

# SIERRA COUNTY ASSESSMENT PRACTICES SURVEY

AUGUST 2002

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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August 30, 2002

TO COUNTY ASSESSORS:

SIERRA COUNTY  
ASSESSMENT PRACTICES SURVEY

No. 2002/058

A copy of the Sierra 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 William G. Copren, Sierra County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, the county assessor's response, and the BOE's comments regarding the assessor's response constitute the final survey report. Pursuant to Government Code section 15646, this report is distributed to the Governor, the Attorney General, the State Legislature, the Sierra County Board of Supervisors, and the Sierra County Grand Jury.

Fieldwork for this survey was conducted by the County Property Tax Division during November and December 2000. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

The survey reports provide government officials 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.

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 half or more of all property tax revenues are 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 (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Sierra County Assessor's Office.

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

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Sierra County Grand Jury, and the local board of equalization. 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 William G. Copren, Sierra County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports 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 performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60<sup>1</sup> requires the BOE to certify whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Sierra County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Sierra County with information relevant to the property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined by rule 371.<sup>2</sup>

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

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<sup>1</sup> All statutory references are to the Revenue and Taxation Code, unless otherwise indicated.

<sup>2</sup> All rule references pertain to sections in Title 18, Public Revenues, California Code of Regulations.

## **EXECUTIVE SUMMARY**

This report presents several recommendations for improvement of the assessor's overall performance of his duties. It also discusses program elements that are particularly effective and efficient, notes areas of improvement since our last assessment practices survey, and acknowledges the implementation of previous recommendations.

- In our 1996 Sierra County Assessment Practices Survey, we made three recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor has implemented our new construction recommendation but has not fully complied with the other two recommendations. We repeat those two in this report.
- Major improvements have been made to computer and technology-related systems. These improvements have reduced record storage, added on-line access to several types of records, improved public access to maps, and improved the review procedures for some assessment projects.
- In attempting to move to a "paperless" environment, the assessor has implemented an optical imaging system with the county recorder, converted the real property records to an electronic format, and automated business accounts with an item-by-item inventory listing of machinery and equipment.
- Sierra County participated in the State-County Property Tax Administration Loan Program during the years 1996-97 through 2000-2001 and has met the contractual obligations of the agreement for all years.
- We found no problems in the assessor's administration of the change in ownership program, the decline-in-value program, the taxable government-owned property program, the California Land Conservation Act program, the Timberland Production Zone property program, the exemption programs, the disaster relief program, supplemental assessments, and assessment roll changes.
- A rule adopted by the board of supervisors improperly requires assessment appeal applicants to meet with the assessor for a prehearing conference to discuss specific valuation issues prior to the appeal being heard. This rule conflicts with state law and BOE regulations. We recommend the assessor request the board of supervisors revise the rule.
- The assessor's valuation method for unpatented mining claims does not follow rule 25.
- We found no problems with leasehold improvement processing procedures, the direct billing program, assessment of leased equipment, or manufactured home assessments; and we found good coordination between the real property appraisers and the assessor, who does the business property assessments.
- The assessor accepts property statements with signatures of unauthorized agents.

- The assessor inappropriately applied the section 504 penalty, rather than the section 463 penalty, for taxpayers who consistently failed to timely file their annual property statements.
- Again, mandatory audits are not completed timely as required by section 469, and the assessor does not obtain waivers of the statute of limitations for uncompleted audits. Performance of mandatory audits is specifically listed as a significant assessment problem criterion in rule 371.
- The assessor establishes an arbitrary minimum assessment value for commercial, industrial, agricultural, and construction equipment.
- Computers should be assessed using the BOE's recommended factors.
- The assessor does not use the *Aircraft Bluebook-Price Digest* as the primary value guide for aircraft.
- The assessor does not add sales tax as a component of value when making boat appraisals.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- Although we found a deficiency in mandatory audit production, a "significant assessment problem" as defined in rule 371, we believe this deficiency alone does not create a reasonable probability that the assessment roll would fail to meet the average quality requirements of section 75.60. Accordingly, Sierra County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Request the board of supervisors revise county Rule 2004 to conform to state constitutional, statutory, and administrative law..... 11

**RECOMMENDATION 2:** Value unpatented mining claims according to rule 25..... 17

**RECOMMENDATION 3:** Bring the mandatory audit program to a current status..... 19

**RECOMMENDATION 4:** Obtain a waiver of the statute of limitations when an audit will not be completed timely..... 20

**RECOMMENDATION 5:** Accept only business property statements with authorized signatures in compliance with rule 172..... 20

**RECOMMENDATION 6:** Follow statutory requirements when a taxpayer fails to file a timely business property statement..... 21

**RECOMMENDATION 7:** Use Assessors' Handbook Section 581 as intended..... 23

**RECOMMENDATION 8:** Assess computers using the BOE's recommended factors. .... 23

**RECOMMENDATION 9:** Use the *Aircraft Bluebook-Price Digest* to value aircraft..... 25

**RECOMMENDATION 10:** Add sales tax as a component of market value when making vessel assessments. .... 25

## **RESULTS OF 1996 SURVEY**

### ***New Construction***

We recommended that the assessor assess only those construction activities that qualify as "new construction." We found no problems with their current practice and will not repeat this recommendation.

### ***Audit Program***

We recommended that the assessor bring the mandatory audit program to current status. There are still mandatory accounts that have not been audited for several years. We repeat this recommendation.

### ***Waivers of the Statute of Limitations***

We recommended that the assessor obtain waivers of the statute of limitations from those taxpayers whose mandatory audits will not be completed timely. We found that this practice has not changed, and we repeat this recommendation.

## **OVERVIEW OF SIERRA COUNTY**

Sierra County is comprised of two very different regions. On the west side of the crest of the Sierra Nevada Mountains, it is mountainous and heavily forested. The eastside is home to the 5,000-foot-high Sierra Valley. It is one of the largest alpine valleys in the Sierra Nevada Mountains. Sierra County shares common borders with the counties of Yuba and Butte to the west, Plumas to the north, and Nevada to the south, and with the State of Nevada to the east. The county was incorporated in April of 1852 and currently has a population of approximately 3,555.

The Sierra County Assessor's staffing level has remained stable since 1996-97. The assessor's budget increased 6.3 percent between 1996 and 1998. For fiscal year 2000-2001, the assessor's staff prepared an assessment roll containing 5,459 assessments for a total local roll value of \$338 million.

The Sierra County local assessment roll is one of the smallest of the 58 county assessment rolls in California, both in its total assessed value and number of assessments on the roll. Although the total number of assessments has been stable for several years, there have been small annual increases in the total assessed value.

## ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the State and County Property Tax Administration Loan Program, appraiser certification, exemptions, and disaster relief. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor's staff prepares and presents assessment appeals.

### ***State-County Property Tax Administration Loan Program***

Section 95.31 established the State-County Property Tax Administration Loan Program (PTALP); this program provides state-funded loans to eligible counties for the improvement of property tax administration.<sup>3</sup>

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

Presently, the BOE's only connection with the program is that a county's performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31. The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment. For most counties, the contract provides for verification of performance to the State Department of Finance by the county auditor-controller.

Sierra County has participated in the PTALP since 1996-97. The required base funding and staffing levels for the assessor's office is \$246,660 and 5.7 positions, respectively. During calendar year 2000, the county borrowed \$7,383. The funds have been used for digitizing of the mapping program, purchasing AutoCAD software, and related staff training. The Sierra County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment.

### ***Appraiser Certification***

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. The assessor's personnel in Sierra County who perform appraisals have the required BOE certificates. The assessor has no contract appraisers at this time.

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<sup>3</sup> AB 818, Chapter 914, Statutes of 1995.

## **Exemptions**

Article XIII, section 3(f) of the California Constitution exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship. Article XIII, section 4(b) of the California Constitution also authorizes the legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a nonprofit organization operated for those purposes.

We found that the assessor uses BOE-prescribed forms and that claims for exemption were properly completed, signed, and timely filed. The assessor has a good understanding of the qualifications for exemptions and filing requirements for claimants.

### **Religious Exemptions**

The assessor administers the religious exemption, which may be claimed on property owned by a religious organization and used exclusively for religious worship or religious worship and religious school purposes.

For the 2000-2001 assessment roll, the assessor processed 14 religious exemption claims. We found that the claims were properly processed.

### **Welfare Exemption**

The welfare exemption described in section 214 may be claimed on property owned and operated by a nonprofit organization and used exclusively for religious, hospital, scientific, or charitable purposes. The welfare exemption is co-administered by the BOE and the assessor. Annual filing of the exemption claim is required, and the exemption cannot be granted unless the claim is approved by both the BOE and the assessor.

At the time of our fieldwork, there were 12 properties receiving the welfare exemption. Most of the properties are used as summer camps; the remaining properties include a medical clinic, volunteer fire departments, one historical society, and one museum. We found no problems in the administration of the welfare exemption by the assessor.

### **Disabled Veterans' Exemption**

As of September 30, 2000, section 205.5 exempts the first \$100,000 of taxable value of a property owned by a disabled veteran and used as the veteran's principal residence.

This exemption is increased to \$150,000 in the case of an eligible veteran whose household income is below a specified level. A one-time filing is required to receive the \$100,000 exemption. To receive the \$150,000 exemption, a first-time filing and subsequent annual filings are required in order to verify income. Five properties were granted a 100 percent disabled veterans' residence exemption in Sierra County. We found that the assessor is administering this exemption properly.

## Homeowners' Exemption

Section 218 allows a homeowners' exemption of \$7,000 for a dwelling occupied by an owner on the lien date. The exemption does not apply to property that is rented, vacant, or under construction. For the 2000-2001 assessment roll, about 840 properties were granted homeowners' exemptions. The assessor verifies that the owner occupies the property before granting the exemption.

## **Disaster Relief**

Section 170 allows a county board of supervisors the option of adopting an ordinance that would provide tax relief to any assessee whose property has been damaged or destroyed without the assessee's fault. The ordinance may be made applicable to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to any other misfortune or calamity, or to both. The ordinance may specify a period of time within which the ordinance shall be effective, or it may remain in effect until it is repealed.

Previously, the assessor followed the procedures as provided in a county ordinance that was adopted in 1977. On November 7, 2000, the board of supervisors adopted Resolution No. 2000-175 that conforms the ordinance to the current requirements of section 170 and allows the assessor to continue to provide relief to all eligible properties damaged by calamity or misfortune. With this change, the assessor's treatment of misfortune and calamity claims appears to be proper, well administered, and in full compliance with the Revenue and Taxation Code.

## **Assessment Roll Change Procedures**

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change an assessment unless authorized by statute or by the board of supervisors.

Escape assessments are assessments made after the assessor has certified that the local assessment roll was prepared pursuant to section 601. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penal assessment to the roll. Additionally, the assessor must cite the Revenue and Taxation Code section that mandates the escape assessment. This action notifies the auditor-controller and treasurer-tax collector whether additional interest is required on the unpaid tax.

We reviewed a number of secured and unsecured roll changes. All procedures and Revenue and Taxation Code citations appear to be correct. Overall, the assessor's roll change procedures appear to be performed correctly.

## **Assessment Appeals**

The assessment appeals function is required by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 govern county boards of supervisors sitting as local boards of equalization in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted rules 301 through 326 regarding assessment appeals.

In Sierra County, there are few applications for reduced assessment. Most applications result in stipulated values, which are submitted to the local board of equalization for final approval.

**RECOMMENDATION 1:** Request the board of supervisors revise county Rule 2004 to conform to state constitutional, statutory, and administrative law.

The county board of supervisors amended county Rule 2004, effective December 5, 2000, to require applicants to discuss with the assessor the issues of value that are being appealed. If the applicant fails to comply, the hearing will be continued and the applicant directed to comply prior to the next hearing date. If the applicant fails to comply by the next hearing date, the county rule provides that:

The Board shall advise the applicant that the hearing is denied pursuant to Section 1604(c) and Rule 309 of these Administrative Rules and Procedures.

Sierra County Board of Equalization Rule 2004 violates the assessment appeal rights of taxpayers as provided by state law. Specifically, the provision of Rule 2004 that requires the Sierra County Board of Equalization to deny the application if the applicant fails to discuss issues raised by the application with the assessor prior to the hearing is invalid because it is not consistent with section 441, it attempts to provide a local exception in an area of the law that is fully occupied by state law, it is inconsistent with the exclusive jurisdiction granted to county boards of equalization by state constitutional and statutory law, and it cites incorrect authority for its provisions.

First, Rule 2004 attempts to govern an area of the law that that is fully occupied by state law. Section 441 is the statutory provision governing the production of information by an applicant and fully occupies this area of property tax law. Sections 1601 et seq. provide for the conduct of assessment appeals and fully occupy this area of property tax law. A local ordinance is invalid if the ordinance establishes rules that are contrary to state law in an area of the law "fully occupied" by the state law, either expressly or by legislative implication. *Lancaster v. Municipal Court* (1972) 6 Cal.3d 805, 807-808.

Second, Rule 2004 is inconsistent with the Constitution, the statutes, and Property Tax Rules because it attempts, in practical application, to transfer the jurisdiction over assessment appeals from the county board of equalization to the assessor. The California Constitution (article XIII, section 16), section 1603, and rule 305 grant exclusive jurisdiction over assessment appeal matters to county boards of equalization. Section 1603 and rule 305 provide, in relevant part, that a timely filed valid application is effective to invoke the jurisdiction of the county board to reduce an assessment on the local roll. Once a county board has jurisdiction over an application, the county board's authority to exercise its jurisdiction may be removed only by specific exceptions expressly set forth in law. For example, section 1604(c) removes a county board's jurisdiction to make a determination on an application if the board fails to hear and decide the application within two years of filing. There is no express or implied authority for denial of an application for the applicant's failure to provide information or for its failure to discuss with the assessor the issues of value that are being appealed.

Third, the statutory and rule provisions cited by Rule 2004 – section 1604(c) and rule 309 – are not authority for denial of an application. Section 1604(c) provides, in relevant part, that:

The reduction in assessment reflecting the taxpayer's opinion of market value shall not be made, however, until two years after the close of the filing period during which the timely application was filed. Further, this subdivision shall not apply to applications for reductions in assessments of property where the taxpayer has failed to provide full and complete information as required by law or where litigation is pending directly relating to the issues involved in the application.

It is clear from the context that an applicant's failure to provide full and complete information as required by law does not result in denial of the application. Rather, such failure simply renders inapplicable the foregoing provision under which the county board is required to enroll the applicant's opinion of value. This interpretation is confirmed by the last sentence of subdivision (h) of section 441, quoted above, which provides that a continuance that is granted when an applicant has failed to provide requested information "shall extend the two-year period specified in subdivision (c) of section 1604 for a period of time equal to the period of the continuance." Rule 309 interprets these provisions of section 1604 and, likewise, simply suspends application of the two-year rule.

We recommend that the assessor request the board of supervisors revise Sierra County Board of Equalization Rule 2004 to conform to state constitutional, statutory, and administrative law.

## ASSESSMENT OF REAL PROPERTY

### ***Change in Ownership***

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

Sections 62 through 69.5 contain, among other things, provisions that exclude some types of transfers of ownership from the definition of change in ownership. Exclusions include, but are not limited to, interspousal transfers, certain transfers between parents and children, and property acquired as a replacement for property taken by eminent domain.

The assessor has an effective program for processing changes in ownership. On a daily basis, the county recorder's office electronically transmits every recorded document to the assessor.

On average, the assessor annually reviews approximately 2,200 to 2,500 recorded documents. Of the documents reviewed, approximately 250 to 350 represent transactions that qualify as reappraisable changes in ownership.

An assessment technician reviews the recorded document and the *Preliminary Change In Ownership Report* (PCOR), if submitted, to determine whether the transfer is a change in ownership. Subsequently, the documents are routed to all staff members for review. If staff members are aware of additional relevant information, the staff discusses the transfer before a final determination is made.

Every transfer event we reviewed was clearly documented. All relevant PCORs, *Change In Ownership Statements*, and applicable forms for change in ownership exclusions are kept in the property file. Our review of transactions, including partial interest transfers, transfers involving trusts, transfers between parents and children, and various transfers identified as non-reappraisable (e.g., base-year value transfers) indicates that staff is well informed in the area of change in ownership and that exclusions are applied appropriately. The appraisal methods used to derive values seem reasonable. Overall, the assessment of properties affected by changes in ownership are conducted in a timely and effective manner.

### ***New Construction***

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. The primary sources for discovering assessable new construction are building permits issued by the county building department and encroachment permits issued by the department of public works. In addition, information is obtained from business audits, mining production reports, assessment work notices, and field inspections.

The county building department sends a copy of all issued building permits to the assessor. In addition, it sends a copy of all final inspection reports and "close-out" reports to the assessor. Close-out reports are processed whenever a building permit is issued but no work is performed within a specified period of time.

All permits are numbered and tracked. An appraiser determines which permits qualify as new construction. Permits requiring appraisal action are sorted by property type and distributed to the appraisers. All permits are filed in the appraisal file. The assessor has a good working relationship with the county building department.

The assessor properly values new construction by estimating the full value of new construction as of the date of completion, or, if there is construction in progress (CIP), as of the lien date. When the CIP is complete, the assessor establishes a base year value as of the date of completion. The assessor has good procedures for processing permits and valuing new construction.

In our prior survey report, we recommended that the assessor review his policy for determining whether new construction was assessable. We found a number of construction projects to be non-assessable repair and maintenance while the assessor considered them to be assessable new construction. In our current review, we found no problems with the new construction program.

### ***Declines in Value***

Section 51 requires the assessor to value taxable real property at the lesser of its base year value, adjusted annually for inflation, or its current market value, as defined in section 110.

Whenever a property's current market value declines, for any reason, below its factored base year value, that lower value must be enrolled as the taxable value for the years of the decline. Any value enrolled as a decline-in-value assessment requires annual review until the property's current market value exceeds the factored base year value level. When that occurs, the factored base year value resumes as the taxable value. Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines.

The assessor actively identifies properties that have been affected by factors causing declines in value. Although there are few subdivisions located in the county, the assessor has been able to develop sales-ratio analyses of market trends for them. The assessor is very knowledgeable about market trends and often initiates value reductions for qualifying properties prior to taxpayers' requests. In addition, the assessor is very responsive to taxpayers' requests for value reviews.

Approximately 90 parcels on the secured roll had taxable values below their factored base year values for the 2000-2001 fiscal year. Properties that are identified as eligible for decline-in-value assessments are coded and tracked on the assessor's computer system. On an annual basis, the assessor generates and reviews every property affected to ensure proper assessment.

We found that the appraisals are well documented, supporting both assessment reductions and subsequent increases in assessed values. The assessor's *Notification of Amount of Assessment* provides all of the required information. In addition, we found that the assessor properly applies all appropriate statutes pertaining to the assessment of properties affected by declines in value.

## **Supplemental Assessments**

Sections 75 through 75.80 provide for processing supplemental assessments. Whenever a change in ownership or new construction occurs, the assessor must appraise the property at its full cash value on the date the property changed ownership or the date new construction was completed. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated assessment (the supplemental assessment) that covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction.

Because the county has not adopted a low-value exemption resolution for supplemental assessments, the assessor is required to process all supplemental assessments, even those assessments for small amounts. If the resulting tax bill is less than \$20, the county auditor has the legal authority to cancel the tax bill pursuant to section 75.41.

The assessor enrolls all negative and positive supplemental assessments regardless of the amount. An automated supplemental assessment program has enhanced the assessor's ability to process supplemental assessments in a timely and efficient manner. On a monthly basis, a hard copy and an electronic version of the supplemental roll is delivered to the auditor.

Our review of the supplemental roll, appraisal records, and actual *Notices of Supplemental Assessment* revealed that the assessor issues supplemental assessments associated with change in ownership and new construction events in accordance with statutory provisions.

## **Valuation of Specific Types of Real Property**

### **Taxable Possessory Interests**

A taxable possessory interest (PI) is a private property interest in publicly owned real property. For property tax purposes, the term possessory interest includes either the possession or the right to possession of real property when a tax-exempt government agency holds the fee title to that property.

The assessor assessed approximately 190 possessory interests, not including unpatented mining claims and a few commercial outfitters, for the 2000 lien date. The possessory interests consist primarily of recreational cabins, resorts, and grazing rights. Although the assessor has had difficulty in the past in obtaining information from the various government agencies, he has recently established reliable contacts within the various agencies. Annually, the assessor sends letters and makes some follow-up phone calls in order to obtain information on any new permits and on changes in existing permits. The assessor reviews all new contracts to determine whether a taxable possessory interest exists or whether an amended or renewed contract is a reappraisable event.

The senior appraiser and the assessment technician maintain a database to track information such as permit number, holder's name, possessory interest description, reappraisal date, and expiration date on every taxable possessory interest. The database has enabled the assessor to monitor and reappraise possessory interests in a timely and efficient manner.

We found that the property files contain all pertinent information used to determine the term of possession, market-derived capitalization rate, and income data relevant to appraising the possessory interests. In addition, the appraisers document whether the property has declined in value, undergone a change in ownership or new construction, and if a supplemental assessment has been issued. We found no deficiencies in this program.

### Leasehold improvements

Leasehold improvements are structural or fixture improvements made to rented or leased premises, and are typically installed and paid for by the tenant/lessee. Improvements installed by the tenant/lessee can be secured to the real property or assessed to the tenant on the unsecured roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor's staff because the tenants may make a number of leasehold improvements over time, e.g., additions, removals. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

The most common means of discovering leasehold improvements are through business property statements and building permits. Taxpayers are required to report structural and land improvement costs on the business property statement. This reporting supplements the building permit discovery process because many construction items, such as paving and concrete work, may not require a building permit. Additionally, many companies with large facilities perform a number of construction projects each year, which may not be clearly identified by the building permits. Information on the business property statement can assist the assessor in discovering and assessing these items.

We found no problems with discovering and assessing leasehold improvements, and we found good coordination between the business property and real property staffs, including well-documented records.

### Mineral Properties

Sierra County has a rich mineral history. The county has seen mining operations since the start of the Gold Rush. Many of the State's most prolific mines have been located in Sierra County. There is still a significant amount of mining activity in the county, though most of it now involves unpatented mining claims that are mostly worked as a hobby.

Mining claims will generally take one of two forms, i.e., placer or lode. Placer claims mine material from current or old streambeds. The minerals are deposited by water action. On lode claims, the mining removes material that is imbedded in the rock.

The assessor classifies placer mining properties into one of three categories. Category I properties have recently undergone extensive exploration and development work or have been significant historical producers. These are typically patented mineral properties. Category II properties are located on rivers and are usually classified as recreational claims. The rivers or creeks near these claims generally have produced gold in sufficient quantities to maintain mining interest. These claims transfer on a regular basis and distinct market value ranges can be seen for

different river drainage. Category III claims are all claims that do not fall into either Category I or II. These claims are usually new locations.

The assessor assigns lode claims into either Category I or Category III. Because of the unique mining methods required, there are typically no recreational lode claims.

**RECOMMENDATION 2:** Value unpatented mining claims according to rule 25.

The assessor assesses unpatented mining claims higher than the reported sales price plus the present worth of the future contract rents. The assessor believes that the higher values are justified because of inaccurate or incomplete reporting of transfers.

Unpatented mining claims are possessory interests. The assessor has an extensive database of unpatented mining claim sales available to use in either the "comparative sales approach" or the "income approach" as described in rule 25.

In the "comparative sales approach" the assessor could use the sales information in his database to determine the value by adding the present worth of future contract rents to the sales price. The future contract rent in this case is the \$100 per year paid to keep the claim active.

The "income approach" allows the assessor to recognize the additional investment that claim holders put in the property. The assessor has already made some effort to determine the additional annual investment by mineral claim holders.

The "cost approach" described in rule 25 will have limited use for determining the value of the mining claims.

We recommend that the assessor value unpatented mining claims in accordance with rule 25.<sup>4</sup> This may require more extensive research of sales to determine the entire cash value of the transactions.

### ***Valuation of Restricted Property***

#### **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 section 11, article XIII. Section 11(a) provides that land, and the improvements thereon, located outside a local government's boundaries, are taxable 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 "Section 11" properties and are assessed according to the provisions of section 11.

The taxable value of the Section 11 land must be the lowest of either (1) the section 11 restricted value, (2) the current market value, or (3) the article XIII A factored base year value.

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<sup>4</sup> Effective July 11, 2002, rule 25 was repealed and rule 21 was amended to provide directions on the valuation of possessory interests.

Improvements on Section 11 land are taxable at the lowest of either (1) the current market value, (2) the factored base year value, or (3) the highest full value ever used for the taxation of the improvements that have been replaced.

The assessor essentially relies on recorded deeds obtained from the recorder's office to discover and identify taxable government-owned properties. Currently there are 20 properties subject to Section 11 assessment. Annually, the assessor generates a spreadsheet listing all of the taxable government-owned properties. The spreadsheet has enabled the assessor to conduct quick valuation comparisons and ensure proper enrollment.

We found that values enrolled by the assessor are in compliance with section 11 of article XIII of the California Constitution.

### California Land Conservation Act

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their land. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 govern the assessment of land subject to agricultural preserve contracts.

As of the 2000-2001 lien date, Sierra County had approximately 38,000 acres encumbered by 78 CLCA contracts. This is 6.2 percent of the total acreage in the county. The assessed value of these restricted properties is \$11.5 million (or 3.4 percent of the local roll). The assessor sends annual questionnaires to the ranch operators to develop rent studies and to obtain information on compatible uses.

CLCA properties in Sierra County are valued using a computer program. Drawing on data compiled by the appraisal staff, the program calculates the restricted value, market value, and factored base year value, making the required comparisons. In addition, the program takes into consideration compatible use income and homesite values.

### Timberland Production Zone Property

Timberland that has been zoned Timberland Production Zone (TPZ) is assessed in accordance with a site classification scheme that excludes the value of the standing timber. This land is assessed at the lowest of its restricted value, current market value, or factored base year value. As of the 2000 lien date, there were 306 parcels zoned as TPZ in Sierra County, totaling just over 83,900 acres. This is 13.6 percent of the total acreage in the county. The total assessed value of these TPZ lands is approximately \$11.6 million, or 3.5 percent of the local roll.

The assessor has made a conscientious effort to accurately identify timber site classes on all TPZ parcels. Both exclusive and non-exclusive compatible uses are properly assessed at their factored base year values. We found no problems with the assessor's TPZ program.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The annual business property workload consists of processing about 600 business property statements and assessing 149 boats and 3 aircraft. There are 63 business accounts that are on direct billing. Currently, the assessor has the personal responsibility of completing this workload.

### **Audit Program**

The audit program is one of the most important functions of an assessor's business property assessment program. Audits ensure that taxable property has been reported accurately by the taxpayer and assessed properly by the assessor. Audits also allow investigation and resolution of reporting and appraisal problems. A property tax audit is a means of collecting data relevant to determination of taxability, situs, and value of property. Based on the audit findings, the original assessment may be adjusted to reflect the audited values.

### Mandatory Audits

Section 469 and rule 192 require an audit of the books and records of a business at least once each four years when its locally assessable trade fixtures and tangible personal property have a full value of \$300,000 or more for four consecutive years.<sup>5</sup> Failure to perform mandatory audits is listed specifically as a significant assessment problem criterion in rule 371.

**RECOMMENDATION 3:** Bring the mandatory audit program to a current status.

An active audit program is an important part of every property tax assessment program. Audits result in the discovery of reporting errors, assessor's errors, and misunderstandings, all of which can lead to erroneous assessments (both overassessments and underassessments). An audit program typically produces (1) escape assessments, (2) refunds, (3) improved taxpayer reporting for the future, and (4) improved understanding of the property by the assessor. Without an audit program, erroneous assessments will persist and some property owners will be overtaxed while others will pay less than their fair share.

There is no legal requirement to audit smaller accounts. However, the law is unequivocal in the requirement to audit accounts over the mandatory amount. Audits of these larger accounts are necessary to comply with the law and to improve the integrity of the property tax base in Sierra County.

At the time of our fieldwork for the previous survey, nine mandatory accounts were overdue for audit. The assessor subsequently audited seven of the accounts, but no audits have been performed since. The last audit of any mandatory account was performed for the 1995-96 assessment year and the other audits were performed for the 1994-95 year. All of the current mandatory accounts are now overdue for audit.

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<sup>5</sup> Subsequent to our fieldwork, the Legislature amended section 469 to \$400,000, effective January 1, 2001.

We urge the assessor to take whatever steps necessary to bring the mandatory audit program to a current status.

### Statute of Limitations

Section 532 requires that an escape assessment discovered during an audit be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. As authorized by section 532.1, if the assessor cannot complete an audit within the prescribed time, the assessor may request a waiver of the statute of limitations from the taxpayer to avoid possible loss of revenue and to ensure refunds of overassessments when applicable.

**RECOMMENDATION 4:** Obtain a waiver of the statute of limitations when an audit will not be completed timely.

Over the last several years, the assessor has not obtained waivers of the statute of limitations on the mandatory audits that were postponed. In our prior survey, we recommended that he obtain waivers when the mandatory audits will not be completed timely. By failing to request a waiver, the assessor may allow taxable property to escape assessment, or he may be prevented from authorizing tax refunds for a number of years.

We again recommend that the assessor seek waivers of the statute of limitations in all situations where audits will not be completed on time.

### **Property Statement Processing**

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

Most business property assessments are based upon the data submitted by taxpayers on the annual property statements. The more accurate the data on the statements, the more accurate the assessment.

We found that, generally, property statements are properly processed. However, we found that the assessor accepts filings of business property statement with unauthorized signatures and that he incorrectly determines arbitrary assessments.

### Authorized Signature

**RECOMMENDATION 5:** Accept only business property statements with authorized signatures in compliance with rule 172.

We found several property statements signed by unauthorized persons. None of these improperly signed property statements had the assessee's written authorization on file with the assessor.

Rule 172 requires assessees to provide written authorization for statements signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, or a

duly appointed fiduciary. In addition, rule 172(d) prohibits the assessor from knowingly accepting any signed property statements that are not executed in accordance with the requirements of its provisions.

By requiring such written authorization, an assessor will increase the accountability of whomever signs and files the annual property statement. Under section 441, the property statement shall be declared to be true under the penalty of perjury. It is important to require an officer or authorized agent to be responsible for the completeness and accuracy of the annual property statement by signing the declaration.

Adhering to rule 172 will help prevent careless reporting errors or omissions by an unauthorized preparer that can be dismissed as merely a clerical error. The written authorization calls attention to the fact that the corporate assessee is liable for any consequences of the employee's or agent's errors in reporting. Officers of a corporation or agents authorized by the board of directors are more likely to review the business property statement and its preparation before signing it and assuming personal liability.

We recommend the assessor accept only business property statements with authorized signatures pursuant to rule 172.

### Arbitrary Assessments

Business entities or individuals that consistently fail to file the required business property statements cause special problems for any assessor. Since the assessee reports no data, the assessor must generate a roll based entirely upon an estimate pursuant to section 501. Additionally, a section 463 penalty of 10 percent of the full value must be added to the assessment when the taxpayer fails to file a timely property statement.

**RECOMMENDATION 6:** Follow statutory requirements when a taxpayer fails to file a timely business property statement.

We found that the assessor inappropriately estimates the assessment and applies the 25 percent penalty authorized by section 504 for taxpayers who consistently failed to timely file their annual business property statement. The assessor believes that the taxpayer willfully fails to disclose the property by failing to timely file a property statement, thus authorizing him to apply the 25 percent penalty pursuant to section 504.

However, there is already a statutory scheme in place for persons who fail to timely file their business property statements. This provision is contained in section 463 and provides for a 10 percent penalty. Section 463 provides, in part, that:

If any person who is required by law or is requested by the assessor to make an annual property statement fails to file an annual property statement within the time limit specified by Section 441 or make and subscribe the affidavit respecting his or her name and place of residence, a penalty of 10 percent of the assessed value of the unreported taxable tangible property of that person placed on the current roll shall be added to the assessment made on the current roll.

Section 504 provides that:

There shall be added to any assessment made pursuant to Section 502, except those assessments as are placed on the current roll prior to the time it is originally completed and published, a penalty of 25 percent of the additional assessed value so assessed.

It is clear that this penalty applies to additional (escaped) assessment made after the initial enrollment, not to the initial assessment. The assessor is incorrectly applying section 504.

Since there is a statutory scheme in place for those who fail to timely file their property statement, we recommend the assessor follow that statutory provision and make estimated assessments pursuant to section 501 and apply the 10 percent penalty for non-compliance pursuant to section 463.

### Direct Billing Program

Many assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified low-value business accounts without the annual filing of the business property statement. An initial value is established and continued for several years, with property statement filings or field reviews done periodically. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, small cafés 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. In most instances, this increases time available for the auditor-appraiser to conduct audits.

The assessor has 63 business property accounts on the direct billing program, the majority of which are small service oriented businesses. Once every four years, all direct billing accounts receive a regular business property statement to be completed and returned. In order to be eligible to participate in the direct billing program, the assessor established the following guidelines: (1) the assessed value must be less than \$30,000; (2) there must be few changes in equipment costs from year to year; and (3) a business property statement must have been filed for the two years prior to direct billing assessments. We found no problems in the assessor's direct billing program.

### **Valuation of Business Personal Property**

#### Assessors' Handbook Section 581

Assessor's offices use business property value factors that are produced by combining replacement cost equipment index factors with percent good factors. Section 401.5 requires that the BOE issue information that, in the judgment of the BOE, will promote uniformity in appraisal practices and in assessed values throughout the state. The BOE complies with section 401.5 for business personal property by publishing Assessors' Handbook Section 581, *Equipment*

*Index and Percent Good Factors* (AH 581). Price index and percent good factors are published annually for use in computing current market value estimates from acquisition costs of machinery and equipment. Accurate assessments of equipment depend on the proper choice and application of these factors.

**RECOMMENDATION 7:** Use Assessors' Handbook Section 581 as intended.

The assessor currently uses minimum percent good factors between 11 and 18 percent for commercial, industrial, agricultural, and construction equipment. He has no documentation to support these minimum percent good factors. These factors are based on his personal experience and opinions.

Index factors recognize items such as price changes and the effects of technological progress, and are intended to reflect the price of a replacement. The percent good factors are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives. The percent good factors contained in AH 581 are based on the premise that these types of properties lose value as they age. The use of an arbitrary minimum percent good will usually result in overassessments of older equipment.

When valuing property, the appraisers may analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the normal percent good factor to reflect the deviation. However, this analysis must be documented. Arbitrarily establishing minimum values is not an acceptable appraisal practice.

We recommend that the assessor use AH 581 as intended.

### Computer Valuation

In order to promote uniformity in appraisal practices and assessed values, and comply with the requirements of 401.5, the BOE issued valuation factors for computer equipment. In Letter To Assessors (LTA) No. 98/61, the BOE provided valuation factors for use when valuing computer equipment for the 1999 lien date. For the 2000 lien date, the computer valuation tables were published in AH 581, Table 6. Computer valuation factors are provided for computer categories of personal (\$25,000 or less), mid-range (\$25,000.01 to \$500,000), and mainframe (\$500,000.01 or more) computers.

**RECOMMENDATION 8:** Assess computers using the BOE's recommended factors.

We found that the assessor did not follow the BOE-recommended factors in valuing computers. Instead, the assessor uses his own table, which results in an overassessment of computers. The valuation factors recommended by the BOE were developed after extensive data gathering, analysis, and consultation with the computer industry and assessors. We were unable to find any data supporting the assessor's valuation factors.

Here is a comparison of the BOE factors and the assessor's factors.

Age	BOE		ASSESSOR	Percent Difference Personal Computer Valuation Factors	Percent Difference Mid-Range Computer Valuation Factors
	Valuation Factors for Personal Computers	Valuation Factors for Mid-Range Computers	Valuation Factors for All Computers		
1	66%	73%	85%	29%	16%
2	39%	47%	69%	77%	47%
3	24%	30%	54%	125%	80%
4	15%	19%	40%	167%	111%
5	10%	12%	28%	180%	133%
6	6%	8%	18%	200%	125%
7	4%	5%	11%	175%	120%
8	2%	3%	11%	450%	267%
9	2%	2%	11%	450%	450%

The proper application of the BOE's valuation factors yields reasonable estimates of current market values of computers.

We recommend that the assessor use the valuation factors contained in the AH 581 to value computers.

### Leased Equipment

One of the responsibilities of the assessor is to discover and assess all leased equipment. Assesseees are required to report all leased property (taxable property in their possession but belonging to others) on their annual business property statements. Assesseees are required to provide the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address. To ensure proper assessment of leased equipment, it is necessary to have procedures for tracking and cross-checking leased equipment.

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

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

## Valuation of Other Taxable Personal Property

### Aircraft

**RECOMMENDATION 9:** Use the *Aircraft Bluebook-Price Digest* to value aircraft.

Section 5364 provides that the BOE shall establish standards and fix guides to be used by the assessor in the assessment of aircraft. Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook section. On January 8, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternate when the aircraft is not listed in the Bluebook. We found that the assessor uses *Vref* instead of the *Bluebook* to value aircraft. There are three aircraft in Sierra County. The assessor obtains the necessary information to value them from Plumas County's copy of *Vref*.

We recommend that the assessor use the *Aircraft Bluebook-Price Digest* to value aircraft.

In addition, as stated in LTA No. 97/03, dated January 31, 1997, the BOE directed that the listed retail values from the Bluebook be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

The assessor adjusts these values to reflect local market conditions, sales tax, condition, equipment installed, engine and airframe hours. However, we found that the assessor did not reduce the listed retail values by the required 10 percent for the 2000 lien date assessments. This reduction was correctly applied for the 1998 and 1999 lien dates.

Based on our review, we determined that this was an inadvertent error and will be corrected for future years. We suggest that the assessor review existing office procedures to ensure that aircraft assessments are performed in accordance with published BOE guidelines.

### Vessels

For the 2000-01 assessment roll, Sierra County assessed 149 vessels with a total assessed value of \$228,264. The primary sources of discovery are Department of Motor Vehicle reports and referrals from other counties. All vessels assessed in Sierra County are pleasure boats.

Assessors are required to annually appraise vessels at market value and to assess all vessels with an assessed value above \$400, unless the county has a resolution exempting low-valued property above the \$400 statutory exemption. Sierra County has no such resolution.

**RECOMMENDATION 10:** Add sales tax as a component of market value when making vessel assessments.

The assessor annually values vessels by referring to *N.A.D.A. Small Boat Appraisal Guide* (N.A.D.A.), a published boat valuation guide. Because this boat guide is used nationally, it does

not include the California sales tax in the listed values. Although we found that the assessor selects the proper values listed in the N.A.D.A. value guide, the assessor fails to add a component for sales tax to the listed N.A.D.A. values to arrive at the full values of the vessels.

Sales tax is a recognized component of market value and should be added to the values listed in the N.A.D.A. price guide when determining market values.<sup>6</sup> Since sales tax has not been included in the vessel appraisals, the assessed values of the vessels are understated by the applicable sales tax in Sierra County.

We recommend the assessor add a sales tax component when determining the market values of vessels.

### Manufactured Homes

The assessment of manufactured homes is different from other types of property in California. Certain manufactured homes have been taxable on local assessment rolls since July 1, 1980. Prior to this date, manufactured homes were subject to license fees paid through the Department of Motor Vehicles. A manufactured home is subject to local property taxes if it was first sold new after July 1, 1980, or the owner has requested conversion from vehicle license fees to local property taxes. Most requests for conversion from license fees occur when a manufactured home is sold, since sales and use tax is not due for manufactured homes subject to local assessment. Provided it is the owners' primary residence, conversion also allows the owners to qualify for the homeowners' exemption.

One appraiser is assigned the assessment of manufactured homes. The Department of Housing and Community Development notifies the assessor of sales and new construction of manufactured homes, building permits, dealer reports of sale, and voluntary conversions.

We found that the assessor properly considers values indicated by the National Automobile Dealer Association's *Manufactured Home Appraisal Guide (N.A.D.A. Guide)* and Assessors' Handbook Section 531, *Residential Building Costs (AH 531)*, when assessing manufactured homes. Values indicated by both of these sources are noted on the property appraisal records.

We also found that declines in value are considered annually and applied where appropriate. Every record we reviewed was well documented. Voluntary conversion of manufactured homes from vehicle license fee to local property tax is properly handled. Supplemental assessments are also correctly applied.

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<sup>6</sup> *Xerox Corp. v. Orange County* (1977) 66 Cal.App.3d 746.

## APPENDICES

### ***A: County Property Tax Division Survey Group***

#### ***Sierra County Assessment Practices Survey***

##### ***Chief, County Property Tax Division:***

Charles Knudsen

##### ***Survey Program Director:***

Gene Palmer                      Principal Property Appraiser

##### ***Survey Team Supervisor:***

Arnold Fong                      Supervising Property Appraiser

##### ***Survey Team Leader:***

Dale Peterson                      Senior Property Auditor Appraiser

##### ***Survey Team:***

James McCarthy                      Senior Petroleum and Mining Appraisal Engineer  
Pam Bowens                      Associate Property Auditor Appraiser  
Diane Yasui                      Associate Property Appraiser

**B: Relevant Statutes and Regulations**

**Government Code**

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

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

**15641. Audit of Records ; Appraisal Data Not Public.**

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

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

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

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

**15642. Research by board employees.**

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

**15643. When surveys to be made.**

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

**15644. Recommendations by board.**

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

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

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

## **Revenue and Taxation Code**

### **75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
  - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
    - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
    - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
  - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

**Title 18, California Code of Regulations**

**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
  - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
  - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems .**

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

## **ASSESSOR'S RESPONSE TO BOARD'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 Sierra County Assessor's response begins on the next page.

Section 15645 also allows the BOE to include in the report comments regarding the assessor's response. Our comments follow the assessor's response.

# SIERRA COUNTY

Office of the Assessor  
P.O. Box 8  
Downieville, California 95936  
530-289-3283  
~~Fax 530-289-3441~~  
FAX 530-289-2801



William G. Copren  
Assessor

July 26, 2002

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

RE: Sierra County Assessment Practices Survey Response

Attn: Charles Knudsen, Chief

Dear Mr. Knudsen:

Please accept our amended response to the 2002 Assessment Practices Survey. A correction to the wording has been made in Section 8; the change is not substantive to the position of our response.

Sincerely,

A handwritten signature in black ink that reads "W.G. Copren".

William G. Copren  
Sierra County Assessor

WGC:lf

## **ASSESSOR'S RESPONSE TO THE 2002 ASSESSMENT PRACTICES SURVEY**

Recommendation 1: Request the Board of Supervisors revise Rule 2004 to conform to State constitutional, statutory, and administrative law.

Response: The Sierra County Board of Supervisors adopted the original Rule 2004 a number of years ago. The intent of the Rule was to expedite the appeal system. Since the adoption of the Rule, nearly all the appeals have been resolved in discussions between the taxpayers and the Assessor. The local Board of Equalization has heard very few appeals since Rule 2004 was adopted. Most appeals have been made and resolved with the Board of Equalization adopting stipulations. We realize that the State Board of Equalization, given their loss of the court case on a similar local rule in Riverside County, does not like the concept of Rule 2004. We have discussed the Rule with the Board's people for a number of years. We have amended the rule to comply with the wishes of the Board's attorneys. Apparently we have not yet complied fully with the wishes of the Board. We will work with the Board of Supervisors to amend Rule 2004 to comply with the wishes of the State Board of Equalization.

Recommendation 2: Value unpatented mining claims according to Rule 25.

Response: We believe that we properly value all mining claims in accordance with all statutes and property tax rules. We do not overvalue any unpatented mining claim. In support of this fact, it should be noted that during the prior survey by the State Board of Equalization, the Board's appraisers sampled forty unpatented mining claims and found all forty to be properly valued. During the most recent survey, no properties were sampled and the Board employee was only here for a day or so. We did not have a chance to discuss the valuation methodology completely with the Board employee. It has been fairly obvious that there is some confusion here. We use, or have used, a comparative sales approach, a cost approach and an income approach to value all these properties. We believe that our values are very accurate. As noted above, the State Board, using a large sample, has previously confirmed this.

Recommendation 3: Bring the mandatory audit program to a current status.

Response: Many of the properties that require mandatory audits are involved with total properties that are valued at full cash value each year under Proposition 8 appraisals. We know that there have been no escapes with these properties since the total property value is determined each lien date and then allocated to the component parts. If fixture and personalty values are too low here, it just means that the allocation is less than perfect. These values are accurate even though the properties have not been audited in a timely manner. As to the few remaining

properties, these are mostly logging companies that have been audited repeatedly in the past and are among our best and most accurate filers. We know these companies well, discuss the property with the owners continually and will be greatly surprised if any property has escaped assessment.

However, we have asked the Board of Supervisors to add funds to the 2002-2003 budget to pay for a contract Auditor-Appraiser. We have discussed our Section 469 problem with the Nevada County Assessor. He has agreed to lend his auditor-appraisers to us to help us bring the mandatory audit accounts into compliance with Section 469. When the Board of Supervisors provides us with the funding we will contract with Nevada County to complete the audits.

Recommendation 4: Obtain a waiver of the statute of limitations when an audit will not be completed timely.

Response: We agree with this recommendation and will begin this process with the coming fiscal year as our mandatory audit program comes online with the help of the Board of Supervisors and Nevada County.

Recommendation 5: Accept only business property statements with authorized signatures in compliance with rule 172.

Response: We agree with this recommendation. We were aware of this recommendation last year and required that all property statements and mineral production reports be properly executed for the 2001 assessment year. We continue to accept only business property statements with authorized signatures pursuant to Rule 172.

Recommendation 6: Follow statutory requirements when a taxpayer fails to file a timely business property statement.

Response: We agree with this recommendation. As we were aware of this recommendation last year, we complied in advance by making estimated assessments pursuant to Section 501 and applying the 10 percent penalty for non-compliance per Section 463 for the 2001 assessment year. We will continue to use the Section 501-Section 463 approach for non-compliance this year and in the future until we receive enough funding to audit the non-complying accounts.

Recommendation 7: Use Assessors' Handbook Section 581 as intended.

Response: We disagree with this recommendation. We have never set intended minimum values. However, we have taken each of the property types and terminated the value decline at the index factor-percent good levels that result in a salvage value for the property type under consideration. We have used Marshall-Swift salvage value levels as our cut-off points for our property-type schedules. It is incorrect for the Board of Equalization to recommend that we value utilitarian

functioning personalty at values below recognized salvage value levels. We will not comply with this recommendation; we do not set minimum values above or below market (salvage) values; and we believe that the Board of Equalization should change their recommendations concerning the use of AH 581. The Board should not recommend that assessors value personal property below market value.

Recommendation 8: Assess computers using the BOE's recommended factors.

Response: We disagree with this recommendation. We are not aware that anyone has analyzed verifiable data concerning the BOE's recommended factors. The computer companies refused to provide BOE or the California Assessors with data that could be audited and verified in support of BOE's factors. We believe that the factors we use to value small computers result in as valid a value conclusion as the factors developed by the SBE. No one, as far as I know, has ever verified the BOE's factors with real data. Regardless, the differences between BOE's factors and the Sierra County Assessor's are significant by way of percentages, but absolutely insignificant in valuation or taxes. Sierra County does not have even one mid-range computer in the county. All our computers are personal computers. This recommendation addresses an issue that literally involves pennies. As an example, if a computer had a reported cost of \$1000 and an age of 5 years, the difference in property taxes between the BOE and the assessor would be \$1.60. There are less than 100 taxable computers in Sierra County—pennies!

Recommendation 9: Use the *Aircraft Bluebook-Price Digest* to value aircraft.

Response: We agree with this recommendation. The Plumas County Assessor has advised us that he has switched from the Vref Aircraft Value Reference to *Aircraft Bluebook-Price Digest* to value aircraft. Plumas County has been kind enough to let us use their price guide for our three aircraft in the past. Now that Plumas County has switched, Sierra County will use the SBE recommended guide.

We noted that we made a mistake in 2000 and did not reduce the guide value by the recommended 10%. As pointed out, the values were processed correctly for 1998 and 1999 and the error was corrected for the 2001 assessment roll. We appreciate that this error was identified. Human error will occur. We do everything in our power to prevent error.

Recommendation 10: Add Sales tax as a component of market value when making vessel assessments.

Response: We agree with this recommendation. We are presently implementing this recommendation. We appreciate the SBE team pointing out this procedural defect.

## **BOARD'S COMMENTS ON ASSESSOR'S RESPONSE**

In accordance with the provisions of Government Code section 15645, the Board's staff has elected to comment on the assessor's response. Our comments concern the assessor's response to Recommendation 8.

### **Recommendation 8: Assess computers using the BOE's recommended factors.**

The assessor stated, in part:

We are not aware that anyone has analyzed verifiable data concerning the BOE's recommended factors. The computer companies refused to provide BOE or the California Assessors with data that could be audited and verified in support of BOE's factors.

The current valuation factors for computers were developed by BOE staff in consultation with the California Assessors' Association (CAA) and industry. Contrary to the assessor's assertion, the table contains verifiable data and was endorsed by the CAA. In contrast, the assessor did not provide any data to support the Sierra County valuation factors