISTRATION

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

Budget and Staffing

The following table shows the budget levels over the four fiscal years of 2001-02 through 2004-05. The significant increase for 2004-05 is the result of a one-time special allocation for hiring extra help.

PTAP funds are accounted for separate from the assessor's adopted budget.

FISCAL YEAR	ADOPTED BUDGET	INCREASE	PERMANENT STAFF ³	PTAP FUNDS RECEIVED ⁴	PTAP STAFF
2004-05	\$778,363	26.28%	8	\$80,606	2
2003-04	\$616,369	7.40%	9	\$80,606	0
2002-03	\$573,899	7.13%	9	\$80,606	0
2001-02	\$535,704		9	\$80,606	0

In the 2004-05 fiscal year, the number of positions totaled 15 (including five extra help positions) and consisted of five real property appraisers (including the assessor), one auditor-appraiser, one mapping technician, and eight support staff. One real property appraiser and one support staff are funded with PTAP monies. At the time of our survey fieldwork, two of the assessor's staff were out on long-term leave.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁵ This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county does not meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

³ The number of staff reported includes the assessor.

⁴ See State-County Property Tax Administration Program below.

⁵ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

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

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

Plumas County has participated in the PTAP since the 1994-95 fiscal year. For contract year 2004-05, the assessor received a grant of \$80,606. The county's required base funding and staffing levels for the assessor's office are \$347,301 and seven positions, respectively. The Plumas County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every contract year.

The assessor has used PTAP funds for the purchase of computers, computer software, vehicles, a global positioning unit, training, and updating workstations. The funds have also provided needed staffing, specifically, one real property appraiser and one support staff position. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. In the Plumas County Assessor's Office, there are a total of six certified appraisers on staff (including the assessor), of whom three hold advanced certificates and three have permanent appraiser's certificates. During the course of our survey, one employee with a clerical classification obtained a temporary certificate and was scheduled to take BOE Course 1, *Introduction to Appraising for Property Tax Purposes*. We found that the auditor-appraiser performing the mandatory audits meets the requirements referenced in section 670(d). The assessor was not using contract appraisers at the time of our survey.

While all county staff classified as appraiser or auditor-appraiser have the required certificates, the assessor also uses noncertified staff to perform the duties of an appraiser.

RECOMMENDATION 1: Use only certified personnel to value property.

We found that two noncertified support staff were making decisions as to property classification and one other who was making quality judgments when estimating costs for real property. While these staff members work under the supervision of the acting chief auditor-appraiser, the chief does not routinely review their work.

Section 670 provides that no person shall perform the duties or exercise the authority of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. Rule 281 defines an appraiser as a person who makes building classification judgments for cost estimating purposes and/or renders value judgments.

The BOE, through Letter To Assessors No. 2003/068, has provided recommended guidelines for the participation of noncertified personnel in real property and business property valuation activities. The guidelines state that noncertified personnel may not make a judgment as to the quality of real property, may not independently calculate a replacement cost estimate for real property, may not make a decision as to the classification of business property, and must refer exceptional business property items and those with taxpayer comments to an appraiser for resolution. In conclusion, the guidelines stress that an appraiser must make the final value conclusion.

Assessment Roll Changes

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

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

The following table shows the number of roll changes processed by the assessor for recent roll years. The number of roll changes increased significantly in 2003-04 due to an increase in the number of staff appraisers, some of who worked to reduce a backlog of changes in ownership and building permits.

ROLL YEAR	ROLL CHANGES
2004-05	1,056
2003-04	2,600
2002-03	1,365
2001-02	1,209
2000-01	1,204

In our 2001 survey report, we recommended that the assessor include the section 533 notation on the current year's assessment roll for escape assessments. This recommendation was not implemented but is no longer applicable. The requirement to enter escape assessments and their required captions on the assessment roll was eliminated by recent legislative changes to section 533.

However, we did find other areas where the assessor could improve his assessment roll change program.

RECOMMENDATION 2: Improve assessment roll change procedures by: (1) enrolling an escape assessment ten days after sending the *Notice of Proposed Escape Assessment*; (2) sending a *Notice of Enrollment of Escape Assessment*, as required by section 534; and (3) ensuring that both penalty and interest are added to escape assessments.

Enroll an escape assessment ten days after sending the *Notice of Proposed Escape Assessment*.

After the assessor inputs the values for an escape assessment into the assessment system, the system generates a *Notice of Proposed Escape Assessment*. Subsequently, the values are sent to the auditor for enrollment within 24 hours of the mailing of this notice.

Section 531.8 provides that no escape assessment shall be enrolled before ten days after the assessor has mailed or otherwise delivered to the affected taxpayer a *Notice of Proposed Escape Assessment*.

The assessor's current practice does not allow a minimum of ten days to elapse between notifying the assessee of the proposed escape assessment and the enrollment of the assessment, thereby eliminating the assessee's opportunity to contact the assessor in case of a disagreement prior to its enrollment.

Send a *Notice of Enrollment of Escape Assessment*, as required by section 534.

The assessor does not properly notify taxpayers of the enrollment of an escape assessment. The only notice taxpayers receive related to escape assessments is the *Notice of Proposed Escape Assessment*. This notice does not satisfy the requirements of section 534.

Section 534 requires that taxpayers be apprised of the right to an informal review of the assessment by the assessor and the right to file an appeal contesting the assessment. The assessor's notification procedure does not allow for the dissemination of this information to the taxpayer. In addition, section 534(d)(2) provides that the *Notice of Proposed Escape Assessment* required by section 531.8 does not satisfy the notification requirements of section 534.

In Letter To Assessors 2003/066, dated November 4, 2003, the BOE notified assessors of statutory changes to section 534 (effective January 1, 2004) that make the forms described in section 534 BOE-approved rather than BOE-prescribed. This change affects forms BOE-66-A and BOE-66-B, *Notice of Enrollment of Escape Assessment*. The letter directs that the forms used by the assessor as its *Notice of Enrollment of Escape Assessment* must be submitted to the BOE for approval. Section 534 provides that specific items must be included in this notice. The BOE forms meet the statutory requirements, but use of the BOE form is not mandatory.

The assessor does not send the notification required by section 534 and, thus, does not adequately inform taxpayers of the right to an informal review of the assessment and the right to file an appeal contesting the assessment.

Ensure that both penalty and interest are added to escape assessments.

When the assessor determines he has erroneously allowed a homeowners' exemption due to a taxpayer's failure to timely notify him that the property no longer qualifies for the exemption, the assessor changes the roll but does not assess interest or a penalty.

Section 531.6 provides that if a homeowners' exemption has been incorrectly allowed without assessor fault, an escape assessment in the amount of the exemption with interest as provided in section 506 shall be made. This section also stipulates that, if the homeowners' exemption was incorrectly allowed because the claimant failed to notify the assessor in a timely manner that the property was no longer eligible for the exemption, the penalty provided in section 504 shall be added to the assessment. The assessor is responsible for imposing the penalty to the assessment and notifying the auditor that interest is to be calculated and added as well.

The assessor's current procedure does not comply with statute and results in lost revenue.

Low-Value Property Exemption

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

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

In Plumas County, the board of supervisors concluded that the low-value property exemption threshold for cost-effective assessments was \$700. As a result, Resolution 89-4346 was adopted by the board of supervisors on February 14, 1989, enacting a low-value property exemption for any and all property with a full value of \$700 or less on the unsecured roll.

In our 2001 survey report, we recommended the assessor comply with the county's resolution by applying the low-value property exemption to mining claims assessed on the unsecured roll. We found that the assessor has not implemented this prior recommendation and still does not apply the low-value property exemption to all eligible property assessed on the unsecured roll.

RECOMMENDATION 3: Apply the low-value property exemption to all eligible property.

The assessor applies the low-value exemption to certain property types assessed on the unsecured roll, but not to all as specified by the resolution. Most of the properties the assessor exempts under this resolution are vessels. However, the assessor has continued to enroll low-value mining claims on the unsecured roll.

During our survey, the assessor implemented this recommendation. However, the recommendation was not implemented for the 2004-05 assessment roll.

By enrolling low-value mining claims, the assessor is not exempting low-valued property as required by Resolution No. 89-4346.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

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

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

In Plumas County, institutional exemption claims are processed by a retired annuitant (the former office manager) who works part-time. For guidance, this staff member relies on Assessors' Handbook Section 267, *Welfare, Church and Religious Exemptions* (October 2004), advisory Letters To Assessors issued by the BOE that deal with exemption issues, and a welfare exemption workbook received during a BOE workshop. Field inspections of properties for which a church, religious, or welfare exemption is claimed are conducted by the appraiser that covers the geographical area in which the property is located.

If a field inspection results in a determination of only partial eligibility for exemption, the appraiser documents the appraisal record and updates the assessment system. The system will automatically apply the partial exemption to subsequent assessment rolls.

The following table presents the number of properties and the amount of assessed value exempt under the church and religious exemptions for recent roll years:

ROLL YEAR	NO. OF CHURCH EXEMPTIONS	CHURCH EXEMPT VALUE	NO. OF RELIGIOUS EXEMPTIONS	RELIGIOUS EXEMPT VALUE
2004-05	7	\$1,284,224	43	\$19,938,018
2003-04	7	\$1,337,568	44	\$12,058,918
2002-03	7	\$1,568,157	43	\$11,493,088
2001-02	6	\$2,054,100	43	\$10,521,074
2000-01	6	\$2,059,217	43	\$10,402,656

If a claimant for the religious exemption fails to return the annual religious exemption termination notice, the assessor contacts the claimant by telephone or letter to verify continued eligibility for the religious exemption.

We found that for the 2004-05 assessment roll, the assessor obtained 100 percent compliance from religious exemption claimants; every claimant submitted the required Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*. The assessor grants only partial exemption when a portion of a claimed property is used for purposes not within the scope of the church or religious exemption and applies the section 270 provisions for late-filed claims correctly.

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

Welfare Exemption

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

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

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

The following table summarizes the welfare exemptions granted for recent roll years:

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPT ASSESSED VALUE
2004-05	36	\$19,938,018
2003-04	27	\$5,537,330
2002-03	29	\$5,897,204
2001-02	28	\$5,540,435
2000-01	26	\$5,327,999

We reviewed a variety of welfare exemption claims on file at the assessor's office and found that the assessor requires an *Organizational Clearance Certificate* from each claimant, applies late-filing penalties when appropriate, and correctly allocates exempt and taxable areas of properties receiving partial exemptions.

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

Assessment Forms

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

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

In Plumas County, the assessor uses 58 of the 75 BOE-prescribed forms, only one of which is rearranged. Six of these forms, along with two county-developed forms, are available on the assessor's website.

For lien date 2004, we found that the assessor returned the miscellaneous forms checklist and the final prints of the miscellaneous forms timely. However, the other checklists and the final prints for the other forms were never submitted.

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

RECOMMENDATION 4: Timely submit all assessment forms checklists and the final prints of all assessment forms to the BOE.

The assessor did not return the property statements and exemption forms checklists to the BOE that indicate which forms he would be using for 2004. Additionally, the assessor did not submit to the BOE final prints of the property statements or the exemption forms for 2004. The assessor was also late in submitting forms and checklists for 2002 and 2003.

Government Code section 15606(d) provides the BOE the authority to prescribe forms to be used by assessors for property taxation purposes. As a result, the BOE instituted checklist and final print procedures for assessment forms. Letter To Assessors 2004/049, dated September 7, 2004, explains the forms approval process in detail. This process is intended to standardize assessment forms, to the benefit of taxpayers statewide. Assessor participation and compliance is mandatory.

ASSESSMENT OF REAL PROPERTY

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

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

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

Change in Ownership

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

Discovery, Document Processing, and Valuation

The Plumas County Assessor's primary means of discovering properties that have changed ownership is the review of deeds and other recorded documents. The county recorder scans all documents that are recorded and requires that Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), accompany documents submitted for recordation that transfer the ownership of real property. A \$20 fee is added to the recording fee when a PCOR does not accompany transfer documents submitted for recordation. PCORs received by the recorder are collected weekly by staff from the assessor's office.

The assessor's staff reviews the scanned documents. Those documents that potentially relate to a transfer of property are selected and printed by the cadastral drafting specialist, who also verifies the legal description. The documents are forwarded to a fiscal technical services assistant who processes the documents before forwarding the appraisal work to the appraisers. In processing the documents, the assistant analyzes the recorded documents to determine the percentage of ownership transferred and whether the documents represent a reappraisable event. When a

transfer document is received without a PCOR, the assistant sends a Form BOE-502-AH, *Change of Ownership Statement* (COS), to the owner.

The following table shows the transfer document activity in Plumas County for recent roll years:

ROLL YEAR	NUMBER OF PARCELS
2004-05	5,992
2003-04	4,521
2002-03	4,932
2001-02	4,423
2000-01	4,259

We found the assessor establishes the correct base year, establishes the base year value based on the presumption in Rule 2 that the sale price reflects the full cash value of the property, and uses reasonable appraisal techniques. He also correctly values partial interest transfers, applies the annual inflation adjustment, and enrolls supplemental assessments.

Legal Entity Ownership Program (LEOP)

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

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

We reviewed the action taken by the assessor in response to change in control notifications received from the BOE's LEOP unit from 2000 through 2004, and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor is processing LEOP notifications properly.

Summary

We found that there are no outstanding improvement bonds in the county and the assessor does not have a direct enrollment program. Additionally, our review found no problems with section 69.5 base year transfer procedures. However, we found some areas that need improvement and recommend the following changes.

RECOMMENDATION 5: Improve the change in ownership program by: (1) assessing the section 482(a) penalty for failure to file a *Change of Ownership Statement*, (2) granting parent/child exclusions only if the transferees submit a complete claim, and (3) submitting quarterly reports to the BOE as required by section 69.5(b)(7).

Assess the section 482(a) penalty for failure to file a *Change of Ownership Statement*.

When a *Change of Ownership Statement* (COS) mailed to a taxpayer is not returned, the assessor does not apply the section 482 penalty.

Section 482 provides that failure to file a change in ownership statement within 45 days from the date of a written request by the assessor shall result in a penalty of either \$100 or 10 percent of the taxes applicable to the new base year value, whichever is greater, to a maximum of \$2,500, if the failure to file was not willful. By not processing penalties, the assessor is not enforcing section 482.

Grant parent/child exclusions only if the transferees submit a complete claim.

We found that the assessor grants exclusions from reassessment for transfers between parents and children despite the fact that claim forms may be incomplete.

Certain transfers may be excluded from reassessment provided that a claim is timely filed with the assessor and other specific requirements are met. Section 63.1 allows for the exclusion from reappraisal of property transferred between a parent and child, or grandparent and grandchild when the parents are deceased.

Subdivision (d)(1)(C)(ii) of section 63.1 requires that, if the transfer of real property includes real property other than the transferor's principal residence, the claimant must provide information including: a certification that other real property of the transferor that is subject to this section has or has not been previously transferred to an eligible transferee; the total amount of the full cash value of any real property subject to this section that has been previously transferred by that transferor to eligible transferees; the location of that real property; the social security number of each eligible transferor; and the names of the eligible transferees of that property. We found numerous approved claims for exclusion that did not include this required information.

Subdivision (d)(1)(D) of section 63.1 states that if there are multiple transferees, the certification and signature may be made by any one of the transferees. However, the certification signed by

the transferee must state that all of the transferees are eligible transferees. We found claim forms, signed by only one transferee, where the required relationship certification was not provided. The exclusion was granted in both cases.

If the assessor does not require all necessary information when reviewing the claim forms, exclusions may be granted erroneously.

Submit quarterly reports to the BOE as required by section 69.5(b)(7).

We found that the assessor does not submit to the BOE the quarterly reports required by section 69.5 to prevent duplication of claims. We found claims for the transfer of a base year value under section 69.5 that were processed in 2004 but not reported to the BOE.

Section 69.5(b)(7) provides that assessors must report quarterly to the BOE that information necessary to identify fully all claims allowed and all claimants who have thereby received the benefit of transferring their base year value to a replacement residence.

By not reporting these claims to the BOE, the assessor is not in compliance with section 69.5(b)(7).

New Construction

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

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

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

Discovery

Most new construction activity is discovered through the issuance of building permits. Currently, the assessor receives building permits from both of the two permit-issuing agencies within the county - the Plumas County Building Department and the City of Portola. Other sources of information for discovering new construction include newspaper articles, business property statements, and field canvassing.

The following table shows the assessor's building permit workload over the years from 2000 through 2004:

CALENDAR YEAR	TOTAL PERMITS RECEIVED	NUMBER OF PERMITS RESULTING IN A VALUE CHANGE	% OF PERMITS CREATING A VALUE CHANGE
2004	1,723	536	31.11%
2003	1,810	551	30.44%
2002	1,942	443	22.81%
2001	1,642	363	22.11%
2000	1,559	465	29.83%

Permit Processing

The assessor obtains copies of building permits from the county building department on a weekly basis, and from the City of Portola on a monthly basis. All pertinent data on the building permits is entered into the assessment system. The system assigns a supplemental assessment number and creates a worksheet for each permit. The worksheet is used for work assignments and subsequently generates the supplemental assessment. Permits are then culled to eliminate items that the assessor does not believe qualify as new construction, such as re-roofing, replacement plumbing, and repairs. Properties for which issued permits have been culled may be inspected in the field at the discretion of the appraiser.

The folders for properties with active building permits are marked with a red tag, allowing such properties to be easily identified. In addition, the assessor can produce a report from the assessment system listing properties that are subject to review because of construction activity.

Appraisers field check all properties with active permits. However, there are instances, typically involving residential property, when the appraiser is unable to gain access. In these cases, the appraiser sends a *Property Owner's Statement of New Residence Construction* or a *Property Owner's Statement of Residential Construction/Demolition* questionnaire to the property owner soliciting information on the construction activity. The questionnaires request the property owner to provide the size and cost of construction, the status of work, a description of construction, a daytime telephone number, and any comments concerning the construction activity. The completed questionnaires are used as supporting data for the final value determination.

Once construction is complete, the value of the new construction is added to the assessment roll and the red tag is removed from the property folder.

Valuation

For valuing residential new construction, the Plumas County Assessor uses several cost sources, including Assessors' Handbook Section 531, *Residential Building Costs*, the property owner's actual cost, or the *Marshall Valuation Service* cost guide. The value of new construction for

commercial and industrial properties is estimated using the sales comparison approach, income approach, and actual cost or *Marshall Valuation Service*.

We reviewed several residential and commercial/industrial properties that involved new construction. Overall, the assessor's program for discovery, permit processing, and the valuation of new construction is very effective; however, there is one area of concern.

RECOMMENDATION 6: Assess all construction in progress at market value for each lien date.

We found parcels with construction ongoing for a number of years where the assessor did not enroll market value for the construction in progress on the interim lien dates.

Section 71 and Rule 463(d) provide that construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion.

The assessor's practice is contrary to the requirements of law and results in underassessments of real property.

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.

Plumas County has experienced an upward value trend in most areas over the past five years and the number of properties in decline-in-value status has decreased significantly. The assessor enrolled approximately 432 properties at less than FBYV for the 2004-05 assessment roll:

ROLL YEAR	DECLINE-IN-VALUE ASSESSMENTS ENROLLED	ROLL VALUE
2004-05	432	\$22,463,210
2003-04	587	\$37,168,771
2002-03	626	\$45,928,800
2001-02	710	\$49,511,058
2000-01	788	\$56,952,748

The assessor primarily relies upon contact from property owners to identify properties with declining values. Many of the properties enrolled at less than FBYV are residential sites located in the areas of Greenhorn Guest Ranch or La Porte. The property appraisal files typically contain documentation to support the market value estimates and the parcels in decline-in-value status are coded so that the assessment system does not apply the inflation factor to the prior year's taxable value.

We found one area where the assessor can improve his decline-in-value program.

RECOMMENDATION 7: Annually review all decline-in-value properties as required by section 51(e).

We found that the assessor is not annually reviewing decline-in-value assessments, although they have been enrolled at less than FBV for a number of years. The assessor continues to annually identify and enroll declining values, although the number of such new assessments is decreasing. There is no annual reassessment of decline-in-value properties; they are only removed from their decline-in-value status upon change in ownership.

Section 51(a) provides that for each lien date after the lien date in which a base year value is established, a property's taxable value shall be the lesser of its factored base year value or its full cash value. Once a property is enrolled at a value lower than its FBV, subdivision (e) requires that the assessor annually reappraise the property, as of the lien date, until the FBV has been restored.

The assessor's practice of not annually reviewing these assessments can lead to underassessments because real estate values have been increasing over the past few years.

Supplemental Assessments

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The Plumas County Assessor has processed in excess of 2,000 secured and unsecured supplemental assessments annually for recent years:

ROLL YEAR ⁷	SECURED SUPPLEMENTAL ASSESSMENTS	UNSECURED SUPPLEMENTAL ASSESSMENTS
2004	2,392	28
2003	2,756	22
2002	2,383	16
2001	2,344	25
2000	1,983	38

Supplemental Assessment Processing

The assessor processes supplemental assessments through the assessment system. The system automatically initiates the process when transfer documents or building permits are input, and produces notices of supplemental assessment when new values are entered. This process ensures that supplemental assessments can be processed in a timely manner.

Appraisers use a worksheet to initiate a supplemental assessment valuation whenever a change in ownership or new construction occurs. The assessor reviews the completed worksheets and forwards approved assessments for data entry. Upon completion of the data entry, the assessment system automatically produces a *Notice of Supplemental Assessment*. The assessor then attaches a cover letter to the notice and mails it to the property owners. After a 45-day waiting period, the supplemental assessment is electronically transmitted to the county auditor for enrollment.

We reviewed a number of appraisal records of properties that had experienced new construction or a change in ownership. The assessor's supplemental assessment program is efficiently coordinated and complies with applicable provisions of property tax law, with one exception.

Notification

We found that the assessor does not provide all required information when notifying property owners of a supplemental assessment.

RECOMMENDATION 8: Include all information on the *Notice of Supplemental Assessment* as required by section 75.31.

The assessor's *Notice of Supplemental Assessment* does not include all information required by section 75.31. The assessor sends a cover letter along with the front of Form BOE-67-B, *Notice of Supplemental Assessment*. However, the back of Form BOE-67-B is not included. As a result, neither the notice nor the cover letter include all the information required by section 75.31.

⁷ January 1 through December 31.

Section 75.31 provides that the *Notice of Supplemental Assessment* include information such as notification of the procedure for filing a claim for exemption, the right to an informal review, the right to appeal, and filing deadlines. These requirements benefit the assessee by providing all pertinent information. Omission of the required information is contrary to statute and may confuse the assessee or lead to an inadvertent waiver of the assessee's rights.

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, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

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

For the 2004 assessment roll, there were 77 active CLCA and four Farmland Security Zone (FSZ) contracts. FSZ contracts are another form of the CLCA contract, but have greater benefits and restrictions. The parcels covered by these contracts totaled 78,613 acres and had a combined assessed value in excess of \$17 million. The bulk of the acreage under contract is dry farm pasture, while the balance is prime pasture. Two of the CLCA contracts are in nonrenewal status, and none are in the process of being cancelled.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that "[e]ven though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner."⁸ In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite.

Homesites are valued in compliance with section 428. Pursuant to sections 52(a) and 75.14, the assessor properly does not issue supplemental assessments for restricted land and living improvements.

⁸ *Assessment of Agricultural and Open-Space Properties*, October 2003, page II-51.

Capitalization Rates

Section 423(b) prescribes the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and a component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

The assessor utilizes appropriate capitalization rates when determining the restricted values of open-space properties.

Section 423(d) provides that the restricted value derived by the income approach cannot exceed the lesser of either the factored base year value or the market value. In some instances, the assessor compares a property's restricted value with its factored base year value and enrolls the lower of the two. However, he is not always able to make this value comparison because he has no record of some base year values. The assessor is in the process of reconstructing the missing base year values and has been performing the required value comparison when he had a record of the base year value.

In recent years, the assessor has found it unnecessary to compare the current market values of any properties under contract with their restricted values or factored base year values, as the current market values are substantially higher.

Summary

The assessor first utilized the assessment system to process the assessment of open-space lands for the 2004-05 assessment roll. In general, the transition to the new system appears to have gone smoothly, but we did find two problems, one of which may be associated with the implementation of the new program.

RECOMMENDATION 9: Revise the CLCA assessment program by: (1) enrolling the value of all unrestricted land, and (2) deducting expenses from revenue when capitalizing the income.

Enroll the value of all unrestricted land.

For the 2004-05 assessment roll, when a parcel included some acreage covered by a CLCA contract and some land that was unrestricted, the assessor did not enroll the value of the

unrestricted acreage. This appears to be a problem related to the initial use of the CLCA module within the assessment system for the 2004-05 assessment roll. The value of the unrestricted acreage had been correctly enrolled prior to the 2004-05 assessment roll.

As provided in AH 521, any portion of a rural property not subject to an enforceable restriction that qualifies as open-space land must be valued at the lower of its factored base year value or current market value.

The assessor's current procedures allow some agricultural land to escape assessment.

Deduct expenses from revenue when capitalizing the income.

The assessor does not deduct all expenses from the income when using the income approach to estimate a value for CLCA property.

Section 423(a)(3) provides that the income used shall be the difference between revenue and expenditures. Expenditures shall be those that are ordinary and necessary in the production and maintenance of the revenue for the period. The AH 521 provides that when valuing open-space property, the expenses necessary to maintain the income to the land, including management and insurance, must be deducted from the projected gross income prior to capitalization.

The omission of deducting appropriate expenses results in the overassessment of CLCA and FSZ properties.

Taxable Government-Owned Property

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

The assessor has identified one taxable government-owned property. It appears this property has not been properly assessed. In addition, the assessor has not implemented our recommendation in the 2001 survey report to identify and assess all taxable government-owned parcels. In our current fieldwork, we identified additional government-owned parcels that appear to be taxable. Both of these issues are addressed in the following recommendation.

RECOMMENDATION 10: Revise assessment procedures for taxable government-owned property by: (1) assessing taxable government-owned property at the lowest of current market value, restricted value, or factored base year value; and (2) assessing all taxable government-owned property.

Assess taxable government-owned property at the lowest of current market value, restricted value, or factored base year value.

Contrary to BOE guidelines, the assessor enrolled the market value of the one taxable government-owned property as the parcel's base year value.

In Letter To Assessors 2000/037, dated June 23, 2000, the BOE instructs that the base year value for taxable government-owned property acquired after March 1, 1975 is the lower of current fair market value, or the restricted value, as of the date of change in ownership.

The assessor's practice has resulted in an overassessment of the property.

Assess all taxable government-owned property.

The assessor continues to exempt the taxable government-owned parcels that were noted in our last survey without documenting why they are exempted. We also found additional parcels that appear to have been erroneously exempted.

Article XIII, section 11 of the California Constitution provides that lands owned by a local government agency that are outside its boundaries are taxable if they were taxable when acquired.

The assessor should compare the tax rate areas in which government-owned properties are located with the tax rate areas in which each government agency has jurisdiction. Any property located outside of the jurisdiction of the government agency that owns it, and which was taxable when acquired, is taxable.

Timberland Production Zone Property

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

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

Plumas County has TPZ parcels comprising approximately 221,000 acres. For the 2004-05 assessment roll, the total assessed value of TPZ lands was almost \$21 million.

We found the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ parcels. The assessor updates TPZ values annually based on the site class values provided by the BOE. There are no TPZ parcels in rezoning status pursuant to Government Code section 51120 although there has been a recent inquiry by one TPZ landowner. Currently, there are no TPZ parcels in nonrenewal status. All of the land zoned as TPZ is identified on the assessment roll with the notation "Timber Preserve (TPZ)" in conformance with section 433.

The assessor accurately identifies and assesses improvements and compatible uses on TPZ properties at the lower of factored base year or current market value. The assessor does not issue supplemental assessments for restricted TPZ parcels upon change in ownership.

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

Taxable Possessory Interests

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

In Plumas County, the assessor enrolled about 825 taxable possessory interests on the 2004-05 assessment roll totaling more than \$21 million. The following table lists the distribution of these assessments:

TYPE	NUMBER OF ASSESSMENTS	AMOUNT OF ASSESSMENTS
United States Forest Service (USFS) Cabins	293	\$15,536,695
Mining Claims	406	\$1,900,000*
Grazing Leases	46	\$551,199
Airport Hangars	78	\$2,924,022
Cable TV	1	\$1,850,242

* Estimated

In our 2001 survey report, we recommended the assessor review all private uses at the county fairground, add the present worth of unpaid future contract rents for the estimated remaining term of possession to the sale price of a possessory interest as required by Rule 25, identify the specific agencies that have jurisdiction of lands owned by the federal government or state government, and develop a tracking system to recognize reappraisable possessory interests. We

are repeating the first two recommendations as the assessor has not made the recommended changes. Additionally, we have two other recommended changes.

RECOMMENDATION 11: Revise the taxable possessory interest assessment program by: (1) assessing all taxable possessory interests in the county, (2) adding the present worth of unpaid future contract rents to the sale price of a possessory interest, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (4) recognizing lessor expenses when valuing taxable possessory interests by the income approach.

Assess all taxable possessory interests in the county.

In our 2001 survey report, we recommended the assessor review private uses at the county fairground to discover taxable possessory interests. In addition, during our current survey, we found that the assessor does not assess employee housing at Plumas Eureka State Park-Johnsville, tie-downs at Chester-Rogers Airport, and month-to-month county-owned hangar rentals at Beckwourth-Nervino Airport.

Section 107 and Rule 20 define a taxable possessory interest. Briefly stated, a taxable possessory is the private beneficial use of public property. The defining requirements are that the right of possession be independent, exclusive, and durable and provide a private benefit.

There are a number of private vendors and concessionaires at the fairgrounds that appear to be possessory interests. The repeated use of the fairground facilities by the same person or entity over a number of years should be investigated to see whether it constitutes a taxable possessory interest.

Plumas Eureka State Park submits annual reports providing information on employees who rent state-owned housing at the Johnsville Park. For 2002, the agency reported three employee-occupied housing units. The length of tenancy reported varied from five months to almost eight years. Only one tenancy was assessed. The report for 2004 included only one rented unit, but no possessory interest was assessed at this park.

There are three county-owned airports in Plumas County, and there are possessory interests (hangars) assessed at all three locations. However, the assessor has not assessed the value of tie-downs at Chester-Rogers Airport or the rented county-owned hangars at Beckwourth-Nervino Airport.

Section 201 provides that, unless otherwise exempt, all property is taxable. By not assessing these possessory interests, the assessor is not assessing all taxable property in the county.

Add the present worth of unpaid future contract rents to the sale price of a possessory interest.

We found that when the sale of a possessory interest in a cabin occurs, the assessor enrolls the sale price and does not add the present value of unpaid future contract rent for the term of possession. We also found that the assessor enrolls the sale price when a hangar changes ownership, with no adjustments for future lease payments.

The direct method of the comparative sales approach is one of the generally accepted methods for valuing a taxable possessory interest and is described in Rule 21(e)(1)(A). In this method, an important adjustment to the reported purchase price is the addition of the present value of the unpaid future contract rent over the remaining term of possession.

When determining the value of a possessory interest, appraisers must include the total consideration paid for that possessory interest. To reach that amount, the appraiser must include future sums that the purchaser has an obligation to pay. If this adjustment is not made, the value indicator will reflect only the buyer's equity value in the taxable possessory interest and not the full value of the taxable possessory interest, resulting in an underassessment.

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

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

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

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

Recognize lessor expenses when valuing taxable possessory interests by the income approach.

When utilizing the income approach to value possessory interests, the assessor capitalizes the contract rent paid by the lessee, without making any deductions for management and other potential operating expenses incurred by the public lessor.

In the direct income approach, the amount to be capitalized is the future net income that the possessory interest is capable of generating under typical management during the term of possession. Rule 21(e)(3)(C) provides that net operating income is the gross operating income less allowed expenses. Allowed expenses include any of the following: cost of goods sold (if applicable), typical working capital, typical management expense, an allowance for a return on working capital, and an allowance for a return on the value of any nontaxable property that contributes to the gross operating income.

An owner will generally incur some expense leasing its property to another party. In the case of United States Forest Service (USFS) leases of cabin sites and grazing land, the USFS may only incur a nominal management expense. However, leases of other types of property may require the lessor to also pay for such items as insurance, maintenance, or utilities.

Terms in the leases for hangars at Plumas County-owned airports require the lessee to submit the hangar design and color scheme to the lessor for approval prior to construction. The lessee must also submit, for approval, any changes in the proposed use of the leased premises. Review of these plans and proposals require some management expenses. Additionally, the lessor is required to maintain the premises free of weeds and in a clean and sanitary manner. The written agreement creating the possessory interest should be reviewed to determine the existence of appropriate lessor expenses, while typical expenses such as management charges should also be recognized.

Failing to recognize appropriate lessor expenses may overstate the full cash value of a possessory interest.

Timeshares

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable nonreal property items (considered nontaxable). Examples of nonreal property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

There is one timeshare project in Plumas County, a project consisting of eight duplex units. The developer markets both specific weeks and "floating" weeks in specific units.

Processing

The assessor identifies timeshares using a 12-digit account number. The first three digits in the account number are in the "500" series and denote that the property is a timeshare and also refer to the map book number. The next three digits designate the duplex in which the timeshare is located, while digits seven through nine designate in which half of the duplex the timeshare has

been purchased. The last three numbers in the account number provide the specific timeshare week.

Valuation

Section 998 provides that the full taxable value of a timeshare interest shall be determined by finding the real property value of the interest involved, and shall not include the value of any nonreal property items (including, but not limited to, vacation exchange rights, vacation conveniences and services, and club memberships).

In analyzing the sales prices of these timeshare interests to determine whether they included the value of any nonreal property items, the assessor compared the sale price of the improvements to the indicated value of the improvements estimated by the cost approach. After adjustments to the sale price for land value and personal property, the assessor found that the adjusted sale price and the value indicated by the replacement cost estimate were very close, leaving little or no value for the nonreal property amenities. Therefore, the assessor concluded that purchase prices for timeshare properties in Plumas County do not include any value for nonreal property amenities.

In processing changes in ownership for timeshare properties, the assessor enrolls as the base year value the purchase price less his estimated value for the personal property included in the purchase. While the assessor has been consistent in applying this method to the timeshares, his approach improperly exempts taxable personal property.

RECOMMENDATION 12: Assess taxable personal property in rental timeshare units.

The assessor does not assess any of the personal property in the timeshare project. Some personal property is still held in the developer's timeshare inventory, while some is located in units that are either rented to others by the timeshare owners, or by the developer in conjunction with leaseback agreements.

Section 201 provides that unless exempt, all property is taxable. Section 224 and Rule 134 exempt from taxation only those household furnishings and personal effects not held or used in connection with a trade, profession, or business. Since household furnishings in timeshare units that are rented are used in a business, they are taxable.

The assessor's current practice results in taxable personal property escaping assessment.

Water Company Property

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

The assessor has identified and assesses five water companies with taxable property, including one that is regulated by the California Public Utilities Commission (CPUC). We did not find any

significant assessment problems involving the assessment of property owned by private water companies that are not regulated by the CPUC.

RECOMMENDATION 13: Correctly value property owned by a water company regulated by the CPUC.

The assessor annually obtains a copy of the report submitted to the CPUC by the regulated water company operating in his county. He uses the amounts reported on this company's balance sheet to determine the taxable value of the property owned by the water company, and enrolls it as an unsecured account. The assessor's taxable value for the company's property includes the amount the company reports for "Intangible Plant."

Section 212(c) states that, with certain exceptions, intangible assets and rights are exempt from taxation. In addition, Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights* (December 2000), reiterates that in determining the historical cost less depreciation indicator of value for water company property, the assessor must adjust the reported historical cost for various items including property specifically exempt by provisions of the Revenue and Taxation Code. The handbook provides an example of how to compute the historical cost less depreciation indicator of water company property, that specifically deducts the cost of property described as "Intangible Assets."⁹

In addition, the company's balance sheet reports amounts for "Land and Land Rights" and "Depreciable Plant," which the assessor considered in his assessment. However, there are seven parcels on the 2004-05 secured assessment roll that are also separately assessed to this water company. The company's accountant indicated that all of the land and improvements owned by the company are used in its operation, and that all are reported on its balance sheet. As a result, it appears that this water company's land and improvements are being doubly assessed.

Mineral Property

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

"Mining property" refers to the rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources, and the real property rights associated with these rights. Rule 469 provides that the rights to enter in or upon the land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value.

In our 2001 survey report, we recommended the assessor enroll a taxable value for unpatented mining claims that is the lesser of the factored base year value or the current market value. We

⁹ Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights* (December 2000), page 30.

also recommended the assessor follow the procedure specified in Rule 469 when valuing mineral property in production. The assessor did not implement these recommendations. In our current survey, we found these two problems to still exist.

RECOMMENDATION 14: Improve the mineral property assessment program by:

- (1) enrolling the lower of the current market value or the factored base year value of unpatented mining claims, and
- (2) adjusting the base year value of mineral property for depletion due to production as required by Rule 469.

Enroll the lower of the current market value or the factored base year value of unpatented mining claims.

Unpatented mining claims are treated as taxable possessory interests. They are claims filed on federal land. The only requirement for renewal is the payment of an annual maintenance fee and the proper filing of certain documents with the Bureau of Land Management and the county recorder. The assessor believes that much of this type of mining is recreational. Claims are seldom transferred. More commonly, a claim is worked for a period of time and then abandoned. When a claim is abandoned, another individual generally files a new claim for the same location.

After the assessor establishes the base year value for unpatented mining claims, in subsequent years he inappropriately enrolls the factored base year value. He doesn't estimate the current market value and compare it to the factored base year value to determine the lower of the current market value or the factored base year value for enrollment purposes.

Section 51 requires the assessor to enroll the lower of a property's factored base year value or its current market value on each lien date. Each year the assessor should estimate the market value for the mining claim. Once the assessor establishes the current market value, the assessor should compare it to the property's factored base year value and enroll the lower of the two values.

These unpatented mining claims have no stated term of possession. The term is indefinite, and as such, the value of the taxable possessory interest does not decline as it may for other taxable possessory interests. Unless there are changes to the annual rental payment or the discount rate, the current market value will be the same year after year. By enrolling the factored base year value each year the assessor is overassessing the mining claim.

Adjust the base year value of mineral property for depletion due to production as required by Rule 469.

The assessor does not account for the depletion of reserves when estimating the assessed value of a mineral property. This is not consistent with the requirements of Rule 469.

Rule 469 provides that rights to enter in or upon the land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value. Further, subsection (e)(2)(A)(4) provides that when estimating the base year value or the adjusted base year value of mineral rights, an

adjustment must be made to account for depletion of the mineral reserve. To estimate the value of the reserves removed, the assessor should multiply the quantity of reserves removed in the prior year by the weighted average value, for reserves only, per unit of minerals for all prior base years. The adjusted base year value of the reserves remaining from prior years is found by subtracting the value of the removed reserves from the prior year's adjusted base year value.

Failure to account for the depletion of reserves could result in the overassessment of the mineral rights.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

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

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.

In Plumas County, the audit program includes a total of 15 mandatory audit accounts. The following recommendation addresses weaknesses we found in the assessor's audit program.

RECOMMENDATION 15: Improve the audit program by: (1) timely auditing the books and records of profession, trade, or business pursuant to section 469; and (2) obtaining a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

Timely audit the books and records of profession, trade, or business pursuant to section 469.

We reviewed the accounts qualifying for mandatory audit and found that the assessor fails to audit the books and records of the businesses at least once every four years, as required by section 469.

Section 469 provides that audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000. Rule 192(a) provides that the assessor shall complete the audit of the taxpayer's books and records when the combined value equals or exceeds \$400,000 for each of the four consecutive lien dates. The assessor requests information

for the audit through the mail; however, he fails to act on the information upon receipt. Instead, the information is placed in the taxpayer's file with no review.

The mandatory audit program verifies the reporting of the largest business property accounts and forestalls any potentially large assessment errors. By failing to complete these audits in a timely manner, the assessor is not complying with the provisions of section 469.

Obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

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

Section 532 provides that an escape assessment found during an audit must be enrolled within four years after July 1 of the assessment year in which the property escaped assessment or was underassessed. If the assessor cannot complete a mandatory audit within the prescribed time limit for enrolling an escape, the assessor may ask the taxpayer for an extension of time to complete the audit. This can be accomplished by requesting that the taxpayer sign a waiver of the statute of limitations, as authorized by section 532.1. This waiver protects the taxpayer if there was an overassessment and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered.

Business Property Statement Program

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

For the 2004-05 assessment roll, a total of 3,836 business property statements (including vessels and aircraft) were processed in Plumas County. This resulted in assessments totaling more than \$58 million. The following table summarizes this activity:

CATEGORY	TOTAL COUNT	SECURED ASSESSMENTS	UNSECURED ASSESSMENTS	TOTAL ASSESSMENT
Business/Agriculture	1,857	\$20,660,332	\$24,960,874	\$45,621,206
Vessels	1,912	N/A	\$9,268,240	\$9,268,240
Aircraft	67	N/A	\$4,072,000	\$4,072,000
Total	3,836	\$20,660,332	\$38,301,114	\$58,961,446

Discovery

Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovering assessable business property include reviewing business permits, fictitious business name filings, newspaper articles and advertisements, and telephone directories; referrals from other counties; and BOE notifications. We found that the assessor effectively employs various methods to discover taxable personal property and fixtures.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues it for several years. Property statement filing or field reviews are required periodically. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings. The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements that must be processed annually by the assessor increasing time available for auditor-appraisers to perform other required duties.

The Plumas County Assessor utilizes such a program. The accounts that are direct-billed are generally stable and have less than \$10,000 in full cash value of reportable business property. Every three years the assessor sends a business property statement to direct-billed taxpayers to determine if there have been any substantial changes including added equipment, deleted equipment, sale of the business, change in ownership, and change in location. The assessor then decides whether the account is still suitable for direct billing. If the business account no longer qualifies for direct billing, it is converted back to a regular account and yearly business property statement mailings are initiated. If Form BOE-571-S, *Business Property Statement* short form, or BOE-571-L, *Business Property Statement* long form, is not returned, the assessor contacts the taxpayer in an effort to secure the requested information, and the taxpayer is dropped from the direct-billing program.

We found no problems with the assessor's direct billing program.

Summary

We noted one area in the assessor's business property statement processing program that needs attention.

RECOMMENDATION 16: Accept only a signed BOE-prescribed property statement.

We found several instances where the assessor accepted an unsigned Form BOE-571-L. In these cases, the assessee had attached a signed statement (not a BOE-prescribed form) to the original unsigned Form BOE-571-L sent to him or her by the assessor, and had filed the entire package with the assessor. This is not consistent with the requirements of section 441.5.

Section 441.5 provides that when a taxpayer submits a statement other than the original property statement, such submission may be furnished as an attachment to the BOE-prescribed property statement provided that the attachment be in a format as specified by the assessor and: (a) one copy of the property statement, as printed by the assessor, is signed by the taxpayer and carries appropriate reference to the data attached; or (b) the statement is filed electronically and authenticated as provided in section 441(k).

The assessor should not accept nonconforming property statements. Such statements are invalid filings since they do not comply with the provisions of section 441.5. The result of this practice is that no one attests to the authenticity of the facts reported on the statement or acknowledges any associated penalty for failure to comply with the filing requirements.

Business Equipment Valuation

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

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

The assessor uses the valuation factor tables published by the California Assessors' Association to assess business equipment. These factors follow the AH 581 factors closely except for older equipment, in which case the percent good of the equipment is held at a certain minimum level. The index and percent good factors are programmed into the assessor's assessment system. The factors are updated each year prior to the lien date. The assessment program will not apply an index factor for service lives that are greater than 125 percent of the economic service life.

We found no problems with the assessment of business equipment.

Manufactured Homes

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

In Plumas County, there are approximately 275 manufactured homes, about 65 percent of which are located in mobilehome parks. The assessor estimates there are about 65 such parks; the other homes are situated on privately-owned rural sites.

The valuation of manufactured homes is the responsibility of the appraiser assigned to the geographical area in which the home is located. The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through the Department of Housing and Community Development's periodic listings, building permits, dealers' reports of sales, deed recordings, and Form BOE-502-A, *Preliminary Change of Ownership Report*. Sales prices, the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide*, local cost data, and BOE unit cost factors are considered during the valuation analysis. When applicable, supplemental assessments are processed. Site influence is also considered in the valuation process.

As a discovery tool, the assessor initiated a canvassing program for mobilehome parks in 2003. Full cash value estimates were done and previously unassessed accessories were added to the assessment roll.

Based on our review, we found only one area in this program needing improvement.

RECOMMENDATION 17: Enroll manufactured homes as personal property.

We found that, although the assessor has enrolled manufactured homes in parks as personal property/manufactured homes, manufactured homes situated outside of parks are inappropriately enrolled as structures.

Section 5801(b)(2) provides that manufactured homes shall not be classified as real property for taxation purposes unless so allowed under special circumstances. This requirement is explained in detail in Letter To Assessors No. 92/57, dated August 31, 1992, and in Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks*.

If special assessments are levied, improper classification of manufactured homes can affect the amount of taxes due. Special assessments are levies upon real property in a district for the purpose of paying for improvements. The amount of the levy is based upon the benefits accruing to the property as a result of the improvements. Special assessments are not typically imposed on items of personal property. Thus, misclassification may result in an overassessment.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The 2004-05 assessment roll included 56 general aircraft with a total assessed value of about \$3.5 million. Sources of aircraft discovery used by the assessor include Form BOE-577-B, *List of Aircraft*, submitted by local airport operators, and information from individual aircraft owners. The assessor also receives referrals about aircraft from assessors of other counties.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

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

A total of 11 historical aircraft were enrolled on the 2004-05 assessment roll, at a total value of \$505,000. The assessor charges an initial application fee of \$35, and reviews all applications for completeness and required signatures.

Summary

In our 2001 survey report, we recommended the assessor use the *Bluebook* as the primary guide for valuing general aircraft. The assessor has not implemented our recommendation and we therefore repeat it here. We also noted several problems with the assessor's practices regarding historical aircraft.

RECOMMENDATION 18: Improve the aircraft assessment program by: (1) using the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft, and (2) granting the historical aircraft exemption only for qualifying claims.

Use the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft.

The assessor uses the *Vref* as the primary guide to value general aircraft.

Section 5363 provides that the assessor is to determine the market value of aircraft according to standards and guides to the market value of aircraft prescribed by the BOE. Section 5364 provides that the BOE is to establish such standards and fix guides or review and approve commercially available guides. On January 10, 1997, the BOE approved the *Bluebook* as the primary guide for valuing aircraft. The *Vref* was designated only as an alternative guide for situations where the aircraft to be valued is not listed in the *Bluebook*.

By using the alternate guide as the primary guide, the assessor is not following the guidelines prescribed by the BOE.

Grant the historical aircraft exemption only for qualifying claims.

We found a number of problems with the assessor's application of the historical aircraft exemption. There were a number of claims where the dates the aircraft had been displayed to the public had not been written in, or were not sufficiently detailed to be reliable or verifiable. For example, one owner reported "all year." Another reported "January through August 2002."

Section 220.5(b)(3) provides that the historical aircraft exemption applies only if the aircraft has been available to the public on display for at least 12 days in the year immediately preceding the lien date for the year for which the exemption is claimed. In Letter To Assessors No. 2002/090, an interpretation of this requirement is provided. "Available for display to the public at least 12 days" is defined as displayed or available for display for 12 periods, with each period being four or more hours during one 24-hour period.

We found that the assessor granted historical aircraft exemptions for two aircraft owned by corporations.

Section 220.5(b)(1) provides that one of the elements required to receive the exemption is that the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale. By granting the historical aircraft exemption to these two aircraft owned by corporations, the assessor is granting this exemption to owners who do not qualify for the exemption, and is not complying with the statute.

We also found that two historical aircraft received this exemption even though one of the affidavits was returned late (April 27) and the other was not returned at all for the 2004 lien date.

In order to receive a full exemption, section 255 provides that the affidavit must be filed with the assessor between the lien date and 5 p.m. on February 15 of the fiscal year for which the

exemption is claimed. Section 276.5 allows for a partial exemption (80 percent) if the affidavit is filed after that deadline but on or before the following August 1. Finally, section 260 provides that if any person claiming the historical aircraft exemption fails to follow the required procedure, e.g., file a timely claim, the person waives his or her right to the exemption.

If the application does not document the sufficient number of display dates, or if the applicant does not qualify, the assessor should deny the claim. If an application is filed late, but before August 1, the assessor should only grant an 80 percent partial exemption. Additionally, no exemption should be granted if an application is not submitted. In granting non-qualifying claims for the historical aircraft exemption, the assessor is exempting property from taxation without authority.

Vessels

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

The assessor's business property staff assessed more than 1,900 vessels on the 2004-05 assessment roll with a total assessed value of \$9.2 million.

Vessels are initially assessed based on reported purchase price, DMV values, or the *N.A.D.A. Marine Appraisal Guide (NADA)*. For subsequent assessment, vessels are categorized into "personal watercraft" and "all others." Sample vessels from the *NADA* are used to determine the depreciation percentage for these categories.

The following table illustrates the workload of vessel assessments in Plumas County for recent years:

ROLL YEAR	NUMBER OF VESSELS	ASSESSED VALUE
2004-05	1,912	\$9,268,240
2003-04	1,907	\$9,008,620
2002-03	1,975	\$8,631,670
2001-02	1,865	\$7,861,230
2000-01	1,873	\$7,262,710

We found one problem with the assessor's vessel assessment program.

RECOMMENDATION 19: Include sales tax as a component of market value when appraising vessels.

The assessor uses the *NADA* to value vessels. Because this vessel guide is intended for use on a nationwide basis, it does not include the sales and use tax in the values listed. Although we

found that the assessor selects the proper values listed in *NADA*, he fails to add a sales tax component.

Sales tax is a recognized component of market value and should be added to the values listed in the *NADA* when determining market values.¹⁰

Since sales tax has not been included in the vessel appraisals, vessels are underassessed in Plumas County.

¹⁰ *Xerox Corp. v. Orange County* [1977] 66 Cal.App.3d 746.

APPENDIXES

A. County Property Tax Division Survey Group

Plumas County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Sally Boeck

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Wes Hill

Associate Property Appraiser

Tina Krause

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Blanca Ordoñez

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹¹ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹²

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

For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:

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

¹¹ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

¹² The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

Rule 371. Significant assessment problems.

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

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

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

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

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

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

PLUMAS COUNTY ASSESSOR

1 CRESCENT STREET • QUINCY, CA 95971 • (530) 283-6380 FAX (530) 283-6195



CHARLES W. LEONHARDT
ASSESSOR

March 23, 2006

Ms. Mickie Stuckey, Chief
County Property Taxes Division
State Board of Equalization
P.O. Box 942870
Sacramento, Ca. 94279-0062

RECEIVED
APR 10 2006
COUNTY CLERK'S OFFICE
PLUMAS COUNTY

Dear Ms. Stuckey,

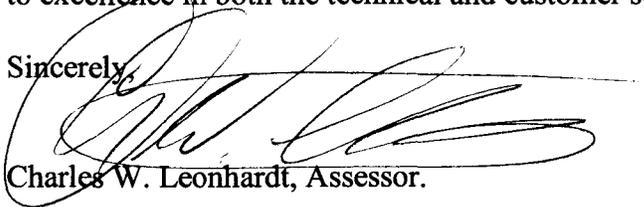
In accordance with section 15645 of the California Government Code, please find enclosed my response to the recommendations made by the State Board of Equalization Assessment Practices Survey Team regarding Plumas County.

I would like to express my appreciation for the professionalism and courtesy extended to my staff during the sample and survey process, especially considering the tight work space and high work volumes.

You will find that I concur with many of your recommendations and have already begun to implement them. Many other recommendations, even though we agree with them, may be impossible to implement or take longer than desired due to our current staffing levels.

I would also like to take this opportunity to thank my staff for their hard work, professionalism and dedication to Plumas County and its taxpayers. Their commitment to excellence in both the technical and customer service areas are greatly appreciated.

Sincerely,


Charles W. Leonhardt, Assessor.

Response to
Survey Recommendations

Recommendation 1: Use only certified personnel to value property

We concur. One of the employees in question has received her appraisal certification since the survey team's visit. We will review our procedures in this area to achieve compliance.

Recommendation 2: Improve assessment roll change procedures

We concur. We have made these changes.

Recommendation 3: Apply the low-value property exemption to all eligible property

We concur and have made the necessary changes.

Recommendation 4: Timely submit all assessment form checklists and the final prints of all assessment forms to the BOE.

We concur and have taken steps to insure timely submittal.

Recommendation 5: Improve change of ownership program

We concur and are revising our procedures to comply.

Recommendation 6: Assess all construction in progress at market value for each lien date.

We concur. We are currently working with the Board of Supervisors to expand our appraisal staff in order to comply with this recommendation.

Recommendation 7: Annually review all decline in value properties as required by section 51 (e).

We concur. We are currently working with the Board of Supervisors to expand our appraisal staff in order to comply with this recommendation.

Recommendation 8: Include all necessary information on the Notice of Supplemental Assessment as required by section 75.31

We concur. Our computer system automatically generates the supplemental notice. At this time the system only prints the front side of the form. We have incorporated a cover letter to convey the information located on the back side of the form.

Our belief is that between the letter and the notice, we have provided all of the necessary notice required in section 75.31. We do however agree that it would be best to incorporate both sides of the form in the computer system. We are currently working with the software vendor to make this change.

Recommendation 9: Revise CLCA assessment program

We concur. The error in enrolling unrestricted land was computer based and the result of converting computer systems. This has been resolved. The Plumas County Assessor's Office does consider operating expenses when capitalizing income for the CLCA program. We also compare our net rental data with the Sierra County Assessor to promote uniform treatment for producers in our contiguous county regions.

Recommendation 10: Revise assessment procedures for taxable government-owned property.

We concur. It is our hope to review and address this issue as staffing and budget allow.

Recommendation 11: Assess all taxable possessory interests in the county.

We concur with most of this recommendation. The Assessor will appoint a work group to review the Board's findings and enroll the appropriate assessments.

Recommendation 12: Assess taxable personal property in rental timeshare units.

We concur and have done the necessary review. Currently these assessments fall below the county low value ordinance.

Recommendation 13: Correctly value property owned by a water company regulated by the CPUC.

We concur and have corrected this matter.

Recommendation 14: Improve Mineral Property Assessment Program:

We concur that the mineral property assessment program is in need of revision. We are currently working with other rural counties to revise our procedures.

Recommendation 15: Improve Audit Program:

We concur. This area has required attention for a number of years. Large work volumes and limited budgets have hampered efforts to make progress. The Assessor will be requesting a new Auditor Appraiser position in the 2006-2007 budget process.

Recommendation 16: Accept only a signed BOE prescribed property statement:

We concur and will make this change.

Recommendation 17: Enroll manufactured homes as personal property.

We concur. The Plumas County Assessor's Office currently addresses manufactured housing on private land as mobile homes personal property when they have not been subject to a form 433A. We have done so for a number of years. Prior to that policy change, the practice was to enroll manufactured housing units placed on perimeter concrete foundations as improvements, under the opinion that such an installation constructively annexed the unit to the land. Our office is addressing any incorrectly classified units as they are discovered.

Recommendation 18: Improve Aircraft Assessment Program

We concur with the recommended improvements in the Historical Aircraft exemption and will implement. We have ordered the Aircraft Bluebook Price Digest for valuing aircraft.

Recommendation 19: Include sales tax component of market value when appraising vessels.

We have implemented this recommendation.