# YOLO COUNTY
# ASSESSMENT PRACTICES SURVEY

## JULY 2010


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July 12, 2010

No. 2010/033

TO COUNTY ASSESSORS:

YOLO COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Yolo County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September 2008 through February 2009. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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# INTRODUCTION

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

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

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

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

# SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

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

Our survey of the Yolo County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Yolo County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2008 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

# EXECUTIVE SUMMARY

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

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

In the area of administration, the assessor is effectively managing his budget and staffing, appraiser certification, assessment appeals, assessment forms, and internal controls and safeguards as they apply to staff-owned properties. In an effort to embrace new technology, the assessor is undergoing a conversion to a new computer system. Other components of the assessor's administrative programs, however, need improvement. Specifically, we make recommendations for improvement of the disaster relief, low-value property exemption, and welfare exemption programs.

In the area of real property assessment, the assessor has effective programs for new construction, declines in value, taxable government-owned property, mineral property, and leasehold improvements. The areas in need of improvement are the change in ownership, California Land Conservation Act (CLCA), and taxable possessory interests programs.

The assessor has effective audit, business property statement, business equipment valuation, leased equipment, and vessel programs. The areas in need of improvement are the manufactured homes and the historical aircraft programs.

Despite the problems noted above, we found most properties and property types are assessed correctly.

The Yolo County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2008-09 assessment roll indicated an average assessment ratio of 100.05 percent, and the sum of the absolute differences from the required assessment level was 1.14 percent. Accordingly, the BOE certifies that Yolo County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1**: Prorate the disaster relief assessments according to section 170(e).....8

**RECOMMENDATION 2:** Exempt all real property that qualifies for the low-value property tax exemption as required by the county ordinance.....9

**RECOMMENDATION 3:** Improve the welfare exemption program by: (1) reviewing the eligibility of multispecialty healthcare clinics for the welfare exemption, taking into consideration all the claimants' clinic sites for purposes of section 214.9, and (2) performing field inspections for new welfare exemption claims. .....11

**RECOMMENDATION 4:** Maintain a public transfer list conforming to the requirements of section 408.1(b). .....17

**RECOMMENDATION 5:** Value properties subject to improvement bonds in accordance with section 110(b). .....18

**RECOMMENDATION 6:** Improve the valuation of CLCA restricted land and improvements by: (1) using an appropriate income stream for capitalizing restricted tree and vine income, (2) using the appropriate risk components for different types of agricultural properties, and (3) enrolling supplemental assessments only for qualifying new construction on homesites on CLCA land. ..25

**RECOMMENDATION 7:** Improve the taxable possessory interest program by: (1) reviewing all private uses of fairgrounds to determine whether taxable possessory interests exist, (2) valuing month-to-month tenancies in accordance with section 61(b)(2), and (3) using reasonable lessor expenses when valuing taxable possessory interests by the income approach.....27

**RECOMMENDATION 8:** Enroll the lesser of the factored base year value (FBYV) or current market value for all manufactured homes. .....37

**RECOMMENDATION 9:** Grant the historical aircraft exemption only to qualifying aircraft. .....39

# OVERVIEW OF YOLO COUNTY

Yolo County is located directly west of Sacramento and bordered by Solano County to the south, Napa and Lake Counties to the west, Colusa County to the north, and Sacramento and Sutter counties to the east. Yolo County encompasses 1,021 square miles; its primary industry is agriculture. The eastern two-thirds of the county consist of nearly level plains and basins, while the western one-third is largely composed of rolling terraces and steep uplands used for dry-farmed grain and range. This agricultural county was one of the original 27 counties created when California became a state in 1850.

Woodland is the county seat. Governed by a five-member board of supervisors, Yolo County has a population of more than 199,000. Over 88 percent of the population lives in the county's four incorporated cities: Davis, West Sacramento, Woodland, and Winters.

The following table displays information pertinent to the 2008-09 assessment roll:

| | PROPERTY TYPE | NUMBER OF ASSESSMENTS | ENROLLED VALUE |
|---|---|---|---|
| **Secured Roll** | Land | | $7,024,514,920 |
| | Improvements | | $13,072,038,134 |
| | Total Gross Secured | | $20,096,553,054 |
| | Less Exemptions | | ($657,085,236) |
| | Total Secured | 58,906 | $19,439,467,818 |
| **Unsecured Roll** | Personal Property & Fixtures | 5,887 | $1,102,871,588 |
| | **Total Assessment Roll** | 64,793 | $20,542,339,406 |

The next table illustrates the growth in assessed values over recent years:[2]

| ROLL YEAR | TOTAL ROLL VALUE (in thousands) | INCREASE | STATEWIDE INCREASE |
|---|---|---|---|
| 2008-09 | $20,542,339 | 3.3% | 4.7% |
| 2007-08 | $19,884,377 | 8.6% | 9.6% |
| 2006-07 | $18,305,271 | 15.0% | 12.3% |
| 2005-06 | $15,923,426 | 13.3% | 11.1% |
| 2004-05 | $14,053,526 | 9.4% | 8.3% |

[2] State Board of Equalization Annual Report, Table 7

# ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, assessment appeals, disaster relief, property exemptions, assessment forms, and staff property procedures.

## *Budget and Staffing*

The following table presents the assessor's office gross budgets and staffing numbers for recent years as provided by the assessor:

| BUDGET YEAR | GROSS BUDGET | PERCENT CHANGE | PERMANENT STAFF |
|---|---|---|---|
| 2008-09 | $2,485,186 | 5.32% | 30 |
| 2007-08 | $2,359,683 | 3.67% | 30 |
| 2006-07 | $2,276,198 | 5.21% | 25 |
| 2005-06 | $2,163,488 | N/A | 26 |

Presently, the number of employees totals 30, and includes the assessor, 2 chief deputy assessors, 1 staff services analyst, 9 real property appraisers, 3 auditor-appraisers, and 14 technicians.

## *Appraiser Certification*

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 15 certified appraisers on staff, including the assessor; 10 hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

We found no problems with this program.

## *Assessment Appeals*

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

The following table illustrates the appeal workload for recent years:

| ASSESSMENT ROLL | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
|---|---|---|---|---|
| Appeals Filed | 770 | 376 | 230 | 226 |
| Appeals Carried Over | 66 | 21 | 6 | 0 |
| **Total Appeals Workload** | **836** | **397** | **236** | **226** |
| Resolution: | | | | |
| Withdrawn | 177 | 103 | 107 | 124 |
| Stipulation | 107 | 71 | 30 | 54 |
| Appeals Reduced | 6 | 13 | 29 | 4 |
| Appeals Upheld | 52 | 144 | 49 | 38 |
| Appeals Increased | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 |
| **Total Resolved** | **342** | **331** | **215** | **220** |
| To Be Carried Over | 494 | 66 | 21 | 6 |

Overall, the assessor's assessment appeal program is well administered, and the staff handling the appeals is experienced and well prepared. We found no problems with the assessor's assessment appeals program.

### *Disaster Relief*

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding $10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

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

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by

$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Yolo County Board of Supervisors first adopted a disaster relief ordinance in 1987. The ordinance was last updated in 2003. The terms of the ordinance are consistent with section 170. The assessor uses this authority to initiate disaster relief for taxpayers.

During each of the past three years, the assessor has granted disaster relief for 20 parcels. The assessor discovers instances of properties damaged by disaster or calamity by reviewing newspaper articles and building permits, field canvassing, and taxpayer-initiated contacts. We reviewed several records of properties suffering a calamity. In applicable cases, the assessor noted the disaster information on the records and adjusted the assessed values of the properties for the disaster.

However, we noted one problem relating to the assessments of property for disaster relief.

**RECOMMENDATION 1**: Prorate the disaster relief assessments according to section 170(e).

We found the assessor improperly prorates disaster relief assessments. The assessor erroneously prorates disaster relief using the date of the misfortune or calamity as the beginning point of the reduction. Section 170(e) specifies that the disaster relief period should begin the first day of the month in which the damage occurred and continue through the end of the month in which repairs are completed. The assessor's current procedure provides less disaster relief than authorized by statute and results in overassessments of the damaged property.

### *Low-Value Property Exemption*

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

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt from taxation property with a total base year value or full cash value of more than $5,000 (effective January 1, 2010, the maximum amount that can be exempted under a "low value" local ordinance was increased to $10,000), or more than $50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property exemption ordinance before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

In 2002, the Yolo County Board of Supervisors passed Ordinance Number 1293, incorporating the provisions of section 155.20. This ordinance established a low-value property tax exemption threshold of $5,000 or less, for both real and personal property.

Low-value real property currently qualifying for the exemption is tracked on the assessor's computer system. When the factored base year value (FBYV) of a previously exempt property exceeds the $5,000 threshold, the exemption is discontinued.

Our current review indicates the assessor is not properly applying the low-value property tax exemption. Not all property qualifying for the low-value property tax exemption is being exempted as required by the county ordinance.

**RECOMMENDATION 2:** Exempt all real property that qualifies for the low-value property tax exemption as required by the county ordinance.

We found the assessor did not exempt from taxation some parcels of real property with a value of less than $5,000. These low-valued assessments were enrolled and forwarded to the auditor and tax collector and subsequently billed. The assessor's practice is contrary to the county's low-value property tax exemption ordinance, which provides that all property with a value of $5,000 or less shall be exempt from property taxation.

## *Exemptions*

### Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade.)

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

The assessor processed 12 church exemption claims and 115 religious exemption claims for the 2007-08 assessment roll.

The following table illustrates the number of church and religious exemptions processed, and the amount exempted, in Yolo County for recent years:

| ROLL YEAR | CHURCH EXEMPTION | EXEMPTED VALUE | RELIGIOUS EXEMPTION | EXEMPTED VALUE |
|---|---|---|---|---|
| 2007-08 | 12 | $1,776,291 | 115 | $82,975,475 |
| 2006-07 | 12 | $1,287,559 | 112 | $79,062,698 |
| 2005-06 | 11 | $1,602,456 | 119 | $78,030,258 |
| 2004-05 | 11 | $854,952 | 121 | $70,505,880 |
| 2003-04 | 15 | $3,340,248 | 119 | $61,979,588 |

The assessor maintains an effective program for administering the church and religious exemptions. We have no recommendations with respect to these programs.

## Welfare Exemption

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

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing Organizational Clearance Certificates (OCCs) to qualified organizations or Supplemental Clearance Certificates (SCCs) to limited partnerships, which has a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC or valid SCC issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table shows the number of welfare exemptions processed and their corresponding exemption value for recent years:

| ROLL YEAR | WELFARE EXEMPTION | EXEMPTED VALUE |
|---|---|---|
| 2007-08 | 241 | $612,127,780 |
| 2006-07 | 225 | $528,232,348 |
| 2005-06 | 219 | $477,695,194 |
| 2004-05 | 214 | $434,548,737 |
| 2003-04 | 218 | $408,096,389 |

In Yolo County, we reviewed a variety of welfare exemption claims, including first-time filings and annual filings. During our review of exemption claims, we inspected, among others, claims for low-income housing property, including properties owned by a limited partnership holding an SCC.

We found two areas where improvement to the welfare exemption program is needed.

**RECOMMENDATION 3:** Improve the welfare exemption program by: (1) reviewing the eligibility of multispecialty healthcare clinics for the welfare exemption, taking into consideration all the claimants' clinic sites for purposes of section 214.9, and (2) performing field inspections for new welfare exemption claims.

**Review the eligibility of multispecialty healthcare clinics for the welfare exemption, taking into consideration all the claimant's clinic sites for purposes of section 214.9.**

Our review indicates the assessor does not grant the welfare exemption for multispecialty clinics that qualify for the exemption based on the specific criteria of section 214.9 unless the clinic is located next to a hospital.

Section 214 provides for the welfare exemption, allowing property used for religious, hospital, scientific, or charitable purposes owned and operated by community chests, funds, foundations, limited liability companies, or corporations organized and operated for these purposes to be exempt from taxation. Section 214.9 expands the hospital purposes aspect of the welfare exemption to include outpatient clinics of two types: a clinic providing psychiatric services for emotionally disturbed children and nonprofit multispecialty clinics. For the purpose of section 214.9, the BOE has found the requirements set forth in section 1206(1) of the California Health and Safety Code apply to all of the claimant's clinic sites, when operated as a unified single integrated clinic in the aggregate. Although section 214.9 does not provide a definition of a nonprofit multispecialty clinic, it states that such a clinic is described in section 1206(1) of the Health and Safety Code. Section 1206(1) specifies various requirements which must be met to qualify as a nonprofit multispecialty clinic; however, location next to a hospital is not one of

these requirements. Both sections 214 and 214.9 must be considered when determining if a claimant's clinic sites are operated as a unified single integrated clinic in the aggregate.

The assessor's current practice of determining eligibility for the welfare exemption utilizing only section 214.9, and excluding those organizations whose clinics are not located next to a hospital, provides less relief than provided by statute and results in assessments of properties otherwise eligible for the exemption.

**Perform field inspections for new welfare exemption claims.**

The assessor has not conducted field inspections on a regular basis for first-time claims. The assessor should research first-time claims for the welfare exemption to ascertain whether the property on which the exemption is claimed meets the requirements of section 214. The assessor should 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 to the accomplishment of the exempt purpose. While the statute does not require a field inspection, it is essential to ensure that the property usage meets exemption requirements, particularly for new claims. A field inspection should be conducted to verify the information on the claim form and to determine the property is used exclusively for religious, hospital, scientific, or charitable purposes and activities. Any good self-reporting program would thereafter include periodic verification procedures.

## Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by Article XIII, section 3(k), of the California Constitution. This constitutional provision, implemented by section 218, exempts $7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by Article XIII, section 4(a), of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the full value of a dwelling when occupied by an owner, who is a qualified disabled veteran (or unmarried surviving spouse), and the dwelling is occupied as a principal place of residence. The amount of exemption (either $100,000 or $150,000) is dependent on the veteran's income.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. The $100,000 basis disabled veterans' exemption requires a one-time filing; annual filing is required if the $150,000 low income exemption is claimed to ensure the claimant continues to meet the household income limit restriction.

The following table illustrates homeowners' and disabled veterans' exemption data for recent assessment rolls:

| ROLL YEAR | HOMEOWNERS' EXEMPTION | EXEMPTED VALUE | DISABLED VETERANS' EXEMPTION | EXEMPTED VALUE |
|---|---|---|---|---|
| 2007-08 | 30,781 | $215,460,271 | 111 | $10,953,524 |
| 2006-07 | 30,572 | $214,000,496 | 94 | $8,600,239 |
| 2005-06 | 30,347 | $212,424,482 | 77 | $6,850,475 |
| 2004-05 | 29,764 | $208,340,455 | 68 | $5,735,621 |
| 2003-04 | 29,320 | $205,230,208 | 64 | $5,395,472 |

Our review of the homeowners' and disabled veterans' exemption records indicates the assessor properly processes these exemptions. Accordingly, we have no recommendations in this area.

### *Assessment Forms*

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.[3] Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits the form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

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

We collected and reviewed various assessment forms used by the assessor and found no problems. We have no recommendations for this program.

### *Staff Property Procedures*

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

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

[3] Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

When an appraisal is required on a staff-owned property or business, the assignment is given to an appraiser or auditor-appraiser other then the owner of that property or business. When the appraisal is completed, it is forwarded to the chief appraiser or assessor for review and approval.

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

# ASSESSMENT OF REAL PROPERTY

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

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

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

### *Change in Ownership*

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

#### Document Processing

The following table shows the total number of recorded documents received by the assessor and the total number of resulting changes in ownership in Yolo County for recent years:

| ROLL YEAR | RECORDED DOCUMENTS | CHANGES IN OWNERSHIP |
|---|---|---|
| 2008-09 | 44,009 | 3,048 |
| 2007-08 | 49,391 | 4,575 |
| 2006-07 | 59,046 | 3,968 |
| 2005-06 | 62,258 | 5,292 |

The assessor's primary source of discovering properties having changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires a BOE-502-A, *Preliminary* Change *of Ownership Report* (PCOR) to accompany documents submitted for recordation for the transfer of ownership of real property. All recorded documents are sent electronically from the recorder's office to the assessor's office. We reviewed several recorded documents and found the assessor properly and thoroughly reviews the documents for reappraisable events.

## Legal Entity Ownership Program (LEOP)

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

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

We reviewed the assessments of some properties owned by legal entities and found the assessor properly identifies the transfers and reappraises the properties owned by the legal entities when appropriate and in a timely manner.

## Section 408.1 Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The list is available in both hard copy form and on computer terminals in the lobby of the assessor's office. Pursuant to section 408.1(c), the transfer list contains the names of the transferee and transferor, the assessor's parcel number, the date of recording and recording reference number, the address of the property sold, and the transfer tax if available. The confidentiality provisions of section 481, which precludes disclosure of information on a PCOR or Change in Ownership Statement, are observed by the assessor.

Although the transfer list is divided into geographical areas as required by section 408.1(b), the assessor fails to update it quarterly.

**RECOMMENDATION 4:** Maintain a public transfer list conforming to the requirements of section 408.1(b).

Our review of the assessor's public transfer list indicated the list is not revised timely; the list we reviewed had not been updated for the two most recent calendar quarters.

Section 408.1(b) requires the list of transfers to be revised on the 30th day of each calendar quarter to include all transactions recorded as of the preceding quarter. This statute was enacted to assist taxpayers in obtaining meaningful sales data, to review assessments and to prepare for assessment appeals. If the transfer list is outdated, taxpayers may not be able to obtain sufficient market information to effectively verify the accuracy of their assessments.

## Change in Ownership Exclusions

Applications and information regarding the exclusions are available to the public at the assessor's office and at the assessor's Website. The following table represents section 63.1 and 69.5 change in ownership exclusion claims processed in Yolo County in recent years:

| ROLL YEAR | SECTION 63.1 CLAIMS PROCESSED | SECTION 69.5 CLAIMS PROCESSED |
|---|---|---|
| 2008-09 | 279 | 13 |
| 2007-08 | 264 | 19 |
| 2006-07 | 825 | 22 |
| 2005-06 | 512 | 18 |

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first one million dollars of other real property between parents and their children. Section 63.1 also excludes certain qualifying purchases or transfers from grandparents to their grandchildren.

An assessment technician reviews all section 63.1 applications and determines if the exclusion will be granted or denied. The assessor submits quarterly reports to the BOE, listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence.

An assessment technician also reviews reports from the BOE regarding property transferred, other than principal residences, in excess of the $1,000,000 limit. The assessor does not have an internal system to track these properties; instead, the assessor relies on the BOE reports. If it is determined the owner has reached or exceeded the $1,000,000 limit, an appraiser will contact the property owner to ask how he or she would like to apply the excess amount among the properties. If the property owner does not reply timely, the assessor applies the excess amount to the properties as he sees fit.

Section 69.5 allows qualified homeowners who are 55 years of age or older or who are severely and permanently disabled to transfer the base year value of their principal residence to a

replacement dwelling purchased or newly constructed within the same county. Claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Section 69.5 allows counties to adopt ordinances to expand this relief to include intercounty transfers.

Yolo County does not accept base year value transfers from other counties (intercounty). Section 69.5 claims involving base year value transfers within the county (intracounty) are reviewed by a chief deputy assessor for acceptance or denial and logged accordingly on a spreadsheet. The assessor submits required quarterly reports to the BOE, listing approved section 69.5 exclusions.

We found the assessor's staff effectively processes section 63.1 and section 69.5 claims.

## Improvement Bonds

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

Yolo County has several parcels, both residential and commercial properties, encumbered by 1915 improvement bonds. Bond amounts are typically added to the purchase price paid for commercial properties and typically not added to the purchase price paid for residential properties. The county has not developed a practice of establishing by a preponderance of the evidence that all or a portion of the value of an improvement bond is not reflected in the consideration paid for the properties.

**RECOMMENDATION 5:** Value properties subject to improvement bonds in accordance with section 110(b).

The assessor's practice is to add improvement bond amounts to the purchase price paid when establishing a base year value. Our review of several commercial and residential properties confirmed bond balances were added to the purchase price paid for all commercial properties and added to the purchase price paid for only a few residential properties depending on which appraiser valued the property.

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

The assessor's practice of adding the bond amount to the purchase price paid for these properties without first establishing by a preponderance of the evidence, all or a portion of the value of an improvement bond is not reflected in the consideration is contrary to statute. The assessor's practice could result in overassessments.

### Resident-Owned Mobilehome Parks

Sections 62.1 and 62.2 exclude certain transfers of mobilehome parks from change in ownership if the park is ultimately purchased by at least 51 percent of the tenants renting the individual spaces of the park. Qualifying conversion to resident ownership under these sections permits the residents of the park to retain the base year value of the previous park owner, rather than triggering a reassessment of the park to current market value.

Yolo County has one resident-owned mobilehome park; it became a resident-owned park in 1995. Pursuant to section 62.1(b)(4)(A) and (B), the assessor has corrected the base year values of the pro rata portions of the park that transferred between January 1, 1989 and January 1, 2002. Each year, values due to transfers are calculated using *Marshall Valuation Service* cost factors to arrive at a market value for newly sold manufactured homes.

We found no problems in this area.

### Silent Second Mortgages

The cities of Woodland and West Sacramento have affordable housing units (inclusionary units) with silent second mortgages. The assessor values properties with silent second mortgages pursuant to direction given by the BOE. The BOE advised that the value of the inclusionary units for property tax purposes is the purchase price, which may be estimated by adding the sum of the down payment and the face amount of the first mortgage to the assessor's estimate of the present economic value of the silent second. After determining the purchase price, the assessor is required to take into consideration the effect of the enforceable government restrictions on value. Silent second mortgages in Woodland are discounted for 45 years, and silent second mortgages in West Sacramento are discounted for ten years. The assessor has created a spreadsheet to calculate the value of such properties by using the amount of the first mortgage (affordable price) and the present economic value of the discounted silent second.

We found no problems in this area.

## *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. Section 70 further establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

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

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

## Discovery

In Yolo County, building permits are the assessor's primary means of discovering assessable new construction. Currently, the assessor receives building permits from six permit-issuing agencies. The agencies are the cities of Davis, Woodland, Winters, West Sacramento, and the Yolo County Departments of Planning and Public Works and Health. New construction is also discovered by appraisers working their assigned areas, review of newspaper articles, property statements, and reports from interested citizens.

The building permits are physically picked up by appraisers at the issuing agency's location at least once a week. Most permits are accompanied by building plans. Notices of completion are routinely sent to the assessor by the issuing agencies.

The permits are sorted by appraiser assignment areas or property type. The appraisers are responsible for culling permits that represent non-assessable activity. The appraisers are also responsible for logging the permit data onto the hard copy appraisal records.

Upon completion of new construction, the value added is estimated, enrolled, and a supplemental assessment is generated. The assessor enrolls all assessable new construction, including low-value items, such as patio covers and decks.

The following table shows the number of building permits issued and the number of resulting assessments for recent years:

| ROLL YEAR | PERMITS ISSUED | ASSESSABLE PERMTS |
|---|---|---|
| 2007-08 | 8,937 | 2,260 |
| 2006-07 | 9,475 | 1,804 |
| 2005-06 | 8,937 | 2,537 |

## Valuation

The assessor utilizes a self-reporting questionnaire as an investigative and valuation tool. The questionnaires are sent to taxpayers at the discretion of the appraisers and are normally used for minor additions, such as sheds, patios, and swimming pools. A specially designed questionnaire is sent to taxpayers to gather data regarding new tree and vine plantings. In addition to sending taxpayers a questionnaire, appraisers may contact the owners or contractors for additional data. These contacts help confirm the accuracy of the self-reporting program and provide additional data when needed. If a new construction questionnaire is not returned, a field inspection is conducted. In addition, field inspections are conducted on all major construction projects, including new single-family residences. When valuing new construction, the appraisers consider all applicable approaches to value; however, the primary approach used is the cost approach. The appraisers use Assessors' Handbook Section 531, *Residential Building Costs,* and Assessors'

Handbook Section 534, *Rural Building Costs*, as well as *Marshall Valuation Service* to estimate costs. The source of the costs and unit cost factors are documented on the assessor's property records.

Fair market value is estimated, as of the lien date, for construction in progress. Base year values, as of the date of completion, are maintained on the property record for each item of new construction.

The assessor's program for discovering, valuing, and assessing newly constructed property is well managed. We found no problems with this program.

### *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 adjusted for inflation up to 2 percent.

Due to unfavorable economic conditions, property values in many areas of California have either declined or have become stagnated. As a result, assessors have reduced taxable values below a property's FBYV. Yolo County is no exception.

The following table shows the number of properties given decline-in-value status by the assessor for recent years:

| ROLL YEAR | DECLINE-IN-VALUE ASSESSMENTS |
|---|---|
| 2007-08 | 9,012 |
| 2006-07 | 2,776 |
| 2005-06 | 517 |

As the table indicates, the number of decline-in-value assessments has increased, thereby increasing the workload of the assessor's office.

The assessor's typical manner for discovering properties experiencing a decline in value has been through taxpayer requests, normally by in-person requests, telephone or email requests. However, for the discovery of properties likely affected by the more recent conditions in the real estate market, the assessor designated for review a list of properties selling between 2004 and 2008 totaling about 12,000 properties. About 9,000 properties on the list were placed on decline-in-value status after review. Each appraiser developed a comparable property list for his or her market area, and the subject properties were valued using the data on the list. The assessor does not have a formal computerized program for automatically valuing properties where the market value is lower than the FBYV. Notwithstanding, during our examination of assessment records for these properties, we found them to be complete and the values reasonable.

Yolo County has relatively few newly built homogeneous neighborhoods. This makes it difficult for the assessor to determine if all homes in a specific area are affected by a decline in value. Thus, the assessor usually reviews each decline in value request on a case-by-case basis.

The assessor tracks all properties experiencing declines in value electronically. These properties are coded to ensure the annual inflation factor is not applied. The assessor reviews each decline in value property annually. Upon review, if the assessor determines that the market value of the property is below its FBYV, the market value is enrolled.

When a property is in a decline-in-value status or is returned to its FBYV, the assessor notifies the property owner, informing the taxpayer of the property's FBYV, its current market value, and providing information to the taxpayer about assessment appeals' procedures. The assessor's notice also provides all the information required by section 619.

We found the assessor properly reviews and adjusts parcels receiving decline in value assessments pursuant to section 51. We have no recommendations for the assessor's decline in value program.

### *California Land Conservation Act Property*

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

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

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

For the 2007-08 roll year, Yolo County had approximately 415,600 acres encumbered by CLCA contracts, including 12,752 acres in nonrenewal status and 159 acres restricted under Farmland Security Zone (FSZ) contracts. FSZ contracts are more restrictive than CLCA contracts and receive greater tax reductions. The total assessed value for CLCA land and living improvements for 2007-08 was approximately $760.7 million.

Most of the rural property in Yolo County consists of rangeland and irrigated cropland. The bulk of the agricultural revenue generated in Yolo County is derived from fruit and nut crops, field crops, and vegetable crops.

## Valuation of CLCA Property

One real property appraiser is responsible for valuing all CLCA property. A computer program annually calculates restricted values using the correct capitalization rate. Rents are updated based on an analysis of rental and expense questionnaires mailed to taxpayers annually.

Compatible uses are valued and added to the restricted value. Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land. Nonrenewal values are calculated according to section 428. No contracts have been cancelled since our prior survey.

Annually, the appraiser compares the restricted value to the factored base year value (FBYV) and the current market value. The lower of these values is enrolled in accordance with section 423(d).

## Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that, "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 FBYV or the fair market value of a comparable, unrestricted, homesite. We found that this is the assessor's policy and practice for homesites.

The assessor values homesites according to section 428, which precludes their valuation as restricted property. The assessor treats homesites and homesite improvements as separate appraisal units for reviewing declines in value and enrolls the lesser of the FBYV or the current market value. The assessor values most homesites correctly; however, we found one area regarding homesite valuation that needs improvement, which is the subject of a recommendation at the end of this section of the report.

## 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 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.

The assessor values grazing land based on the amount of cash rent paid per animal unit month (AUM), converted to rent per acre. Cash rents are used to value cropland, and share rents are used to value orchards and vineyards.

The assessor recognizes appropriate expenses, including a charge for management. For irrigated grazing land and cropland, the assessor properly includes agricultural wells as a component of the land value for property tax purposes, and a return on the investment is included in the land capitalization rate. Irrigation district charges are also deducted. The assessor uses reasonable charges for orchards and vineyards and allows for a return on and a return of nonliving improvements, such as trellises and drip irrigation systems. However, we did note an area needing improvement, which is the subject of a recommendation at the end of this section of the report.

## 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.

The assessor utilizes capitalization rates that include a component for risk when determining the restricted values of CLCA properties. For 2008-09, the assessor used a risk component of 2.25 percent for valuing all land in the county. The assessor used a risk component of 2.5 percent for valuing all tree and vine income. The assessor accounts for a portion of the risk component by using actual cash rents.

We found one incorrect practice related to the risk and interest components of the capitalization rate used by the assessor. This issue is combined with the other areas of concern regarding the CLCA assessment program in the following recommendation.

**RECOMMENDATION 6:** Improve the valuation of CLCA restricted land and improvements by: (1) using an appropriate income stream for capitalizing restricted tree and vine income, (2) using the appropriate risk components for different types of agricultural properties, and (3) enrolling supplemental assessments only for qualifying new construction on homesites on CLCA land.

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

We found the assessor uses a straight-line declining income premise when appraising vineyards and orchards in all stages of production.

AH 521, page I-95 describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements is similar: (1) a period of development, when production (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.

Not recognizing the shape of the income stream may result in the undervaluation of trees and vines in early to mid-life and the overvaluation of trees and vines in late life.

**Use the appropriate risk components for different types of agricultural properties.**

We found the assessor uses the same risk component in the land valuation of all properties under CLCA contract, including dry graze land and irrigated land. No adjustment to the risk component is made regardless of location, property characteristics, or crop. We found no study or market data to support the risk rate selections.

Typically, farmers recognize varying degrees of risk among different types of agricultural properties, and a portion of this risk is usually included in cash rents and/or share rents. Factors, such as price stability, production costs, the availability of water, and the probability of damage due to wind and flooding, might increase or decrease the risk of a particular property.

AH 521, page II-28 recommends a basic risk component of 1 percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. AH 521, pages II-28 and II-29 also notes the size of the risk component will vary according to what risks have already been considered in the development of the income to be capitalized. In addition, because location and characteristics of land vary throughout the county, it is reasonable to expect variations in the risk rate used by the assessor.

The risk rate used should be reflective of market trends.

**Enroll supplemental assessments only for qualifying new construction on homesites on CLCA land.**

Upon construction of a new residence on CLCA land, the assessor enrolls supplemental assessments for both the new residence and the homesite.

When a new residence is built on land restricted by a CLCA contract, a portion of the land's use changes from agricultural to residential, and the value of the site likely increases significantly due to this change. Rule 463 defines "newly constructed" to mean any substantial physical alteration of land constituting a major rehabilitation of the land or results in a change in the way the property is used.

The rule also provides that in any instance in which an alteration is substantial enough to require reappraisal, only the value of the alteration shall be added to the base year value of the preexisting land. Therefore, while the value added by the physical alteration, such as grading, paving, or domestic wells, is assessable as new construction, the remaining land will not be reassessed as new construction.

The assessor's practice of enrolling supplemental assessments for the value attributable to the change in use when a new residence is built upon the land has resulted in improper assessment of such land.

### *Taxable Government-Owned Property*

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

The assessor has made substantial improvements to this program since our last review and we have no recommendations in this area.

### *Taxable Possessory Interests*

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

The assessor is responsible for identifying the existence of taxable possessory interests and valuing them upon their creation, renewal, or renegotiation of the lease, and potentially upon the construction of improvements on the property.

The Yolo County Assessor's program for discovering taxable possessory interests includes annual polling of all government entities in the county and requesting information on agreements with private parties. The assessor contacts approximately 29 public agencies annually by letter to request current information on new or changed tenancies and rents. For 2007-08 there were 224 taxable possessory interests enrolled in Yolo County. The assessed value of these taxable possessory interests (land and improvements) totaled approximately $122.2 million.

The valuation and monitoring of taxable possessory interests is the primary responsibility of one appraiser; the chief appraiser reviews the valuation findings on all taxable possessory interests.

We found three areas where improvements to this assessment program are necessary.

**RECOMMENDATION 7:** Improve the taxable possessory interest program by: (1) reviewing all private uses of fairgrounds to determine whether taxable possessory interests exist, (2) valuing month-to-month tenancies in accordance with section 61(b)(2), and (3) using reasonable lessor expenses when valuing taxable possessory interests by the income approach.

**Review all private uses of fairgrounds to determine whether taxable possessory interests exist.**

We found that, for several years, the assessor has not enrolled a number of taxable possessory interest assessments for concessionaires using the Yolo County Fairgrounds in Woodland. We also found several of these taxable possessory interests for concessions at the fairgrounds may exceed the county's $5,000 low-value property tax exemption threshold and therefore should have been enrolled.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are, the right of possession be independent, exclusive, durable, and provides a private benefit to the holder of the taxable possessory interest. There are a number of private uses at the fairgrounds appearing to have these characteristics.

Yolo County does not currently have a section 155.20 low-value property tax exemption for taxable possessory interests at the fairgrounds with a value of $50,000 or less. Thus, any taxable possessory interests discovered having values in excess of the county's $5,000 low-value property tax exemption limit should be enrolled.

The assessor's practice of not monitoring potential taxable possessory interests at the Yolo County Fairgrounds results in the failure to assess taxable property.

**Value month-to-month tenancies in accordance with section 61(b)(2).**

There are two publicly owned airports in Yolo County: the Yolo County Airport and the University of California at Davis Airport (UCD Airport). Currently, the assessor is annually

reappraising interests with anticipated terms of possession in private hangars, open shade spaces, and tie downs.

According to Rule 21(d)(2), if there is no stated term of possession, the reasonably anticipated term of possession shall be demonstrated by the intent of the public owner and the private possessor, and by the intent of similarly situated public owners. In addition, section 61(b)(2) provides the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used by the assessor to value the interest does not result in a change in ownership until the end of the reasonably anticipated term of possession. Since the reasonably anticipated term of possession has been determined, in this case, to be five years, the interest should not be reappraised as a change in ownership until the expiration of the five-year term originally used to value the interest.

The assessor's current practice results in an incorrect assessment of taxable possessory interests with month-to-month tenancies.

**Use reasonable lessor expenses when valuing taxable possessory interests by the income approach.**

For private hangars, open shade spaces, and tie downs, the assessor is using a 10 percent expense allowance at the Yolo County Airport and a 30 percent expense allowance at the UCD Airport. Upon physical inspection of both facilities and a review of the master leases for each airport, we found nothing to support such a dramatic range in expense allowances. Rule 8(c) provides that it is appropriate to reduce a lessor's rental income for typical management and other operating expenses incurred by the lessor. This provision applies to properties owned in fee and to leasehold interests, such as taxable possessory interests. The use of unsubstantiated expense allowances misstates the net income received from hangars, open shade spaces, and tie downs, and results in improper assessments.

### *Leasehold Improvements*

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on form BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property staff of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape and double assessments. The assessor must determine whether costs

are for repair and maintenance, and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

When new construction by a tenant adds value to a property, the assessor must review and reflect those changes in a property's assessed value. The assessment of this new construction involves identifying tenant improvement construction permits; sending new construction, sale and lease questionnaires to tenants; examining rent rolls for tenant changes and rent changes; and coordinating between the business property and real property staff.

### Discovery

The most common methods of discovery for leasehold improvements are through review of the BPS and building permits. Schedule B of the BPS is a useful source for discovering tenant improvements. It is the practice of the business property staff to refer expenditures reported on Schedule B to the real property division for review. It is also the responsibility of the real property division to notify the business property staff if the appraiser believes there is business property value (personal property or fixtures) included in the reported cost or sales price. Upon completion of the referral process, the original BPS is returned to, and processed by, the business property staff.

We compared business property statements with the corresponding real property appraisal records, and found coordination between the two departments was consistent and in compliance with current statutes.

Our review of leasehold improvements also included review of foreign improvements, which, we found, also were being appropriately processed and assessed. Overall, we found no problems with the discovery and coordination of the assessment of leasehold improvements.

### Classification

A determination should be made as to whether or not leasehold improvements are structures, fixtures, or non-assessable items, such as maintenance, repairs, or remodeling. Proper classification of leasehold improvements is important because fixtures are treated differently than structures. Fixtures are a separate appraisal unit when measuring declines in value. Moreover, in certain cases, fixtures are not subject to supplemental assessment.

We reviewed the assessor's procedures and practices for the classification of leasehold improvements and found no problems.

## *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.

Yolo County produces natural gas (petroleum), sand, and gravel. To reduce the cost of performing mineral property assessments, the assessor no longer uses a mineral appraisal consultant. Rather, these duties have been assigned to a senior property appraiser. As part of this transition, the assessor requested assistance from the BOE. Since the assistance from the BOE was ongoing at the time fieldwork was being conducted for the current survey, no formal review of the mineral property program was conducted.

# ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

### *Audit*

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

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

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

Based on recent audit history, the assessor is in compliance with the number of audits mandated by section 469.

### Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time period, the assessor may request from the taxpayer, pursuant to section 532.1, a waiver of the statute of limitations to extend the time for making an assessment.

The assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. We sampled a number of waivers for scheduled audits not completed during the current year and found them to be signed by the property owners and adequately prepared.

### Audit Quality

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

We sampled a number of audit records. We found audits were accurate, well-documented, and supported by a comprehensive audit narrative defining the areas of investigation. In addition, we found the assessor's audit procedures, audit review, and controls to be well structured and maintained. These factors contribute to the high level of consistency observed among the records sampled.

## *Business Property Statement*

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

For the 2007-08 roll, the assessor processed 3,631 business property statements with an assessed value of $832,417,562. We reviewed the assessor's property statement processing procedures and files to ensure that they conform to statutory and regulatory guidelines.

## Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. Taxpayer self-reporting and periodic field canvassing are significant means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing city and county business licenses, fictitious business name filings, real property appraiser referrals, business directory services, and BOE notifications. We found the assessor employs effective methods for discovering business personal property.

## General Statement Processing

Business property statement processing begins with the assessment office specialists, who review the submitted statements for completeness. Any changes in the owner's name, business name, situs, or mailing address are noted, and all data is updated on the assessment system. Property statements are forwarded to an auditor-appraiser or property appraiser when a review is requested by the office specialist. At that time, a certified appraiser completes the valuation worksheets or reviews any value calculations prepared by the assessment office specialists before a value determination is enrolled.

We reviewed the business property statement program and found it to be adequate, including processing procedures; use of Board-prescribed forms; processing by non-certified staff; completeness of the property statements; authorized signatures; application of penalties; real property division coordination; and record storage and retention.

## Filing Procedures

Under section 441.5, in lieu of completing the property statement, information required of the taxpayer may be furnished to the assessor as attachments to the property statement provided that the attachments are in a format as specified by the assessor and a copy of the actual property statement is signed by the taxpayer and carries appropriate reference to the data attached. The assessor allows taxpayers to submit attachments in lieu of completing business property statements as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits a signed original statement.

Our review also included verifying the assessor's procedures for processing late and non-filed statements. We found the assessor properly applies the late-filing penalty as required by section 463. Additionally, habitual non-filers are contacted in an attempt to collect accurate assessment information. If no other information is available, the assessor will conduct a field review.

## Direct Billing

Many assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified low-value business accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues the value for several years. Examples of businesses suitable for direct billing include apartments, barber

shops, beauty parlors, coin-operated launderettes, small cafes and restaurants, and professional firms with small equipment holdings.

The assessor maintains a direct-billing program with direct-billed accounts on both the secured and unsecured rolls, totaling 565 assessments with an assessed value of $6,109,588. A property statement is sent to participating businesses every four years to update assessment information. In addition, a letter is sent annually to property owners to establish whether significant changes have occurred affecting taxability or situs of the owners' business property.

The direct-billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements processed annually by the assessor's staff, thereby increasing time available for the auditor-appraisers to perform other required duties.

We have no recommendations for the direct billing program.

### *Business Equipment Valuation*

#### Commercial, Industrial, and Agricultural Equipment

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

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

We reviewed the written procedures and standardized valuation policies related to business property valuation. The assessor uses a codification system to classify business property accounts in the assessment system.

#### Minimum Percent Good Factors

Since the 2003 lien date, section 401.16(b) requires the assessor to use minimum percent good factors that are determined in a manner that is supportable. The California Assessors' Association (CAA) recommends the use of minimum percent good factors to recognize property that has a minimum fair market value. The minimum factors recommended for most commercial and industrial equipment are based on the study by *Marshall Valuation Service*s.

The assessor has adopted the CAA recommended minimum percent good factors in the generation of its valuation tables. The percent good factors recommended by the CAA comply with section 401.16, since they are founded upon cost studies based on market evidence.

### Application of BOE-Recommended Index Factors

In addition to adopting the percent good factors recommended by the CAA, the assessor has also adopted CAA's price indices. The price indices parallel the indices published in AH 581 with the exception of specific types of equipment, such as pagers, facsimile equipment, high tech medical equipment, and photocopiers, that the CAA recommends should not be trended. We found the assessor's application of BOE-recommended valuation tables is both consistently and accurately applied. We have no recommendations in this area.

### Mobile Construction and Agricultural Equipment Valuation Factors

The assessor currently utilizes separate and appropriate factor tables for new and used mobile agricultural and construction equipment pursuant to the instructions on Table 5 and Table 6 in AH 581. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile agricultural and mobile construction equipment when the taxpayer does not indicate on the property statement whether the equipment is first acquired new or used. Where the condition is known, the assessor should use either the "new" or "used" table. We reviewed the assessor's factor tables related to this issue and found the BOE-recommended cost index and depreciation tables to be correctly applied.

### Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance; the item will remain annexed indefinitely. In order to ensure consistent classification of reported machinery and equipment as fixtures and personal property, the assessor has prepared a schedule to provide guidance to statement processors. We found no problems in the processing of the statements or in the classification of machinery and equipment.

### Computer Valuation

Pursuant to section 401.5, the BOE issues each year valuation factors for computer equipment (see AH 581,"Table 7: Non-Production Computer Valuation Factors").

We found the assessor has adopted the CAA factors for computer equipment. The factors agree with those found in AH 581.

## *Leased Equipment*

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer purchasing the equipment), and double or escape assessments resulting from combined lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

We reviewed the annual property statements of several lessors and lessees. We focused our analysis on the valuation methods applied by the assessor, completeness of reporting, tracking of equipment, and correct assessee designation, expired lease disposition, and processing procedures. The assessor maintains strong procedures for the enrollment and tracking of leased equipment. We found the assessor properly distinguishes between leases and conditional sales contracts, and follows correct appraisal and assessment procedures.

### *Manufactured Homes*

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

The following table illustrates the number of manufactured homes in Yolo County and the total enrolled values for recent years:

| ROLL YEAR | MANUFACTURED HOMES | ASSESSED VALUE |
|---|---|---|
| 2008-09 | 1,237 | $48,247,370 |
| 2007-08 | 1,217 | $47,641,621 |
| 2006-07 | 1,179 | $43,469,950 |
| 2005-06 | 1,158 | $39,322,615 |

There are 34 mobilehome parks in Yolo County. We found the assessor does not separately track the total number of manufactured homes located in parks versus those located on fee land. In addition, we found that the assessor does not identify most manufactured homes located in parks or sited on fee land with a special parcel number. Rather, existing manufactured homes are assigned parcel numbers like any other real property parcel. However, the county is in the process of identifying new manufactured homes with special parcel numbers, and plans to identify all manufactured homes with special parcel numbers in the near future.

An assessment office specialist (AOS) screens all manufactured home transfers. The AOS assigns a parcel number to the home if one does not already exist, prints the transfer information from the California Department of Housing and Community Development (HCD) and the tax clearance certificate from the tax collector, and sends a county-created questionnaire to the property owner to obtain additional information about the transfer and details about the home. The information is then sent to an appraiser for valuation.

Manufactured homes located in parks are assigned to, and assessed by, one real property appraiser. Manufactured homes located on fee land are assessed by the appraiser assigned to the specific geographical area in which the manufactured home is located. In compliance with sections 5801(b)(2) and 5830, the assessor enrolls most manufactured homes as personal

property on the secured roll. The only exception is one unique mobilehome park where some of the manufactured homes are situated on permanent foundations as personal property rather than as a fixture improvement to the underlying real property. The assessor refers to these homes as chattel units and has enrolled these homes as improvements on the secured roll.

The assessor's office discovers taxable manufactured homes in the county by reviewing HCD reports, building permits, dealer reports of sale, tax collector clearance certificates, and by appraiser canvassing. Taxable manufactured home accessories are discovered by review of completed sales questionnaires received from property owners, building permits, and by appraiser canvassing.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803(b), takes into consideration sales prices listed in recognized value guides for manufactured homes. The assessor uses the selling price, BOE unit-cost factors, *Marshall Valuation Service*, and information from completed sales questionnaires received from property owners when considering the value of manufactured homes.

The assessor has created a spreadsheet to assist in determining the proper value of all manufactured homes within the county. The spreadsheet compares the current market value to the factored base year value (FBYV). Each year, the spreadsheet is updated with current information, and each manufactured home is reviewed for decline in value. We commend the assessor for creating a useful tool in the assessment of manufactured homes.

The assessor does not track the number of homes affixed to approved foundations, but does require proof that the affixation has been recorded (HCD form 433A). Once a home has been affixed to a foundation, it is considered an improvement, and therefore enrolled as real property.

The assessor correctly applies supplemental assessments to new and transferred manufactured homes. Exemptions are correctly handled for the assessment of manufactured homes held in dealers' inventory and those held or owned by financial institutions and insurance companies.

The assessor has a well-administered manufactured home program; however, we have one recommended improvement.

**RECOMMENDATION 8:** Enroll the lesser of the factored base year value (FBYV) or current market value for all manufactured homes.

As stated above, Yolo County has a unique mobilehome park in which some of the homes are situated on permanent foundations. The assessor refers to these homes as chattel units. Each chattel unit is installed on a permanent foundation as personal property rather than as an improvement to the underlying real property. The homes in the park are owned by the occupant; however, the land is leased or rented.

We found the assessor has enrolled all the homes within this park, with the exception of one, as improvements on the secured roll. The assessor has classified these units determined to be chattel units on the secured roll as improvements and has enrolled their FBYV despite the fact that the FBYV was in fact greater than the current market value as estimated with the use of

recognized value guides. For manufactured homes also situated in parks, but not determined to be chattel units, the assessor has enrolled the lower of the homes' FBYV or current market value.

Section 5813 requires the taxable value of a manufactured home to be the lesser of its base year value, compounded by the annual inflation factor, or its full cash value, as determined pursuant to section 5803, as of the lien date. In determining the full cash value, the assessor should consider reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value.

For the assessment of manufactured homes, the assessor does perform annual comparisons of the two values, in conformance with section 5813, except for those homes he has determined to be chattel units. This practice of not making annual comparisons of the two values for homes determined to be chattel units has resulted in the overassessment of these manufactured homes.

## *Aircraft*

### General Aircraft

General aircraft are privately owned aircraft used for pleasure or business but not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest* (*Bluebook*) as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*. In addition, the BOE provides general guidelines in Assessors' Handbook Section 577, *Assessment of General Aircraft*.

The Yolo County Assessor valued 179 general aircraft and nine historical aircraft for the current assessment roll with a total value of $15,218,940. There are no certificated aircraft in Yolo County. One senior appraiser, assisted by one assessment office specialist, administers the assessor's aircraft program. The assessor discovers aircraft through airport operator reports, field canvassing, tips from taxpayers, and referrals from other counties.

In Yolo County, only certificated property appraisers assume valuation oriented duties regarding aircraft. An aircraft property statement is mailed every year to the known owner of each aircraft in the county. The aircraft property statement requests the owner to report the year, make, model, and tail number of the aircraft, as well as installed avionics, engine air hours since last major overhaul, date of last overhaul, overall condition, air worthiness status, cost information, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the taxpayer-submitted aircraft property statement, the assessor utilizes the *Aircraft Blue Book-Price Digest* to calculate a market value indicator. Adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul are properly incorporated into the calculation to determine a market value estimate. We reviewed several general aircraft records for valuation methodology, legal signatures, and the application of late or failure-to-file penalties pursuant to section 5367. We found the assessor's procedures for the discovery and valuation of general aircraft conform to

statutory provisions and guidelines set forth in the Assessors' Handbook Section 577, *Assessment of General Aircraft.*

### Historical Aircraft

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

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

We reviewed all nine historical aircraft on the 2007-08 roll; their total value was $222,964. Of the nine historical aircraft assessments and exemption claims reviewed, we found the assessor obtained signed affidavits from all owners requesting the exemption.

The assessor also correctly applies the statutorily allowed partial exemption when an affidavit is filed late (between February 16 and August 2). We did note one area for improvement in the assessor's application of the historical aircraft exemption.

**RECOMMENDATION 9:** Grant the historical aircraft exemption only to qualifying aircraft.

Our review revealed several instances where the assessor improperly granted the exemption even though the proper certification of attendance, as required by section 220.5(c), was not submitted with the affidavit.

Section 220.5 allows an exemption on "aircraft of historical significance" that have been on public display for at least 12 days in the year proceeding the current lien date. The assessor should ensure the requirements for claiming this exemption have been completely met by obtaining and reviewing certificates of attendance.

## *Vessels*

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.

The following table shows the number and value of vessels assessed in Yolo County during recent years:

| ROLL YEAR | PLEASURE VESSELS | ASSESSED VALUE |
|---|---|---|
| 2008-09 | 1,535 | $28,005,349 |
| 2007-08 | 1,392 | $25,536,498 |
| 2006-07 | 1,376 | $24,850,336 |
| 2005-06 | 1,242 | $21,452,610 |

An assessment office specialist, under the supervision and review of an appraiser, administers the assessor's vessel program. Our sampling included vessels having values in excess of $100,000, and those subject to the assessor's application of an annual depreciation rate. The assessor primarily utilizes DMV reports, marina reports, and referrals from other counties as methods of discovery of assessable vessels.

The assessor values vessels when newly enrolled in the county using the purchase price less a 20 percent deduction for new vessels and a five percent deduction for used vessels. If the *Vessel Owner's Report* is not returned by the owner, the assessor uses the most current version of the *National Automobile Dealers' Association Marine Appraisal Guide* for used vessels and the Department of Motor Vehicles' report, containing sales data and information about the registered owners. For subsequent lien dates, an automatic 5 percent depreciation is applied.

The assessor has provided no explanation or justification for using a pre-determined depreciation rate when assessing vessels; however, at the time of this survey, the BOE was in the process of developing valuation tables to determine market values for vessels. Therefore, we will not make any recommendations regarding this issue at this time; however, we encourage the assessor to consider the use of the BOE tables or tables developed by other counties in place of the current practice of using unsubstantiated depreciation factors.

# APPENDIXES

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

### *Yolo County*

***Chief***

Dean Kinnee

***Survey Program Director:***

| | |
|---|---|
| Benjamin Tang | Principal Property Appraiser |

***Survey Team Supervisor:***

| | |
|---|---|
| Sally Boeck | Supervising Property Appraiser |

***Survey Team Leader:***

| | |
|---|---|
| Pamela Bowens | Supervising Property Appraiser |

***Survey Team:***

| | |
|---|---|
| James McCarthy | Senior Petroleum and Mining Appraisal Engineer |
| Teresa Quento | Senior Specialist Property Auditor-Appraiser |
| Tammy Aguiar | Associate Property Appraiser |
| Zella Cunningham | Associate Property Appraiser |
| Robert Marr | Associate Property Appraiser |
| Tom McClaskey | Associate Property Appraiser |
| Bryan Roth | Assistant Property Appraiser |
| Paula Montez | Associate Property Auditor-Appraiser |
| Aaron Martinez | Tax Technician |

## *B. Assessment Sampling Program*

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing[4] activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)[5]

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

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

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

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

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

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

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

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

**Unsecured properties.** Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

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

## *C. Relevant Statutes and Regulations*

### *Government Code*

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

(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

(b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.

(c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

(d) In addition, the Board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.

(e) The Board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.

(f) The Board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The Board shall also provide a right to each county assessor to appeal to the Board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

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

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

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

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

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

15642. **Research by Board employees.**

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

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

(a) The Board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the Board shall each year, in accordance with procedures established by the Board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the Board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the Board determines that a need exists to conduct a survey.

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

15644. **Recommendations by Board**.

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

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

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

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

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

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

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

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

## *Revenue and Taxation Code*

75.60. **Allocation for administration**.

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

(b) For purposes of this section:

(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.

(2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:

(A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the Board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the Board's survey described in subparagraph (A).

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

## *Title 18, California Code of Regulations*

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

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

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

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

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

only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

Rule 371. **Significant assessment problems**.

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

(1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or

(2) the sum of all the differences between the Board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

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

(1) Uniformity of treatment for all classes of property.

(2) Discovering and assessing newly constructed property.

(3) Discovering and assessing real property that has undergone a change in ownership.

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

(5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

(6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.

(7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.

(8) Discovering and assessing property that has suffered a decline in value.

(9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

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

# ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

# County of Yolo

OFFICE OF THE COUNTY ASSESSOR

625 COURT STREET, ROOM 104 WOODLAND, CA 95695 (530) 666-8135
FROM: WEST SACRAMENTO (916) 375-6496
FROM: DAVIS (530) 666-8135
FAX NUMBER (530) 666-8213

**JOEL BUTLER**
COUNTY ASSESSOR



RECEIVED
MAY 25 2010
County-Assessed Properties Division
State Board of Equalization


May 22, 2010

Mr. Dean R. Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
P.O.Box 942879
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

## Assessment Practice Survey

Attached is my response to the Assessment Practices Survey and sample of the 2008-2009 assessment roll. Section 15645 of the Government Code requires a written report to the assessor, and allows a response.

The periodic survey of assessor's office practices can be an invaluable, instructive and useful tool. I very much appreciate the dedicated effort, professionalism, and courtesy of the State Board of Equalization staff while performing the sampling program and the practices survey.

Although some of the recommendations made have been and will continue to be the subject of debate, we welcome an objective review of the operations of our office. We agree with many of your recommendations. Some changes have already been made and we will work to make the remaining changes. Where we have differences of opinion regarding your recommendations, these are also noted. Please note that since completion of the survey, budget reductions have significantly decreased staff levels and hours.

I also wish to commend my staff whose professionalism and dedication was demonstrated by the sample indicating an almost perfect ratio for the office again.

Sincerely,

JOEL BUTLER

JWB
Attachment

**BOE ASSESSMENT PRACTICES SURVEY**
**YOLO COUNTY ASSESSOR'S RESPONSE**
May 22, 2010

**Recommendation 1:** Prorate the disaster relief assessments according to section 170(e).

Response to Recommendation 1:

We agree and procedures have been implemented.

**Recommendation 2:** Exempt all real property that qualifies for the low-value property tax exemption as required by the county ordinance.

Response to Recommendation 2:

With the implementation of the Megabyte system, it automatically applies the low value ordinance to all applicable parcels. Therefore this problem should be corrected.

**Recommendation 3:** Improve the welfare exemption by: (1) reviewing the eligibility of multispecialty healthcare clinics for the welfare exemption, taking into consideration all the claimants' clinic sites for the purposes of section 214.9, and (2) performing field inspections for new welfare exemption claims.

Response to Recommendation 3:

(1)We do grant Welfare exemption to qualifying properties. The Assessor has been given the responsibility to determine if the use of the property qualifies for exemption. We follow the guidelines of the California Assessors' Association's position paper 99-001; ADDENDUM TO ASSESSORS' HANDBOOK SECTION 267 October 1998 Issue WELFARE, CHURCH AND RELIGIOUS EXEMPTION. (2) We believe we have inspected all new claims for welfare exemption, but are aware the more time appraisers can spend on field work is beneficial and will devote more resources as budget and staffing allow.

**Recommendation 4:** Maintain a public transfer list conforming to the requirements of section 408.1(b).

Response to Recommendation 4:

Transition between computer systems has been completed and lists are again available as required.

**Recommendation 5:** Value properties subject to improvement bonds in accordance with section 110(b).

Response to Recommendation 5:

We do not add bonds to all properties. We do add bonds to commercial properties where we believe there is evidence to rebut the presumption. Our position has been upheld in hearings before the Assessment Appeals Board.

**Recommendation 6:** Improve the valuation of CLCA restricted land and improvements by: (1) using an appropriate income stream for capitalizing restricted tree and vine income, (2) using the appropriate risk components for different types of agricultural properties, and (3) enrolling supplemental assessments only for qualified new construction on homesites on CLCA land.

Response to Recommendation 6:

(1) Implementation of the Megabyte system should resolve this suggestion. (2) We made adjustments to the risk rate for 2009/10 Roll and will continue to review market trends to develop risk rates. (3) We have revised our practices and will not enroll supplemental assessments on new homesites on CLCA land.

**Recommendation 7:** Improve the taxable possessory interest program by: (1) reviewing all private uses of fairgrounds to determine whether taxable possessory interests exist, (2) valuing month-to-month tenancies in accordance with section 61(b)(2), and (3) using reasonable lessor expenses when valuing taxable possessory interests by the income approach.

Response to Recommendation 7:

(1) We intend to review our ordinance with County Counsel. (2) Concur and will change our procedures as budget and staffing allow. (3) Concur and will change our procedures.

**Recommendation 8:** Enroll the lesser of the FBYV or current market value for all manufactured homes.

Response to Recommendation 8:

The Assessor's current practice is to review all manufactured homes for declines in value.

**Recommendation 9:** Grant the historical aircraft exemption only to qualified aircraft.

Response to Recommendation 9:

The Assessor will insure the requirements for claiming this exemption have been completely met by obtaining and reviewing certificates of attendance.