TUOLUMNE COUNTY
ASSESSMENT PRACTICES SURVEY

APRIL 2020

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April 24, 2020

TO COUNTY ASSESSORS:

TUOLUMNE COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Tuolumne 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 specified counties 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 Kaenan Whitman, Tuolumne County Assessor/Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the Assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Tuolumne County Board of Supervisors, and Grand Jury.

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

Sincerely,

/s/ David Yeung

David Yeung
Deputy Director
Property Tax Department

DY:dcl
Enclosure
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INTRODUCTION

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

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

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

The survey shall "...show...the extent to which assessment practices are consistent with or differ from state law and regulations."\(^1\) The primary objective of a survey is to ensure the Assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

The objective of the survey program is to promote statewide uniformity and consistency in property tax assessment by reviewing each specified county's property assessment practices and procedures, and publishing an assessment practices survey report. Every Assessor is required to identify and assess all properties located within the county – unless specifically exempt – and maintain a database or "roll" of the properties and their assessed values. If the Assessor's roll meets state requirements, the county is allowed to recapture some administrative costs.

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code\(^2\) section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey examined the assessment practices of the Tuolumne County Assessor's Office for the 2017-18 assessment roll. 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.

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

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, available on the BOE's website at

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\(^1\) Government Code section 15642.

\(^2\) Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.
We conducted reviews of the following areas:

- **Administration**
  
  We reviewed the Assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, staff property and activities, assessment appeals, and exemptions.

- **Assessment of Real Property**
  
  We reviewed the Assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property.

- **Assessment of Personal Property and Fixtures**
  
  We reviewed the Assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, and vessel assessments.
EXECUTIVE SUMMARY

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

We examined the assessment practices survey of the Tuolumne County Assessor's Office for the 2017-18 assessment roll and followed up on recommendations from our prior survey of this county.

In our 2014 assessment practices survey of the Tuolumne County Assessor's Office, we made 12 recommendations to address problems found in the Assessor's policies and procedures. Our review of these prior recommendations, responses, and current status are detailed in the appendix.

In the area of administration, the Assessor is effectively managing staffing and workload, assessment appeals, and the monitoring of staff property and activities. However, we made recommendations for improvement in the exemptions programs.

In the area of real property assessment, we made recommendations for improvement in the change in ownership, new construction, declines in value, California Land Conservation Act (CLCA) property, and taxable possessory interests programs.

In the area of personal property and fixtures assessment, the Assessor has effective programs for assessing vessels. However, we made recommendations for improvement in the audit, business property statement, business equipment valuation, and manufactured homes programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly, and that the overall quality of the assessment roll meets state standards.

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

Tuolumne County is located in central California in the Sierra Nevada region with major rivers to the north and south. The county encompasses 2,220.88 square miles of land area and 53.55 square miles of water area. Created in 1850, Tuolumne County was one of California's original 27 counties. The county is bordered on the north by Alpine and Calaveras Counties, on the east by Mono County, on the south by Mariposa County, and on the west by Stanislaus County.

As of 2017, Tuolumne County had an estimated population of 54,248. The city of Sonora is the only incorporated city in Tuolumne County and also serves as the county seat.

The Tuolumne County local assessment roll ranks 40th of the 58 county assessment rolls in California. The total assessed roll value has increased by an annual average of 3.3 percent over the last five years.\(^3\) The table in the appendix displays pertinent information from the 2017-2018 assessment roll.\(^4\)

\(^3\) Statistics provided by Table 7 – Assessed Value of County-Assessed Property Subject to General Property Taxes, 2017-18.
\(^4\) Statistics provided by BOE-822, Report of Assessed Values By City, Tuolumne County for year 2017-18.
FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Tuolumne County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

RECOMMENDATION 1: Improve the exemptions program by: (1) not accepting annual claim forms filed prior to the lien date, (2) conducting field inspections for all new claimants and properly documenting and maintaining reports on verification of property use, (3) requiring low-income housing claimants to submit a use restriction document and ensuring such documents are available for review, and (4) properly notifying claimants when all or a portion of the welfare exemption is denied. .....................9

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RECOMMENDATION 5: Improve the CLCA property program by: (1) calculating the restricted value of CLCA properties annually as required by section 423, and (2) using an appropriate income stream for capitalizing restricted tree and vine income. .................................................................16

RECOMMENDATION 6: Improve the taxable possessory interests program by: (1) using Board-prescribed form BOE-502-P, Possessor Interests Annual Usage Report, (2) assessing all taxable possessory interests located at the fairgrounds that do not meet the requirements of the low-value property exemption, (3) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach-direct method, (4) reappraising taxable possessory interests in compliance with section 61(b)(2), and (5) properly issuing and calculating supplemental assessments for taxable possessory interests. ............................18
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RECOMMENDATION 8: Improve the audit program by: (1) performing the minimum required number of audits of professions, trades, and businesses pursuant to section 469; and (2) informing taxpayers of their right to appeal as required by Rule 305.3. .................................................................22

RECOMMENDATION 9: Improve the BPS program by: (1) valuing taxable business property based on available information, in accordance with section 501, when a property owner fails to file a BPS; and (2) conducting an audit or field review when a property owner fails to file a BPS for three consecutive years. .................................................................24

RECOMMENDATION 10: Discontinue classifying fixtures enrolled on service station assessments as personal property. .................................26

RECOMMENDATION 11: Improve the business equipment valuation process by: (1) supporting any divergence from the BOE recommended use of the price index and percent good factors published in the AH 581 with market evidence; and (2) issuing supplemental assessments for structural leasehold improvements enrolled on the unsecured roll. .................................................................27

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ADMINISTRATION

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.5

Our review of the Assessor's exemptions program focused on the welfare exemption.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and County Assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either an Organizational Clearance Certificate (OCC) to qualified organizations or a Supplemental Clearance Certificate (SCC) to limited partnerships which have a qualified organization as the managing general partner and own and operate low-income housing. The Assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

In Tuolumne County, the welfare exemption program is administered by a senior assessment technician; however, there is no managerial oversight and review of the program. We reviewed a variety of welfare exemption claims for property used for charitable, religious, scientific, and hospital purposes, including low-income rental housing properties. These claims included those that were granted full and partial exemptions, first-time and annual claims, and late-filed claims.

5For a detailed description of the scope of our review of this topic, please refer to the document entitled Exemptions, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.
The staff has a good understanding of the welfare exemption. Appropriate procedures are observed for late-filed claims and determining the proper exemption amount. However, we found four areas in need of improvement.

**RECOMMENDATION 1:** Improve the exemptions program by: (1) not accepting annual claim forms filed prior to the lien date, (2) conducting field inspections for all new claimants and properly documenting and maintaining reports on verification of property use, (3) requiring low-income housing claimants to submit a use restriction document and ensuring such documents are available for review, and (4) properly notifying claimants when all or a portion of the welfare exemption is denied.

**Do not accept annual claim forms filed prior to the lien date.**

We found instances where the Assessor accepted annual claim forms prior to the lien date corresponding to the year requested for exemption. For example, claim forms requesting exemption for the 2017-18 fiscal year were accepted by the Assessor in December of 2016, prior to the January 1, 2017 lien date.

Section 255(a) specifies that an affidavit for the welfare exemption shall be filed with the Assessor between the lien date (January 1, at 12:01 a.m.) and 5:00 p.m. on February 15. Welfare exemption claim forms and supplemental affidavits request information from claimants about the property on which the exemption is claimed, such as the primary and incidental uses of the property, details about the owner and any other users of the property, and tenant household income certifications. The information reported by the claimant allows the Assessor to make an informed review of the use of the property on the lien date, which determines whether or not the property is qualified for the welfare exemption for the ensuing fiscal year.

In general, welfare exemption claim forms request information for the time period between the lien date of the *prior year* (January 1 at 12:01 a.m.) and the lien date for the exemption year. For example, when requesting the welfare exemption for the 2017-18 fiscal year, the information provided by claimants on the claim form should pertain to the period after 12:01 a.m., January 1, 2016 through 12:01 a.m., January 1, 2017. However, if a claim form requesting exemption for the 2017-18 fiscal year is signed in December of 2016, "January 1 of the prior year" would be January 1, 2015. Therefore, claim forms signed by claimants and accepted by the Assessor prior to the January 1 lien date of the year requested for exemption may raise questions as to what time period the information provided on the claim form pertains and if the information is still accurate through the lien date.

The Assessor's acceptance of welfare exemption claim forms filed prior to the lien date is contrary to statute. Relying on information which has been attested to by claimants on a prospective basis may result in the welfare exemption being granted on property that is not eligible for the exemption.
Conduct field inspections for all new claimants and properly document and maintain reports on verification of property use.

We found that several claimants were granted the welfare exemption even though a field inspection of the property was not conducted. Field inspections are rarely conducted and, if a field inspection is performed, a standardized form is not used to document the field inspection results. In addition, information regarding verification of property use was not available for review in the property files for any of the welfare exemption claims examined.

Section 254.5(b)(1) states the Assessor must ascertain whether the property on which the exemption is claimed meets the requirements of section 214. In this regard, the Assessor must consider, among other matters, whether the property on which the exemption is claimed is used for the actual operation of an exempt activity and does not exceed an amount of property reasonably necessary for the accomplishment of the exempt purpose. Letter To Assessors (LTA) No. 2014/58, Effective Administrative Practices – Welfare Exemption, states, although not required by statute, a field inspection is the most reliable method to ensure property is qualified for the exemption. Field inspections should be performed for all new claimants, when there has been new construction or a change in the use of the property, and periodically at the discretion of the Assessor.

When a field inspection is performed, LTA No. 2014/058 states that the results of the inspection should be documented in a field inspection report (FIR). If a field inspection is not made, the Assessor should document how the property's use was verified. For instance, if a property is in a remote location that is difficult to access, aerial photographs or other written information about the property can be used to verify the use of the property. For all new claimants, a FIR should be used either to document a field inspection or to document how the use of the property was verified and the FIR should be readily accessible in the property's file for future reference. BOE-267-FIR, Welfare Exemption Assessor's Field Inspection Report, or another standardized form should be used for this purpose.

Although the Assessor is not required by statute to conduct field inspections, the Assessor's failure to conduct field inspections for new claimants and properly document verification of property use may result in the welfare exemption being granted on property that is not eligible for the exemption.

Require low-income housing claimants to submit a use restriction document and ensure such documents are available for review.

We found instances where the Assessor did not require new claimants that own and operate low-income rental housing to submit a copy of a regulatory agreement, deed restriction, or other legal document for the property and, for claimants that had previously been granted the welfare exemption, instances where such use restriction documents were not maintained in the file for the property.

Section 214 provides, in order to qualify for the welfare exemption for low-income rental housing, amongst other requirements, the use of the property must be restricted to low-income rental housing by a regulatory agreement, deed restriction, or "other legal document."
Additionally, section 254 provides that a claimant for the welfare exemption must submit an affidavit to the Assessor annually, providing any information required by the BOE.


Use restriction documents provide the Assessor with details about the low-income rental housing requirements for the property, including what portion of the property is restricted to use as low-income rental housing and the term of the use restriction. This information assists Assessor's staff in its determination of eligibility for the welfare exemption and should be readily accessible in the property's file for future reference.

The Assessor's failure to require new claimants for the welfare exemption to submit a use restriction document and to maintain a copy of these documents for future reference may result in the welfare exemption being granted on property that is not eligible for the exemption.

**Properly notify claimants when all or a portion of the welfare exemption is denied.**

During our review, we noted the Assessor does not provide a written notice to claimants when the exemption is denied, including partial denials due to a non-qualifying use of a portion of the property or due to a late-filed claim.

Section 254.5(c)(2) provides that the Assessor must notify claimants in writing when it is determined that the claimant's property is ineligible for the welfare exemption. Further, LTA No. 2014/058 clarifies that the Assessor must also notify claimants in writing when the exemption is denied for a portion of the property or if the property is only eligible for a partial exemption due to a late-filed claim. The notice should be dated, identify the applicable fiscal year, and describe the reason for the denial. In addition, the notice is required to state that the claimant may seek a refund of property taxes paid by filing a refund claim with the county and that, if the refund claim is denied, the claimant may file a refund action in superior court. BOE-267-F, *Welfare or Veterans' Organization Exemption Assessor's Finding on Qualification of Property Use*, can be used by Assessors to meet these notification requirements.

The Assessor's practice of not notifying welfare exemption claimants when all or a portion of property is denied the exemption is contrary to statute and may result in taxpayers being unaware of their right to attempt to obtain a refund of property taxes paid.
ASSessment of real property

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the Assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.6

Penalties

The primary source of discovering properties that have changed ownership is through the analysis of deeds and other recorded documents from the recorder's office. The recorder's office requires BOE-502-A, Preliminary Change of Ownership Report (PCOR), to accompany documents submitted for recordation that transfer ownership of real property. PCORs are available at both the Assessor's and recorder's offices. When a recorded document is received without a PCOR, or the PCOR is incomplete, the Assessor sends the property owner a BOE-502-AH, Change of Ownership Statement (COS). Since Tuolumne County has not adopted an ordinance pursuant to section 483(b), which allows the Assessor to automatically abate penalties, if a COS is not returned timely, the Assessor is required to apply a penalty. The information contained in a properly completed COS is important because it assists the Assessor in making an accurate assessment of a property.

In Tuolumne County, the Assessor maintains detailed policies and procedures for processing changes in ownership. We examined several recorded documents and found the Assessor conducts a proper and thorough review for identifying and processing changes in ownership. However, we found an area in need of improvement.

RECOMMENDATION 2: Correctly implement the penalty process in accordance with section 482(a).

We found that the Assessor does not apply a penalty when a property owner fails to return a COS or fails to return the COS timely.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 90 days from the date of a written request by the Assessor, a penalty shall be added to the assessment made on the roll. When the property owner fails to return the COS timely, in addition to applying the penalty, the Assessor should notify the

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6 For a detailed description of the scope of our review of this topic, please refer to the document entitled Change in Ownership, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.
property owner of the penalty being applied and inform them of the penalty abatement process as
described in section 483(a).

The Assessor's current practice of not applying a penalty to property owners who fail to file a
COS or file a COS late is contrary to statute and results in unequal treatment of taxpayers.

**New Construction**

Section 70 defines newly constructed property, or new construction, as (1) any addition to real
property since the last lien date, or (2) any alteration of land or improvements since the last lien
date that constitutes a major rehabilitation of the property or converts the property to a different
use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that
converts an improvement to the substantial equivalent of a new improvement constitutes a major
rehabilitation of the improvement. Section 71 requires the Assessor to determine the full cash
value of newly constructed real property on each lien date while construction is in progress and
on its date of completion, and provides that the full cash value of completed new construction
becomes the new base year value of the newly constructed property.7

The Assessor has written procedures, policies, and forms dealing with discovery and assessment
of new construction. The Assessor provides helpful information and claim forms regarding new
construction on their website and at the Assessor's office.

We reviewed several property records involving new construction and found the Assessor's
property records to be adequately documented, showing completed new construction assessed as
of the date of completion and supplemental assessments issued as of the date of completion,
when appropriate. Overall, we found the Assessor's program for the discovery and assessment of
new construction to be well-administered; however, we found one area in need of improvement.

**RECOMMENDATION 3:** Use the correct claim form for granting new
construction exclusions for disabled accessibility
pursuant to section 74.6.

We found that the Assessor is using an incorrect form for claims seeking exclusions under
section 74.6. For exclusions granted pursuant to section 74.6, which are exclusions of new
construction performed for the purpose of making a building or structure more accessible to, or
more usable by, a disabled person when the disabled person is not a permanent resident of the
building, the correct form to use is BOE-63-A, *Claim for Disabled Accessibility Construction
Exclusion from Assessment for ADA Compliance*. For exclusions granted pursuant to
section 74.3, which are exclusions of new construction performed to make a dwelling more
accessible to a disabled person who is a permanent resident of the dwelling, the correct form is
BOE-63, *Disabled Persons Claim for Exclusion of New Construction for Occupied Dwelling*. A
separate form is required for each exclusion, however, the Assessor is accepting BOE-63 for
both exclusions.

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7 For a detailed description of the scope of our review of this topic, please refer to the document entitled *New
Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related
information can be found at [http://www.boe.ca.gov/proptaxes/apscont.htm](http://www.boe.ca.gov/proptaxes/apscont.htm).
In order to claim the exclusion provided in section 74.6, section 74.6(g) states that the property owner shall notify the Assessor prior to, or within 30 days of, completion of any project that he or she intends to claim the exclusion for making improvements of the type specified in section 74.6(a). Section 74.6(g) further states that the BOE shall prescribe the manner and form for claiming the exclusion. BOE-63-A was developed by the BOE for this purpose.

BOE-63-A contains several statements that must be certified to by the property owner under penalty of perjury, including a statement that acknowledges that the exclusion provided for by section 74.6 does not encompass the exclusion provided by section 74.3. In addition, BOE-63-A includes statements that inform property owners that all documents supporting the claim must be provided to the Assessor within six months of the completion date of the new construction and that the claim is a public document that is subject to public inspection. This information is not provided to taxpayers on BOE-63.

The Assessor's failure to use the correct form for new construction exclusions granted pursuant to section 74.6 is contrary to statute and may result in property owners being unaware of important information related to their claim for the exclusion of new construction performed for the purposes of making a building or structure more accessible to, or more usable by, a disabled person.

**Declines in Value**

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

Unfavorable economic conditions in some areas of California have led to declines in property values, resulting in decline-in-value assessments pursuant to section 51. Over the past four years, many of these areas have seen subsequent increases in property values resulting in fewer decline-in-value assessments. However, there are still a significant number of properties with market values below their FBYV in Tuolumne County.

We reviewed the Assessor's program for decline-in-value assessments and found one area where improvement is needed.

**RECOMMENDATION 4:** Review all property in decline-in-value status annually pursuant to section 51(e).

We found that the Assessor is not reviewing all property in decline-in-value status on an annual basis. Instead, decline-in-value assessments are reviewed every three years.

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Section 51(e) provides that, for each lien date after the first lien date for which the taxable value of the property is reduced (a decline-in-value assessment), the value of that property must be annually reappraised at its full cash value until its full cash value exceeds its FBYV.

By not annually reviewing all properties in decline-in-value status, the Assessor is not in compliance with statute and may be enrolling incorrect property values for the lien date.

**California Land Conservation Act Property**

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

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

**Homesites**

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. Assessors’ Handbook Section 521, Assessment of Agricultural and Open Space Properties (AH 521) provides on page II-51 that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite.

**Income and Expenses**

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses, such as hunting or fishing. There are no limits placed upon the income to be

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10 Assessment of Agricultural and Open-Space Properties, October 2003, page II-51.
capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents, and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

Capitalization Rates

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

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

We reviewed several agricultural properties planted with vines or trees restricted by CLCA contracts and found two areas in need of improvement.

**RECOMMENDATION 5:** Improve the CLCA property program by:
(1) calculating the restricted value of CLCA properties annually as required by section 423, and (2) using an appropriate income stream for capitalizing restricted tree and vine income.

Calculate the restricted value of CLCA properties annually as required by section 423.

The Assessor does not annually calculate the restricted value for CLCA properties planted with trees and vines as required by section 423. Instead, the initial assessed value is factored forward by an inflation factor for each subsequent lien date.
Subdivision (d) of section 423 provides that the taxable value on the lien date of open-space land subject to an enforceable restriction may not exceed the lowest of: (1) the current restricted value (determined by the income approach as prescribed by section 423), (2) the current fair market value calculated pursuant to section 110, or (3) the factored base year value calculated pursuant to section 110.1. Therefore, in order to determine the correct assessed value of a CLCA property, the Assessor must calculate and compare those three values on an annual basis.

The Assessor's practice of not calculating the restricted value for CLCA properties planted with trees and vines is contrary to statute and may lead to the enrollment of incorrect values.

**Use an appropriate income stream for capitalizing restricted tree and vine income.**

We found that the Assessor uses a constant-terminal income stream premise when appraising vineyards and orchards without respect to the age or stage of production of the vineyard or orchard.

AH 521 describes the correct procedure for capitalizing tree and vine income. The appropriate capitalization method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements such as trees and vines is similar: (1) a period of development when production (the income stream) initiates and rises, (2) a period of maturity when production remains relatively stable, and (3) a period of decline when production drops as the improvements near the end of their economic lives. Since the probable future income stream is irregular, the most accurate method of valuing living improvements is to estimate the present worth of each future year of (irregular) income by using the discounted cash flow method.

The Assessor's practice of not using the appropriate income stream premise when valuing living improvements may result in incorrect assessments of trees and vines.

**Taxable Possessory Interests**

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.11

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RECOMMENDATION 6: Improve the taxable possessory interests program by:
(1) using Board-prescribed form BOE-502-P, 
_Possessory Interests Annual Usage Report_,
(2) assessing all taxable possessory interests located at 
the fairgrounds that do not meet the requirements of 
the low-value property exemption, (3) deducting 
allowed expenses from gross income when valuing 
taxable possessory interests by the income approach-
direct method, (4) reappraising taxable possessory 
interests in compliance with section 61(b)(2), and 
(5) properly issuing and calculating supplemental 
assessments for taxable possessory interests.

Use Board-prescribed form BOE-502-P, _Possessory Interests Annual Usage Report_.

We found that the Assessor uses a locally-developed form letter to send to public agencies each 
year for reporting taxable possessory interests in lieu of Board-prescribed form BOE-502-P, 
_Possessory Interests Annual Usage Report_.

Letter To Assessors No. 2004/049, _Board-Prescribed Forms Approval Process_, advises that an 
Assessor may not use a locally-developed form if there is a Board-prescribed form available. 
BOE-502-P was developed and prescribed by the BOE to serve as the real property usage report 
used by public agencies to report taxable possessory interests to County Assessors annually, as 
required by section 480.6.

Section 480.6 provides that every state or local governmental entity that is the owner of real 
property in which a taxable possessory interest has been created must either (1) file a preliminary 
change in ownership report or change in ownership statement otherwise required to be filed with 
respect to the renewal of a possessory interest, or (2) file a real property usage report with the 
County Assessor annually. Since the BOE has developed and prescribed BOE-502-P to be used 
to meet the reporting requirements of section 480.6, the Assessor is required to use the 
prescribed form.

The Assessor's practice of using a locally-developed form letter in-lieu of Board-prescribed 
BOE-502-P is contrary to regulation.

Assess all taxable possessory interests located at the fairgrounds that do not meet the 
requirements of the low-value property exemption.

During our review, we found evidence of recurring uses at the county's Mother Lode Fairgrounds 
that may be taxable possessory interests with values exceeding the county's low-value exemption 
resolution threshold. We found that the Assessor does not track and review these potential 
taxable possessory interests to ensure that all taxable possessory interests in the county have been 
identified and assessed, if appropriate.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, 
these requirements are that the right of possession be independent, exclusive, durable, and 
provide a private benefit. Use of the county's fairground facilities by private persons or entities
could constitute taxable possessory interests and should be reviewed by the Assessor for possible assessment.

The Assessor's failure to review all possible taxable possessory interests located at the fairgrounds to determine if any are assessable may result in taxable property escaping assessment.

**Deduct allowed expenses from gross income when valuing taxable possessory interests by the direct income method.**

When valuing taxable possessory interests using the direct income method, the Assessor is not consistently deducting allowed operating expenses incurred by the public agency that owns the property.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent when using the income approach to value taxable possessory interests. Further, Rule 21(e)(3)(C) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return" attributable to the taxable possessory interest. Net return is defined in subdivision (c) of Rule 8 as the difference between gross return (any money or money's worth that the taxable property will produce) and gross outgo (any outlay of money or money's worth required to develop and maintain the estimated income).

A public owner will incur some allowed expenses with each taxable possessory interest. For example, some lease agreements may require the public owner to pay for insurance, maintenance, or utilities. Additionally, a public owner will incur at least some management expense. By not recognizing these allowable expenses and deducting them from the gross income when using the direct income method, the Assessor may be overstating the value of some taxable possessory interests.

**Reappraise taxable possessory interests in compliance with section 61(b)(2).**

We found several instances where the Assessor failed to reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used by the Assessor to initially value the taxable possessory interest. Instead, the Assessor enrolled the factored base year value.

Section 61(b) provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property for any term. Further, section 61(b)(2) provides that in the case of a renewal or extension, the Assessor shall, at the end of the initial term of possession used by the Assessor to value the taxable possessory interest, establish a new base year value based upon a new reasonably anticipated term of possession.

By not revaluing taxable possessory interests at the end of the reasonably anticipated term of possession, the Assessor is not in compliance with statutory provisions and may enroll incorrect assessments.
Properly issue and calculate supplemental assessments for taxable possessory interests.

We found that the Assessor does not issue supplemental assessments for taxable possessory interests that are enrolled on the unsecured roll because the Assessor's computer system does not allow supplemental assessments to be issued for property on the unsecured roll. In addition, we found that, when issuing supplemental assessments for newly created taxable possessory interests enrolled on the secured roll, the Assessor is incorrectly calculating the supplemental assessments by offsetting the new base year value against the prior year's assessed value.

Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction, while section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest constitutes a change in ownership. Therefore, taxable possessory interests, like other real property, are subject to supplemental assessments whenever there is a change in ownership or completed new construction. Additionally, AH 510 advises that the supplemental assessment amount for a newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

The Assessor's failure to properly issue and calculate supplemental assessments for certain taxable possessory interests is contrary to statute and results in unequal treatment of taxpayers.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, Oil and Gas Producing Properties, Rule 469, Mining Properties, and Rule 473, Geothermal Properties. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.12

Mining Property

There are two active mining properties located in the county. These two properties have extensive reserves, especially when compared to the annual production from the properties. Additionally, low demand for fresh product and the availability of recycled material contributes to the low demand for material from these properties. Because of the low production compared to reserves, there is little change in the factored base year value of these properties.

Our review of mineral properties indicated one area in need of improvement.

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RECOMMENDATION 7: Measure declines in value on the entire appraisal unit.

The Assessor does not consider the value of the entire appraisal unit when determining whether to enroll either the factored base year value or the current market value of mining property. Discussions with the Assistant Assessor indicate that no progress was made on the prior recommendation regarding mining properties. When requested, no documentation regarding recent assessments on these properties was provided. We repeat our prior recommendation with respect to the appraisal unit of mining properties.

Subdivision (e)(2)(C) of Rule 469 provides that declines in the value of mineral property shall be recognized when the market value of the appraisal unit is less than the current factored base year value of the same unit. The appraisal unit is defined by Rule 469 as the land, improvements including fixtures, and reserves. To properly determine the enrolled value of the property, the total factored base year value of each component must be compared to the total current market value of each component, with the lower of the two aggregate values being enrolled.

The Assessor's failure to properly determine the decline in value of mineral properties based on the value of the entire appraisal unit could result in underassessments of the improvements including fixtures or overassessments of the mineral rights.
ASSessment of Personal Property and Fixtures

Audit Program

County Assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the Assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.\(^{13}\)

Audit responsibility in the Assessor's Office rests on one auditor-appraiser working under the direction of the assistant Assessor. The assistant Assessor is responsible for review and oversight of the audit program. In Tuolumne County, section 469 requires the Assessor to conduct a minimum of eight audits each year, with the additional requirement to select four audits from a pool of those taxpayers that have the largest assessments and the remaining four from all other business property taxpayers.

We reviewed selected audits, including audit checklists and narratives, documentation of site inspections, classification of equipment, verification of leased equipment, accounting for supplies, and waivers of the statute of limitations. We also sampled several recently completed audits to examine audit findings, evidence, and documentation.

We found the Assessor's audit procedures to be well-organized and effective; and found audit findings to be accurate, well-documented, and supported by sufficient evidence. Audit quality is reinforced by a formal review process, through which every completed audit is reviewed by the Assistant Assessor. In addition, our review found that executed waivers of the statute of limitations were adequately prepared and properly executed.

Overall, the Assessor's audit quality is consistently good, and the program is well-managed. However, there are two areas in need of improvement.

RECOMMENDATION 8: Improve the audit program by: (1) performing the minimum required number of audits of professions, trades, and businesses pursuant to section 469; and (2) informing taxpayers of their right to appeal as required by Rule 305.3.

Perform the minimum required number of audits of professions, trades, and businesses pursuant to section 469.

We found that the Assessor did not conduct the minimum required number of audits from the pool of taxpayers with the largest assessments for two of the five years within the survey period.

\(^{13}\) For a detailed description of the scope of our review of this topic, please refer to the document entitled Audit Program, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf](http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at [http://www.boe.ca.gov/proptaxes/apscont.htm](http://www.boe.ca.gov/proptaxes/apscont.htm).
(2013-14 and 2016-17) and from the pool of all other taxpayers for two of the five years (2013-14 and 2014-15).

The provisions of section 469 require the Assessor to conduct a minimum of four audits of taxpayers selected from a pool of those taxpayers that have the largest assessments of business personal property and fixtures and four audits of taxpayers selected from a pool of all other taxpayers owning business personal property and fixtures. Subdivision (b)(1)(B) of section 469 further states that taxpayers in the pool of largest assessments must be audited at least once every four years.14

Assessors' Handbook Section 506, *Property Tax Audits and Audit Program*, provides that the primary objective of an audit program is to encourage accurate and proper reporting of business property. An effective audit program helps to prevent potential errors and escape assessments by verifying information reported by taxpayers and correcting noncompliant reporting practices. This, in turn, increases the likelihood that future assessments will be accurate due to improved reporting by taxpayers and improved understanding of the business property by the Assessor's office.

By failing to conduct the statutorily required number of audits, the Assessor is not in compliance with section 469 and the possibility that taxable property will escape assessment is increased.

**Inform taxpayers of their right to appeal as required by Rule 305.3.**

We found that the Assessor does not notify taxpayers of their appeal rights when an audit discloses property subject to an escape assessment, if the audit results in either a net overassessment or a finding of "no change." Upon completion of an audit, the Assessor properly informs taxpayers of their audit results in writing; however, the letter used for that purpose does not include information regarding the taxpayer's right to appeal the audit results when applicable. It is only when an audit results in a net escape assessment and the Assessor mails a *Notice of Enrollment of Escape Assessment* that a taxpayer is informed of their appeal rights.

Pursuant to section 1605, when an audit discloses property subject to an escape assessment, the taxpayer may file an appeal of the original assessment of all their property at the audited location for that year, except property that has been previously equalized for that year. "Property subject to an escape assessment" is defined by subdivision (b)(2) of Rule 305.3 as any item of property that was underassessed or not assessed at all when the Assessor's original assessment was made, even if the audit results in a net overassessment or finding of no change, and regardless of whether or not the Assessor enrolls an escape assessment. Additionally, when the audit results in a net overassessment or a finding of no change, subdivision (d)(2) of Rule 305.3 requires that the Assessor's written notification of the audit results serve as notice of the taxpayer's appeal rights.

The Assessor's practice of not notifying taxpayers of their appeal rights when an audit results in a net overassessment or a finding of no change is contrary to statute and may result in affected taxpayers not being aware of their right to file an appeal of the original assessment of all their property at the audited location for that year.

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14 Letter To Assessors No. 2009/049, *Significant Number of Business Property Audits*. 

**Business Property Statement Program**

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of $100,000 or more annually file a business property statement (BPS) with the Assessor; other persons must file a BPS if requested by the Assessor. Property statements form the backbone of the business property assessment program.\(^\text{15}\)

In the Assessor's Office, one auditor-appraiser, overseen by the assistant Assessor, is responsible for all BPS processing functions. We reviewed all major aspects of the Assessor's BPS program, including use of Board-prescribed forms, processing procedures, coordination with the real property division, application of penalties, and record storage and retention. In addition, we reviewed several recently processed BPSs and found that all BPSs sampled and accepted by the Assessor evidenced the proper usage of Board-prescribed forms and were completed in sufficient detail.

Overall, the Assessor's BPS processing program is well-administered; however, we found two areas in need of improvement.

**RECOMMENDATION 9:** Improve the BPS program by: (1) valuing taxable business property based on available information, in accordance with section 501, when a property owner fails to file a BPS; and (2) conducting an audit or field review when a property owner fails to file a BPS for three consecutive years.

**Value taxable business property based on available information, in accordance with section 501, when a property owner fails to file a BPS.**

We found that when a property owner fails to file a BPS for consecutive years, the Assessor applies an unsupported escalation rate of 10 percent to the previous year's business property enrollment before applying the 10 percent penalty required by section 463. This system-wide escalation rate is not supported by market evidence.

When a property owner fails to file a BPS, section 501 provides that the Assessor shall estimate the value of the business property based upon available information. Additionally, Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, states no matter what method is used to estimate the current value, it should be a reasonable estimate of market value based on available information. If a BPS was received from the property owner during the previous year, it is usually reasonable to use the previously reported cost data or the Assessor's rendered valuation for the previous year as the basis for estimating the current year's value of the property. However, if a property owner continues to fail to file a BPS for consecutive years,

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\(^\text{15}\) For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Property Statement Program*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_general.pdf](http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at [http://www.boe.ca.gov/proptaxes/apscont.htm](http://www.boe.ca.gov/proptaxes/apscont.htm).
subsequent estimated values of the business property should be supported by current market information and calculated using relevant valuation tables.

By applying an unsupported 10 percent escalation rate to previously enrolled business property values for property owners who have failed to file a BPS for consecutive years, the Assessor is enrolling arbitrarily determined values with no supporting basis. The Assessor's use of this valuation methodology likely leads to erroneous assessed values and is an improper application of the Assessor's estimated assessment authority as prescribed in section 501.

**Conduct an audit or field review when property owners fail to file a BPS for three consecutive years.**

We found the Assessor sets no formal limits on the number of consecutive years a property owner may fail to file a BPS before the Assessor either visits the location of the business property or conducts an audit. Section 501 requires the Assessor to estimate the value of business property when a property owner fails to comply with the BPS reporting requirements. However, if the Assessor estimates values for several years without the introduction of current information relevant to the valuation of the business property, the estimated values become increasingly susceptible to error. Under section 532, in most cases, an escape assessment must be made within four years after July 1 of the assessment year in which the property escaped taxation or was underassessed. Therefore, estimated assessments based on prior reporting should be limited to three consecutive years, beyond which the Assessor should attempt to obtain updated information by visiting the location of the business property or performing an audit.

The Assessor's lack of a formal limit on the number of consecutive years a property owner may fail to file a BPS before attempting to gain new information relevant to the valuation of the business property may lead to inaccurate assessments and the expiration of authority to make escape assessments due to the statute of limitations provided for in section 532.

**Business Equipment Valuation**

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. Under this methodology, value for taxation purposes is established by multiplying a property's historical cost by an appropriate valuation factor.

**Classification**

For assessment purposes, machinery and equipment costs reported on Schedule A of BOE-571-L, *Business Property Statement*, may represent either personal property or fixtures or both. Business trade fixtures are also reported on Schedule B of BOE-571-L. A fixture is an item.
of tangible property that was originally personal property but is now classified as real property for property tax purposes because it has become physically or constructively annexed to real property with the intent that it remain annexed indefinitely.

Therefore, machinery and equipment must be classified by the Assessor as either personal property or fixtures. In most cases, the Assessor identifies, and classifies, taxable business property on an individual basis. On occasions where a fixture allocation must be made to business property reported in bulk, appraiser judgment based on industry type and personal knowledge of the business operation, is used to determine the proper allocation.

We reviewed business property enrollments to determine if classification conclusions were accurate. In most cases, we found consistent and reasonable fixture classifications for business property enrollments. However, we found one area in need of improvement related to service station assessments.

**RECOMMENDATION 10:** Discontinue classifying fixtures enrolled on service station assessments as personal property.

We found several instances where the Assessor classified fixtures associated with service station assessments as personal property. Items such as pump equipment, tank monitoring systems, underground tanks, and car wash equipment should be classified as fixtures. In some cases, identified fixtures were enrolled as personal property and, in others, machinery and equipment reported in bulk were classified entirely as personal property rather than being prorated between fixtures and personal property.

Letter To Assessors (LTA) No. 92/27, *Assessment of Service Station Structures and Fixtures*, provides guidance to Assessors regarding the classification of service station equipment as fixtures. Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, also offers property classification definitions, guidelines, and discussions of relevant issues. The majority of taxable business equipment associated with service stations is composed of fixtures, such as fuel pumps, dispensers, piping, hoists, island curbing, built-in freezers, and other retail fixtures. These items are often reported with machinery and equipment and should be prorated between fixtures and personal property.

The proper classification of property is an important element of the local assessment function for several reasons. Principally, it is important because section 602 requires the assessment roll to show separate assessed values for land, improvements (including fixtures), and personal property. It is also significant because of the assessment differences between real property and personal property, which include: (1) special assessments are levied only on real property, (2) personal property is appraised annually at market value, while fixtures, as real property, are assessed at the lower of current market value or factored base year value, and (3) fixtures are a separate appraisal unit when measuring declines in value. Finally, the improper classification of property could result in inaccurate assessed values if, for example, valuation guidelines intended for use with personal property are used to value real property; and vice versa.

When classifying taxable service station equipment, the Assessor should keep in mind that fixtures represent a significant percentage of any service station assessment. Misclassification of
service station fixtures is contrary to property tax law and may lead to incorrect assessments due to the improper application of valuation guidelines.

Application of BOE Recommended Value Factors

For the most part, the Assessor has adopted the price index and percent good factors recommended and published by the BOE in Assessors' Handbook Section 581, *Equipment and Fixture Index, Percent Good and Valuation Factors* (AH 581). We reviewed the Assessor's valuation tables and a number of processed BPSs. For the most part, the construction of the Assessor's valuation tables were consistent with BOE-prescribed factors and guidelines and valuation tables were consistently and accurately applied. However, we found two areas in need of improvement.

**RECOMMENDATION 11:** Improve the business equipment valuation process by:
(1) supporting any divergence from the BOE recommended use of the price index and percent good factors published in the AH 581 with market evidence; and (2) issuing supplemental assessments for structural leasehold improvements enrolled on the unsecured roll.

**Support any divergence from the BOE recommended use of the price index and percent good factors published in the AH 581 with market evidence.**

We found a number of errors in the Assessor's 2017-18 business equipment valuation tables, such as factor composition calculation errors and unsupported minimum valuation factors. The errors are widespread and generally weighted towards the bottom of the valuation tables. Additionally, the Assessor's mobile construction equipment valuation tables are not supported by current BOE prescribed factors.

The price index and percent good factors published in AH 581 are intended for use in mass appraisal and are generally reliable and practical for converting historical cost to estimates of reproduction cost. Index factors are developed to recognize both price changes and technological progress and are intended to reflect the price of a new replacement. The percent good factors are supported by the premise that business equipment loses value with both use and age and are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives.

The valuation factor components published in AH 581 are based upon specific market behavior and are intended to facilitate the derivation of current market value estimates in mass appraisal applications. Any deviation from these recommended factors must be supported by documented market evidence to substantiate that a more accurate value indicator would result.

To account for normal technological change over time, the BOE recommends that Assessors use a maximum equipment index factor when valuing equipment. The recommended maximum index factor is the factor for an equipment age equal to 125 percent of the estimated average service life of the equipment. Using a recommended maximum index factor, combined with
percent good factors, not only accounts for the normal effects of technological change on value but contributes to the correct calculation of the composite minimum value factors as well.

The Assessor's use of unsupported valuation tables to value equipment weakens the relevance of the resulting value indicator and likely leads to inaccurate value conclusions. A further consequence of using unsupported value factor tables is the increased likelihood of disparate enrolled valuations when comparing similar property enrollments in other counties.

**Issue supplemental assessments for structural leasehold improvements enrolled on the unsecured roll.**

We found that the Assessor does not issue supplemental assessments for new construction of structural leasehold improvements reported on Schedule B — *Cost Detail: Building Improvements, and/or Leasehold Improvements, Land Improvements, Land and Land Development* of the BPS when enrolled by the business division. When a taxpayer completes Schedule B of the BPS and reports the cost of structural improvements on a secured assessment, the business division typically refers the costs reported on Schedule B to the real property division, where the improvements are assessed to the building owner (landlord) on the secured roll. However, when the business property assessment is unsecured, structural leasehold improvements are often assessed to the tenant and enrolled with the tenant's other business property on the unsecured roll, by the business division. In these cases, the Assessor properly values the improvements in accordance with article XIII A of the California Constitution, but does not issue supplemental assessments.

Section 75.14 provides that all property subject to the assessment limitations of article XIII A shall be subject to supplemental assessment. In addition, section 75.11 provides that supplemental assessments shall be issued following a change in ownership or completed new construction. Therefore, structural improvements, which are real property, are subject to supplemental assessment, regardless of whether they are enrolled on the secured or unsecured roll.

The Assessor's practice of not issuing supplemental assessments for structural leasehold improvements assessed on the unsecured roll is contrary to statute and results in lost revenue, as well as unequal treatment of taxpayers.

**RECOMMENDATION 12:** Apply the mobile agricultural percent good factors prescribed on Table 6 of AH 581, when applicable.

We observed a number of instances where the Assessor failed to use mobile agricultural equipment percent good factors to value such property. In these cases, the Assessor incorrectly calculated current market value estimates of mobile agricultural equipment by using percent good tables intended for non-mobile agricultural equipment, such as bins, air compressors,

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17 An exception to this requirement applies to certain fixtures and certain taxable possessory interests. Pursuant to section 75.5, "fixtures that are normally valued as a separate appraisal unit from a structure" and "newly created taxable possessory interests, established by month-to-month agreements in publicly owned real property, having a full case value of fifty thousand dollars ($50,000) or less" are not included in the definition of "property" subject to supplement assessment.
welders, and generators, rather than percent good tables intended for self-propelled machinery and related implements.

LTA No. 2017/032, Classification of Mobile Agricultural Equipment and Application of Percent Good Factors, provides that the percent good factors in Table 6 of AH 581 were derived from market data pertaining solely to self-propelled agricultural equipment and related implements; and that the factors are intended for use in the appraisal of those specific equipment types. Mobile equipment is often exposed to more intensive and harsher use than other movable equipment and is prone to a greater degree of both physical deterioration and functional obsolescence.

The Assessor's current practice of utilizing valuation tables whose market derived components are not intended for the valuation of mobile agricultural equipment, to value such equipment, results in inaccurate value conclusions and may lead to erroneous assessments.

**Manufactured Homes**

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.18

We reviewed several manufactured home assessments and found an area in need of improvement.

**RECOMMENDATION 13:** Periodically review manufactured home assessments for declines in value.

We found that the Assessor does not have a program for periodically reviewing all manufactured homes for possible declines in value. The Assessor currently reviews manufactured homes for decline-in-value adjustments only when requested to do so by a property owner. We found examples of manufactured homes in decline-in-value status that were enrolled with the same assessed value each year for a period of several years. It was also noted that some manufactured home assessments are adjusted annually, after the initial valuation, by an inflation factor. However, we found no evidence of a systematic program to periodically review manufactured home assessments for declines in value.

Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its factored base year value or its full cash value as of the lien date, considering reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. Although the Assessor is not required to reappraise all properties each year, the Assessor

18 For a detailed description of the scope of our review of this topic, please refer to the document entitled Manufactured Homes, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf](http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at [http://www.boe.ca.gov/proptaxes/apscont.htm](http://www.boe.ca.gov/proptaxes/apscont.htm).
should develop a program to periodically review the assessments of manufactured homes to ensure declines in value of manufactured homes are recognized timely, accurately, and consistently.

The Assessor's practice of not periodically reviewing all manufactured homes for possible declines in value, may result in the enrollment of incorrect assessments and unequal treatment of taxpayers.
APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays pertinent information from the 2017-2018 assessment roll.19

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$2,234,277,331</td>
</tr>
<tr>
<td>Improvements</td>
<td>$4,706,367,355</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$111,463,700</td>
</tr>
<tr>
<td>Total Secured</td>
<td>$7,052,108,386</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$16,197,643</td>
</tr>
<tr>
<td>Improvements</td>
<td>$42,132,037</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$137,861,828</td>
</tr>
<tr>
<td>Total Unsecured</td>
<td>$196,191,508</td>
</tr>
<tr>
<td>Exemptions20</td>
<td>($236,264,150)</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>$7,012,035,744</td>
</tr>
</tbody>
</table>

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:21

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>$7,012,036,000</td>
<td>4.1%</td>
<td>6.3%</td>
</tr>
<tr>
<td>2016-17</td>
<td>$6,735,430,000</td>
<td>3.8%</td>
<td>5.5%</td>
</tr>
<tr>
<td>2015-16</td>
<td>$6,488,550,000</td>
<td>5.2%</td>
<td>6.0%</td>
</tr>
<tr>
<td>2014-15</td>
<td>$6,165,149,000</td>
<td>2.4%</td>
<td>6.2%</td>
</tr>
<tr>
<td>2013-14</td>
<td>$6,018,758,000</td>
<td>1.2%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

19 Statistics provided by BOE-822, Report of Assessed Values By City, Tuolumne County for year 2017-18.  
20 The value of the Homeowners' Exemption is excluded from the exemptions total.  
21 State Board of Equalization Annual Report, Table 7.
**Table 3: Gross Budget and Staffing**

The Assessor's budget has grown from $914,618 in 2013-14 to $943,960 in 2017-18.

As of the date of our survey, the Assessor had 11 budgeted permanent staff. This included the Assessor, Assistant Assessor, three real property appraisers, one business property auditor-appraiser, one cadastral draftsperson, and 4 support staff.

The following table identifies the Assessor's budget and staffing over recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>PERCENT CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>$943,960</td>
<td>-20.6%</td>
<td>11</td>
</tr>
<tr>
<td>2016-17</td>
<td>$1,188,790</td>
<td>24.7%</td>
<td>13</td>
</tr>
<tr>
<td>2015-16</td>
<td>$953,396</td>
<td>9.2%</td>
<td>13</td>
</tr>
<tr>
<td>2014-15</td>
<td>$872,996</td>
<td>-4.6%</td>
<td>11</td>
</tr>
<tr>
<td>2013-14</td>
<td>$914,923</td>
<td>7.2%</td>
<td>11</td>
</tr>
</tbody>
</table>

**Table 4: Assessment Appeals**

The following table shows the number of assessment appeals filed in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ASSESSMENT APPEALS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>7</td>
</tr>
<tr>
<td>2016-17</td>
<td>14</td>
</tr>
<tr>
<td>2015-16</td>
<td>25</td>
</tr>
<tr>
<td>2014-15</td>
<td>27</td>
</tr>
<tr>
<td>2013-14</td>
<td>21</td>
</tr>
</tbody>
</table>

---


Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:24

<table>
<thead>
<tr>
<th>YEAR</th>
<th>WELFARE EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>111</td>
<td>$159,293,470</td>
</tr>
<tr>
<td>2016-17</td>
<td>113</td>
<td>$159,056,015</td>
</tr>
<tr>
<td>2015-16</td>
<td>96</td>
<td>$143,301,482</td>
</tr>
<tr>
<td>2014-15</td>
<td>99</td>
<td>$150,548,159</td>
</tr>
<tr>
<td>2013-14</td>
<td>106</td>
<td>$144,493,717</td>
</tr>
</tbody>
</table>

Table 6: Change in Ownership

The following table shows the total number of transfer documents received and the total number of reappraisable transfers due to changes in ownership processed in recent years:25

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL TRANSFER DOCUMENTS RECEIVED</th>
<th>REAPPRAISABLE TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>5,078</td>
<td>1,814</td>
</tr>
<tr>
<td>2016-17</td>
<td>5,034</td>
<td>1,680</td>
</tr>
<tr>
<td>2015-16</td>
<td>5,692</td>
<td>1,605</td>
</tr>
<tr>
<td>2014-15</td>
<td>5,201</td>
<td>1,702</td>
</tr>
<tr>
<td>2013-14</td>
<td>5,322</td>
<td>1,732</td>
</tr>
</tbody>
</table>

---

Table 7: New Construction

The following table shows the total number of building permits received and the total number of new construction assessments processed in recent years:\(^{26}\)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL BUILDING PERMITS RECEIVED</th>
<th>NEW CONSTRUCTION ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>1,646</td>
<td>526</td>
</tr>
<tr>
<td>2016-17</td>
<td>1,523</td>
<td>486</td>
</tr>
<tr>
<td>2015-16</td>
<td>1,571</td>
<td>431</td>
</tr>
<tr>
<td>2014-15</td>
<td>1,426</td>
<td>367</td>
</tr>
<tr>
<td>2013-14</td>
<td>1,535</td>
<td>357</td>
</tr>
</tbody>
</table>

Table 8: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:\(^ {27}\)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>5,814</td>
</tr>
<tr>
<td>2016-17</td>
<td>6,466</td>
</tr>
<tr>
<td>2015-16</td>
<td>7,162</td>
</tr>
<tr>
<td>2014-15</td>
<td>8,182</td>
</tr>
<tr>
<td>2013-14</td>
<td>8,494</td>
</tr>
</tbody>
</table>

\(^{26}\) Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors’ Offices* for years 2013-14 through 2017-18.

\(^{27}\) Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors’ Offices* for years 2013-14 through 2017-18.
Table 9: Audits

The following table shows the minimum number of audits required to be conducted and the total number of audits completed in recent years.\textsuperscript{28}

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Largest Assessments</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>All Other Taxpayers</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Total Required</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NUMBER OF AUDITS COMPLETED</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Audits Completed</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Largest Assessments</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Over/(Under) Required</td>
<td>0</td>
<td>(2)</td>
<td>0</td>
<td>4</td>
<td>(4)</td>
</tr>
<tr>
<td>All Other Taxpayers</td>
<td>4</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Over/(Under) Required</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td>CCCASE AUDITS</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Prepared for other County Assessors</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

APPENDIX B: PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our October 2014 Assessment Practices Survey Report and the Assessor's response to each recommendation. After each recommendation, we report the current status of the Assessor's effort to implement the recommendation as noted during our survey fieldwork.

Exemptions

RECOMMENDATION 1: Assess all cemeteries in the county and exempt those cemeteries, or portions thereof, that qualify for the exemption.

Original Findings:

We found that the Assessor does not assess cemeteries in Tuolumne County, regardless of whether the cemetery is exempt from taxation or not.

Assessor's Original Response:

Concur.

Current Status:

The Assessor has not implemented this recommendation. Refer to the 2017 BOE-802, Report on Exemptions, Part Two, for evidence the Assessor is not assessing cemeteries in the county.

Change in Ownership

RECOMMENDATION 2: Improve the change in ownership program by correctly implementing the penalty process in accordance with section 482(a).

Original Findings:

It is the Assessor's current practice not to apply penalties when a property owner fails to return a COS or fails to return the COS timely.

Assessor's Original Response:

We have avoided going through the penalty process since it would cause too much administrative cost for very little benefit. I was unaware of the abatement process under 483(b) which would simplify the process and eliminate most of those
administrative costs. I will recommend that we institute the penalty process in the near future.

Current Status:

The Assessor has not implemented this recommendation. Refer to Change in Ownership topic.

RECOMMENDATION 3: Improve the change in ownership program by providing documentation to support enrolling the purchase price as current market value.

Original Findings:

We found that the Assessor does not provide documentation or sales data in the property record to support enrolling the purchase price as current market value for a reappraisable transfer. For those reappraisable transfers with a reported purchase price on the corresponding PCOR, it is the Assessor's current practice to enroll the reported purchase price in accordance with Rule 2, without providing any supporting documentation to indicate that the purchase price reflects current market value, as long as the purchase was through a broker and on the open market.

Assessor's Original Response:

While appraisers do not document the comparable sales that are used when enrolling the purchase price as current market value, they do review comparable sales to determine whether a sale meets the criteria of being an "arm's length" transaction. If a sale doesn't appear "typical", a comparable sales analysis will be attached to the record.

Current Status:

Although the Assessor has not implemented this recommendation, BOE staff found no evidence that market value was not being enrolled properly. Even though the files are not documented with comparable sales, the appraisal staff does review comparable sales to determine whether a sale meets the criteria of being an "arm's length" transaction.

If a purchase price appears too high or low, appraisal staff will perform a market analysis and include documentation in the file. In two instances, BOE found the appraisal staff recognized that the purchase price appeared too low and performed an income and/or sales approach. Market value was enrolled based on their value conclusions and documentation was provided in the file.

BOE found no evidence that the purchase price enrolled was not correct in cases when no documentation was provided. We will not be repeating this recommendation.
New Construction

RECOMMENDATION 4: Document all building permits received for solar installations in the property record files.

Original Findings:

It is the Assessor's practice to cull and discard building permits for solar installations that are deemed to be excluded from reassessment in accordance with section 73(e). We found several examples where the Assessor did not file the building permit in the property record file or document the building record to show the solar installation was completed. While the solar installation may be excluded from reassessment for the current owner, the building record should properly reflect the solar installation for future reappraisals of the property when the active solar energy system is not excluded from reassessment.

Assessor's Original Response:

Concur, we have already begun to implement a process to document permits for solar installations on the property record.

Current Status:

The Assessor has implemented this recommendation. The Assessor documents the property file for excluded new construction. Per a review of several files indicating solar new construction, the permit request was in the file, and notations on the files regarding solar new construction were noted.

Declines in Value

RECOMMENDATION 5: Value all properties in decline-in-value status at current market value.

Original Findings:

We found that the Assessor applies an annual percentage value change to all properties in decline-in-value status as part of the annual review process. This percentage being applied is the same for all decline-in-value properties, regardless of property type, location, age, acreage, or size of the structure. While we found some properties to be valued within market value range, we found numerous other properties that deviated significantly from the market value range.

Assessor's Original Response:

Due to staffing constraints, we have had to take some shortcuts to apply Prop 8 reductions to thousands of properties that were eligible. In response to the immediate need to identify properties that were eligible for reductions, we initially studied market data and applied factors to approximate the amount of the decline in value.
according to the base year of the property. In succeeding years, further reductions were made "across-the-board" as indicated by annual market studies. In the past year, a sales ratio analysis was done to compare selling prices of properties that were under Prop 8. We believe that our approach, while far from perfect, was a reasonable approach to a problem that had no other solution give the time and manpower constraints. Some commercial properties were addressed individually and their values were revised accordingly.

Current Status:

The Assessor has not adequately implemented this recommendation. Per the Assessor, the prior process of applying a factor to reflect changes in market conditions was eliminated. For a time, the Assessor had funding for additional staff and was valuing all property in decline-in-value status annually; however, the funding was lost several years ago and the staff reduced. Currently the Assessor is valuing property in decline-in-value status on a tri-annual basis, which is not in conformance with section 51(e). See Declines in Value topic.

California Land Conservation Act Property

RECOMMENDATION 6: Improve the CLCA property program by using an appropriate income stream for capitalizing restricted tree and vine income.

Original Findings:

We found that the Assessor uses a constant-terminal income premise when appraising vineyards and orchards without respect to the age or stage of production of the vineyard or orchard.

Assessor's Original Response:

Concur.

Current Status:

The Assessor has not implemented this recommendation. Refer to the California Land Act Property Topic.
Taxable Possessory Interests

RECOMMENDATION 7: Improve the taxable possessory interests program by:
(1) using Board-prescribed form BOE-502-P, Possessory Interests Annual Usage Report,
(2) considering market rents in the value determination of taxable possessory interests,
(3) assessing all taxable possessory interests located at the fairgrounds that do not meet the requirements of the low-value property exemption,
(4) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach-direct method,
(5) reappraising taxable possessory interests in compliance with section 61(b)(2), and
(6) properly issuing supplemental assessments for taxable possessory interests.


Original Findings:

We found that the Assessor uses a locally-developed form letter to send to public agencies each year for reporting taxable possessory interests in lieu of Board-prescribed form BOE-502-P, Possessory Interests Annual Usage Report, which was developed and prescribed by the BOE for this purpose. Letter To Assessors (LTA) No. 2011/019 provides a copy of the revised BOE-502-P, and discusses the revisions and intended use of this Board-prescribed form.

Assessor's Original Response:

I believe that we receive very good cooperation from our locally-developed letter, but we could certainly include a copy of BOE-502-P to comply with the regulation.

Current Status:

We were unable to determine if this recommendation has been implemented. Refer to Taxable Possessory Interests topic.

(2) Consider market rents in the value determination of taxable possessory interests.

Original Findings:

We found that for certain taxable possessory interests, the Assessor is incorrectly estimating the value by using the stated minimum contract rent as current market rent rather than the percentage rent provided for in the lease contract. We found several instances in which the public agency provided a history of the possessors' monthly gross receipts and percentage rents, clearly showing that the percentage rent has been
consistently higher than the minimum contract rent over the past several years. Under such circumstances, the percentage rent is a better indicator of current market rent than the minimum contract rent.

Assessor's Original Response:

Concur.

Current Status:

The Assessor has not implemented this recommendation. Refer to Taxable Possessory Interests topic.

(3) Assess all taxable possessory interests located at the fairgrounds that do not meet the requirements of the low-value property exemption.

Original Findings:

We found that the Assessor does not track potential taxable possessory interests located at the fairgrounds. While the Assessor sends the fairgrounds an annual form letter requesting information on any potential taxable possessory interests they might have, the fairgrounds does not respond to the Assessor's request and no further attempt is made to collect this information. During our review, we found evidence of recurring uses at the fairgrounds that appear to be taxable possessory interests valued above the county's low-value resolution. Since the Assessor does not track any potential taxable possessory interests at the fairgrounds, he is unable to determine whether the possessory interests fall within the low-value exemption range or not.

Assessor's Original Response:

Concur.

Current Status:

The Assessor has not implemented this recommendation. Refer to Taxable Possessory Interests topic.

(4) Deduct allowed expenses from gross income when valuing taxable possessory interests by the income approach-direct method.

Original Findings:

When valuing taxable possessory interests using the income approach-direct method, the Assessor is not making deductions from the gross rent for management and other operating expenses incurred by the public lessor.
Assessor's Original Response:

We are aware of the fact that some management and other operating expenses should be deducted from the gross rent and have made those adjustments on recently negotiated leases. We may have missed some in the past.

Current Status:

The Assessor has not implemented this recommendation. Refer to Taxable Possessory Interests topic.

(5) Reappraise taxable possessory interests in compliance with section 61(b)(2).

Original Findings:

We found several instances where the Assessor failed to reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used by the Assessor to initially value the taxable possessory interest. Instead, the Assessor enrolled the factored base year value.

Assessor's Original Response:

Concur.

Current Status:

The Assessor has not implemented this recommendation. Refer to Taxable Possessory Interests topic.

(6) Properly issue supplemental assessments for taxable possessory interests.

Original Findings:

We found that the Assessor does not issue supplemental assessments for taxable possessory interests that are enrolled on the unsecured roll. The Assessor indicated that their computer system does not allow supplemental assessments to be issued for property on the unsecured roll. In addition, we found that for those taxable possessory interests enrolled on the secured roll, the Assessor is correctly issuing supplemental assessments when warranted; however, the Assessor is incorrectly calculating the supplemental assessment for newly created taxable possessory interests by offsetting the new base year value against the prior year's assessed value.

Assessor's Original Response:

We still do have a software limitation on creating supplemental assessments on the Unsecured Roll.
Current Status:

The Assessor has not implemented this recommendation. Refer to Taxable Possessory Interests topic.

**Mineral Property**

**RECOMMENDATION 8:** Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

**Original Findings:**

We could find no indication in the Assessor's mineral property appraisal records that the Assessor considers the value of the entire appraisal unit when determining whether to enroll the adjusted base year value or the current market value of the mineral property as required by Rule 469(e)(2)(C).

**Assessor's Original Response:**

Concur.

Current Status:

The Assessor has not implemented this recommendation. Refer to Mineral Property topic.

**Audit Program**

**RECOMMENDATION 9:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

**Original Findings:**

The Assessor failed to conduct the minimum number of audits required under the provisions of section 469.

**Assessor's Original Response:**

Concur.

Current Status:

The Assessor has not implemented this recommendation. Refer to the Audit Program topic.
RECOMMENDATION 10: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

Original Findings:

The Assessor does not request waivers of the statute of limitations on all scheduled audits that will not be completed timely.

Assessor's Original Response:

Concur.

Current Status:

The Assessor has implemented this recommendation. The Assessor now presents property owners with a statute of limitation waiver request when he anticipates he will not complete an audit on a timely basis.

Manufactured Homes

RECOMMENDATION 11: Improve the manufactured homes program by:

1. Periodically reviewing manufactured home assessments for declines in value, and
2. Reassessing all manufactured homes that are involved in a change in ownership.

(1) Periodically review manufactured home assessments for declines in value.

Original Findings:

The Assessor does not currently have a program in place to discover declines in value of manufactured homes. When a change in ownership occurs for a manufactured home, the Assessor determines the value of the manufactured home and enrolls the value as a fixture on the secured roll. The enrolled value then remains stagnant on the roll until another change in ownership occurs or the property owner requests an informal review of their current assessed value. No inflation factor is applied to the base year value for subsequent years and the manufactured home is never reviewed for a potential decline in value unless requested by the property owner.

Assessor's Original Response:

Due to staffing constraints, we have not been able to do as many reviews of manufactured home assessments as we would like. We do receive phone calls and requests for review from manufactured home owners and we respond by reviewing those assessments.
Current Status:

The Assessor has not implemented this recommendation. Refer to the Manufactured Homes topic.

(2) Reassess all manufactured homes that are involved in a change in ownership.

Original Findings:

We found several instances where the Assessor failed to reassess a manufactured home due to a change in ownership, even though the Assessor had documentation in the file reflecting that a change in ownership had occurred. In some instances, the Assessor correctly changed the current ownership on title to reflect the new owners, but failed to reassess the manufactured home. In other instances, the Assessor failed to change the current ownership and failed to reassess the manufactured home.

Assessor's Original Response:

Concur.

Current Status:

The Assessor has implemented this recommendation. Our review of manufactured home records did not find any instances of changes in ownership for manufactured homes not being assessed.

Vessels

RECOMMENDATION 12: Improve the vessels program by: (1) sending an annual Vessel Property Statement to the owners of vessels having an aggregate cost of $100,000 or more pursuant to section 441, and (2) adding sales tax as a component of market value.

(1) Send an annual Vessel Property Statement to the owners of vessels having an aggregate cost of $100,000 or more pursuant to section 441.

Original Findings:

We found that the Assessor does not send annual Vessel Property Statements to the owners of vessels having an aggregate cost of $100,000 or more.

Assessor's Original Response:

Concur.
Current Status:

The Assessor has implemented this recommendation. The Assessor now mails a *Vessel Property Statement* to the owners of all vessels having an aggregate cost of over $100,000 in accordance with section 441. In order to facilitate this procedure, the Assessor has assigned a specific account code to identify houseboats enrolled in the county. Due to the nature of Tuolumne County's waterways, houseboats are the only vessels sited in the county with costs in excess of the threshold prescribed by section 441.

(2) Add sales tax as a component of market value.

Original Findings:

The Assessor initially values vessels using NADA, which is a recognized value guide. However, because NADA has national application, the listed values in this guide do not include California sales tax, which must be included to obtain the full market value.

Assessor's Original Response:

*We use the NADA guide as a resource for our boat values. We also generally use the Average Retail value in that guide as our guide to the assessed value. After reviewing sales and listings, we have concluded that the NADA value is very close to the local market value including the sales tax. In those cases, we do not make an additional adjustment to add sales tax to the NADA value.*

Current Status:

The Assessor has implemented this recommendation. The Assessor now adds a value component to reflect sales tax when utilizing value indicators published in commonly used value guides.
APPENDIX C: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Tuolumne County

**Deputy Director**
David Yeung

**Survey Program Director:**
Diane Yasui Manager, Property Tax

**Survey Team Supervisor:**
David Dodson Supervisor, Property Tax

**Survey Quality Control:**
Nichole Spence Senior Specialist Property Appraiser

**Survey Team Leader:**
Tina Krause Senior Specialist Property Appraiser

**Survey Team:**
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Gary Coates Senior Specialist Property Appraiser
Jeff Arthur Associate Property Auditor-Appraiser
Michael Ash Associate Property Appraiser
Lee Coleman Associate Property Appraiser
Lauren Keach Associate Property Appraiser
Artemis Oestreich Assistant Property Appraiser
Dany Lunetta Associate Governmental Program Analyst
## Appendix D: Relevant Statutes and Regulations

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ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

The Tuolumne County Assessor's response begins on the next page. The BOE has no comments on the response.
January 21, 2020

Mr. David Yeung
Deputy Director
Property Tax Department
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0134

Re: Responses to Tuolumne County Assessment Practices Survey Report

Dear Mr. Yeung,

Pursuant to California Government Code section 15645(b), please find my written response to the findings and recommendations contained in the post-conference draft of the Tuolumne County Assessment Survey Report.

I am pleased to see the survey report found Tuolumne County Assessor’s Office assessment program to be effectively managed and “...most properties are assessed correctly, and the overall quality of the assessment roll meets state standards.” The ongoing mission of this office is to provide information, services and accurate property assessments through our commitment to implement the property tax laws of the State of California with the utmost quality and integrity. This survey affirms our commitment to providing the taxpayers of Tuolumne County with fair and equitable assessments through quality assessment practices.

I would like to thank the Board Survey Team and especially their leaders, Ms. Yasui and Mr. Dodson, for their professionalism and consideration during this survey process. Their constructive comments regarding our process and product are appreciated.

I would also like to express my gratitude to all the employees of the Tuolumne County Assessor-Recorder’s Office for their hard work, expertise, dedication and commitment to public service. The positive survey results are a direct result of their hard work.

Sincerely,

Kaenan Whitman
Assessor-Recorder of Tuolumne County
Recommendation 1: Improve the exemption program by: (1) not accepting annual claim forms filed prior to the lien date, (2) conducting field inspections for all new claimants and properly documenting and maintaining reports on verification of property use, (3) requiring low-income housing claimants to submit a use restriction document and ensuring such documents are available for review, and (4) properly notifying claimants when all or a portion of the welfare exemption is denied.

Response: Concur

Recommendation 2: Correctly implement the penalty process in accordance with section 482(a).

Response: Concur

Recommendation 3: Use the correct claim form for granting new construction exclusions for disabled accessibility pursuant to section 74.6

Response: Concur and has been corrected.

Recommendation 4: Review all property in decline-in-value status annually pursuant to section 51(e)

Response: Due to staffing constraints, we have taken some steps to apply Proposition 8 adjustments on a broad basis to thousands of properties. Due to the sheer volume of properties under Proposition 8, we are unable to review each property individually. We do our best to review each property under Proposition 8 once every three years as resources permit. On years where we do not review an individual property, we do perform annual market studies and apply adjustments to all properties under Proposition 8 annually. We believe that our approach is a reasonable response to a problem that had no other solution given our resource constraints.

Recommendation 5: Improve the CLCA property program by: (1) calculating the restricted value of the CLCA properties annually as required by section 423, and (2) using an appropriate income stream for capitalizing restricted tree and vine income.

Response: Concur
Recommendation 6: Improve the taxable possessory interest programs by: (1) using Board-prescribed form BOE-502-P, *Possessory Interest Annual Usage Report*, (2) assessing all taxable possessory interests located at the fairgrounds that do not meet the requirements of the low-value property exemption, (3) deducting allowed expenses from gross income when valuing taxable possessory interest by the income approach-direct method, (4) reappraising taxable possessory interest in compliance with section 61(b)(2), and (5) properly issuing and calculating supplemental assessments for taxable possessory interests.

Response: (1) We receive great cooperation resulting from our locally-developed letter, but we will include a copy of BOE-502 forms with our letters to comply with the regulation. (2) Concur and has been corrected. (3) Concur. (4) Concur. (5) Concur.

Recommendation 7: Measure decline in value on the entire appraisal unit.

Response: Concur.

Recommendation 8: Improve the audit program by: (1) performing the minimum required number of audits of professions, trades, and business pursuant to section 469; and (2) informing taxpayers of their right to appeal as required by Rule 305.3.

Response: (1) Concur and has been corrected. (2) Concur.

Recommendation 9: Improve the BPS program by: (1) valuing taxable business property based on available information, in accordance with section 501, when a property owner fails to file BPS; and (2) conducting an audit or field review when a property owner fails to file a BPS for three consecutive years.

Response: Concur and will implement as resources permit.

Recommendation 10: Discontinue classifying fixtures enrolled on service station assessments as personal property.

Response: Concur and has been corrected.

Recommendation 11: Improve the business equipment valuation process by: (1) supporting any divergence from the BOE recommended use of the price index and percent good factors published in the AH 581 with market evidence; and by (2) issuing
Tuolumne County Assessment Practices Survey
January 2020
Recommendation and Responses

supplemental assessments for structural leasehold improvements enrolled on the unsecured roll.

Response: (1) & (2) Concur and has been corrected.

Recommendation 12: Apply the mobile agricultural percent good factors prescribed on Table 6 of AH 581, when applicable.

Response: Concur and has been corrected.

Recommendation 13: Periodically review manufactured home assessment or decline in value.

Response: Concur and will implement as resources permit.