YOLO COUNTY
ASSESSMENT PRACTICES SURVEY

MARCH 2004

CALIFORNIA STATE BOARD OF EQUALIZATION

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TIMOTHY W. BOYER, INTERIM EXECUTIVE DIRECTOR
March 22, 2004

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 Dick Fisher, 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 Property Tax Division from September 2002 through February 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Fisher 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

DIJ:jm
Enclosure
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INTRODUCTION

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

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

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

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

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

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix 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 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 2002-03 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 survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

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

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

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

In our 2000 Yolo County assessment practices survey report, we made nine recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented two of the recommended changes and partially implemented one. One recommendation no longer applies because of a change in BOE guidance. The recommendations that were not implemented, or only implemented in part, are repeated in this report.

In the area of administration, we noted several positive aspects:

- The assessor has participated in the State-County Property Tax Administration Program every year since its inception, enabling him to avoid backlogs in all areas of his assessment program.
- The assessor and his appraisal staff possess the appraiser's certificates required by section 670.
- The assessor has effective and thorough programs for disaster relief and assessment appeals.
- Other than the disaster relief form, there were no problems with the assessment forms used by the assessor.

Several administrative components of the assessor's programs need improvement:

- The assessor incorrectly denied the welfare exemption claim of an organization operating several multispecialty medical clinics in Yolo County.
- The assessor should consistently apply the county's low-value property exemption to both real and personal property.
- The assessor should revise his disaster relief forms to comply with the requirements of section 170.
- The assessment roll lacks the escape assessment notation required by section 533.
- The assessor should enroll all escape assessments and process all roll corrections, regardless of amount.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, declines in value, pipeline rights-of-way, and water company property. However, we noted the following deficiencies:

- The assessor still fails to use the Change of Ownership Statement when a Preliminary Change of Ownership Report has not been filed.
- The assessor does not report approved section 69.5 claims to the BOE.
- The assessor adds the value of improvement bonds to sale prices without the evidence required by section 110(b).
• When valuing California Land Conservation Act (CLCA) properties, the assessor fails to use market-supported rents, expenses, capitalization rates, or risk rates.

• The assessor still fails to use the appropriate income stream when valuing restricted vineyards and orchards or to properly assess CLCA land with mineral deposits.

• When enrolling new construction on CLCA properties, the assessor improperly issues a supplemental assessment for the homesite.

• The assessor should revise his computerized CLCA value calculation program.

• The assessor has failed to establish proper base year values for taxable government-owned properties.

• The assessor uses an incorrect restricted value factor in calculating Section 11 values.

• The assessor inappropriately issues supplemental assessments for taxable government-owned properties.

• The assessor incorrectly maintains the CLCA assessment for those properties that become subject to Section 11 assessment.

• The assessor does not review the taxability of government-owned properties.

• The assessor does not review uses of the fairgrounds to discover taxable possessory interests.

• In valuing taxable possessory interests, the assessor fails to obtain current rental information from governmental agencies.

• The assessor incorrectly reappraises month-to-month possessory interests every year even though he has assigned a longer term of possession to these interests.

• The assessor has inappropriately assessed the interest of a food service concessionaire at a state university.

• The assessor does not issue supplemental assessments for tenant improvements.

• The assessor does not assess mineral property as an appraisal unit as required by rule 469.

• The assessor does not impose the section 463 penalty for late filing or failing to file annual property and production reports for mineral properties.

• The assessor should enroll proved petroleum reserves only after all development work has been completed.

The assessor has effective programs for the discovery of taxable personal property, processing business property statements, and valuing leased equipment and taxable animals. There were no problems with the mandatory or nonmandatory audit programs, or with general aircraft valuation. However, we noted the following deficiencies in his business property program:

• The assessor does not regularly send business property statements to assessees subject to direct billing.
• The assessor accepts claims for the historical aircraft exemption without ensuring that they comply with section 220.5.

• The assessor annually reduces the assessment of all pleasure vessels by a fixed depreciation amount.

• The assessor's method of applying percent good factors to older equipment still in service, is contrary to Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*.

• The assessor improperly includes value attributable to site influence when valuing manufactured homes on rented or leased land.

Despite the problems noted above, we found that 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 2002-03 assessment roll indicated an average assessment ratio of 100 percent, and the sum of the absolute differences from the required assessment level was 1.97 percent. Accordingly, the BOE certifies that Yolo County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Grant the welfare exemption for qualifying multispecialty health care clinics........................................................................................................16

**RECOMMENDATION 2:** Properly apply the low-value property exemption resolution. ........17

**RECOMMENDATION 3:** Revise disaster relief forms to conform to the requirements of section 170. .......................................................................................................................17

**RECOMMENDATION 4:** Include the specific notation required by section 533. ..............20

**RECOMMENDATION 5:** Enroll all roll changes regardless of value..................................20

**RECOMMENDATION 6:** Utilize the *Change of Ownership Statement* when a *Preliminary Change of Ownership Report* has not been filed.......24

**RECOMMENDATION 7:** File quarterly reports with the BOE for all base year value transfer claims as required by section 69.5. .................................................................24

**RECOMMENDATION 8:** Value properties subject to improvements bonds in accordance with section 110(b)..................................................................25

**RECOMMENDATION 9:** Document the rents, expenses, and rates used to value CLCA property..................................................................................................................29
RECOMMENDATION 10: Use an appropriate income stream when valuing restricted vineyards and orchards.

RECOMMENDATION 11: Use appropriate risk components for different types of agricultural properties.

RECOMMENDATION 12: Add the value of surface rights associated with mineral deposits to the value of CLCA land.

RECOMMENDATION 13: Enroll supplemental assessments only for qualifying new construction on homesites on CLCA land.

RECOMMENDATION 14: Ensure that the data in the CLCA computer program is correct.

RECOMMENDATION 15: Use the BOE-announced 1967 factor to determine the restricted value of taxable government-owned property as required by section 11 of article XIII of the California Constitution.

RECOMMENDATION 16: Establish base year values for taxable government owned property acquired after March 1, 1975 according to BOE guidelines.

RECOMMENDATION 17: Assess taxable government-owned property at the lowest of current market value, factored base year value, or section 11 restricted value.

RECOMMENDATION 18: Review the assessable status of government-owned properties to determine whether they are taxable.

RECOMMENDATION 19: Enroll supplemental assessments only for qualifying properties.

RECOMMENDATION 20: Review all private uses of fairgrounds to determine whether taxable possessory interests exist.

RECOMMENDATION 21: Annually obtain written tenant and rental information from government agencies.

RECOMMENDATION 22: Value possessory interests that are month-to-month tenancies in accordance with section 61(b)(2).

RECOMMENDATION 23: Do not assess private interests in property used exclusively for public school purposes.
RECOMMENDATION 24: Enroll supplemental assessments for all unsecured structural improvements. ..............................................................36

RECOMMENDATION 25: Recognize the proper appraisal unit for valuing mineral properties according to rule 469. ........................................38

RECOMMENDATION 26: Impose the section 463 penalty for late filing of annual mineral production reports. ............................................39

RECOMMENDATION 27: Enroll proved reserves on a petroleum-producing property after all development work has been completed. .................39

RECOMMENDATION 28: Use Assessors’ Handbook Section 581 as intended. .........................43

RECOMMENDATION 29: Require assessees whose business property accounts are direct billed to file a Business Property Statement at least once every four years. .................................................44

RECOMMENDATION 30: Grant the historical aircraft exemption only to qualifying aircraft. ...................................................................................45

RECOMMENDATION 31: Annually appraise all vessels at market value. ..............................46

RECOMMENDATION 32: Document decline-in-value status for manufactured homes in rental parks. ..........................................................47

RECOMMENDATION 33: Place greater emphasis on published value guides for manufactured homes. ..........................................................48
RESULTS OF 2000 SURVEY

Change in Ownership Statement

We recommended the assessor utilize the Change of Ownership Statement when a Preliminary Change of Ownership Report has not been filed. The assessor has not implemented this recommendation.

California Land Conservation Act Properties

We recommended that the assessor use a capitalization premise appropriate to the shape of the income stream. In addition, we recommended that the assessor develop a market yield rate for unrestricted agricultural property and make a provision for the income attributable to unrestricted, nonliving vineyard improvements. The assessor has not implemented these recommendations.

Possessory Interests

We recommended that the assessor value all taxable possessory interests at the county fairgrounds. The assessor has not taken action in this area.

Manufactured Homes

We recommended that the assessor assess all eligible manufactured home accessory improvements. The assessor has implemented this recommendation.

Tenant Improvements

We recommended that the assessor (1) ensure that structural improvements are properly classified and (2) enroll supplemental assessments for structural tenant improvements. The assessor now properly classifies and values structural improvements; however, he still does not issue supplemental assessments for these improvements.

Equipment Valuation

We recommended that the assessor use the factors in Assessors' Handbook Section 581, Equipment Index and Percent Good Factors, as intended. Specifically, we recommended that the assessor use appropriate individual cost indices rather than single average indexes for commercial industrial equipment. Because the BOE approved index averaging in AH 581 starting with the 2001 lien date, we do not repeat this recommendation. However, we disagree with the assessor's use of a minimum percent good for older equipment and make a recommendation in this area within this report.
**Vessels**

We recommended that the assessor improve vessel appraisal procedures by annually assessing pleasure boats at market value each year. The assessor still depreciates vessel assessments by a fixed percentage each year, and we therefore repeat this recommendation.

**Aircraft**

We recommended the assessor appraise general aircraft annually. The assessor has implemented this recommendation.
OVERVIEW OF YOLO COUNTY

Yolo County is located northeast of San Francisco and bordered by Solano and Sacramento counties 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 661,760 acres; its primary industry is agriculture. The eastern two-thirds of the county consists 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 150,000. Nearly 85 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 2002-03 assessment roll:

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Number of Assessments</th>
<th>Enrolled Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Secured Roll</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>40,172</td>
<td>$6,461,921,190</td>
</tr>
<tr>
<td>Commercial/Industrial</td>
<td>3,585</td>
<td>2,975,137,468</td>
</tr>
<tr>
<td>Agricultural</td>
<td>6,692</td>
<td>1,263,502,012</td>
</tr>
<tr>
<td>Manufactured Homes</td>
<td>1,089</td>
<td>27,345,164</td>
</tr>
<tr>
<td>Other Secured</td>
<td>2,789</td>
<td>102,653,821</td>
</tr>
<tr>
<td><strong>Total Secured</strong></td>
<td>54,327</td>
<td>$10,830,559,655</td>
</tr>
<tr>
<td><strong>Unsecured Roll</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Property &amp; Fixtures</td>
<td>19,658</td>
<td>$879,772,195</td>
</tr>
<tr>
<td><strong>Total Assessment Roll</strong></td>
<td>73,985</td>
<td>$11,710,331,850</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Roll Year</th>
<th>Total Roll Value</th>
<th>Increase</th>
<th>Statewide Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>$11,710,331,850</td>
<td>6.8%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2001-02</td>
<td>$10,960,230,793</td>
<td>7.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2000-01</td>
<td>$10,169,866,217</td>
<td>10.0%</td>
<td>1.3%</td>
</tr>
<tr>
<td>1999-00</td>
<td>$9,240,446,070</td>
<td>6.8%</td>
<td>0.7%</td>
</tr>
<tr>
<td>1998-99</td>
<td>$8,650,451,711</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ADMINISTRATION

This portion 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. We examined the assessor's budget and staffing, the State-County Property Tax Administration Program (PTAP), appraiser certification, standards and quality control, exemptions, the low-value property exemption, disaster relief, assessment forms, roll changes, assessment appeals, and racehorse tax returns.

Budget and Staffing

The assessor's office has a staff of 23 regular employees and four employees funded through the PTAP program. The regular staff includes the assessor, assistant assessor, chief appraiser, five real property appraisers, two auditor-appraisers, one staff services analyst, two drafting technicians, and ten clerical staff. Staffing has remained consistent over the past five years. In addition, the assessor employs a contract appraiser for the assessment of natural gas properties.

The following table shows final budgets for the last five years, exclusive of funds provided through the PTAP program:

<table>
<thead>
<tr>
<th>Budget Year</th>
<th>Gross Budget</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>$1,564,130</td>
<td>5.80%</td>
</tr>
<tr>
<td>2001-02</td>
<td>$1,478,337</td>
<td>0.01%</td>
</tr>
<tr>
<td>2000-01</td>
<td>$1,468,854</td>
<td>5.99%</td>
</tr>
<tr>
<td>1999-00</td>
<td>$1,385,864</td>
<td>1.97%</td>
</tr>
<tr>
<td>1998-99</td>
<td>$1,359,046</td>
<td></td>
</tr>
</tbody>
</table>

Although it appears that the assessor's budget has grown about 15 percent from 1998-99 to the 2002-03 roll year, most of the growth is due to a change in accounting procedures. The county now charges the assessor for computer support that was previously not charged as an expense to the assessor's budget.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The Grant program operates in essentially the same manner as the loan program except that if a county fails to meet its

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2 Yolo County "Office of Assessor Final Budget Report," as updated by assessor's administrative analyst.
contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

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

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

Yolo County has participated in the PTAP since April 1, 1996. For contract year 2002-03, the assessor received a grant of $278,309. The county's required base funding and staffing levels for the assessor's office are $1,318,301 and 23 positions, respectively. The Yolo County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every year under contract.

The assessor has effectively used PTAP funds for mandatory and nonmandatory audits, the timely completion of assessment appeals, review of properties experiencing declines in value, maintaining the contract with the gas and mineral property consultant, and enrolling escaped new construction and new business accounts. The PTAP program has augmented the assessor's staff with four additional positions (one principal appraiser, two auditor-appraisers, and one additional clerical position). All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

**Appraiser Certification**

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Since appraiser training is monitored by a separate BOE unit, it is not addressed in this report.

The assessor, his staff, and his contract appraiser possess the required certificates. In addition, the contract with the non-employee appraiser conforms to the requirements of section 674.

**Standards and Quality Control**

Standards and quality control functions ensure the consistency and quality of the appraisal product or taxpayer services through the development and maintenance of appraisal and operating standards. Other duties of a standards and quality control unit may include training, legal interpretations, or data processing coordination.
Procedures Manual

The assessor has developed a procedures manual encompassing administrative, real property, and business property functions. The manual is accessible on the assessor's computer system. The manual is useful because it provides detail on the daily routines and document processing flows for specific support positions, especially regarding the use of the computer system.

Communications

The assessor is proactive about taxpayer education and customer service. The county's Web site covers most, if not all, of the assessor's office functions. The Web site has many informative links, including the California Revenue and Taxation Code, BOE-prescribed forms, the assessor's own assessment forms, the Assessors' Handbook, and a link encouraging e-mail communication.

Review of Completed Work

Each day, the real property appraisers and the auditor-appraisers submit completed work to the chief appraiser, who reviews it for proper documentation and conformity with property tax law. The work is forwarded to an assessment clerk, who enters the property values into the computer system. The appraisals we reviewed appeared correct and contained adequate documentation.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This provision, implemented by section 206, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and necessarily required for church parking is exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for church-owned property as well as leased property meeting the requirements in section 206.1.

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by corporations or other entities that meet the following requirements: (1) are organized and operated for those purposes; (2) are non-profit; and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual. The Legislature has acted upon such authorization by enacting the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship and school purposes.

The assessor administers the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. However, the religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption.
The assessor has two assessment office specialists to process the annual claims for welfare, church, and religious exemptions. Two real property appraisers conduct the field inspections of all properties for which the exemptions are claimed.

The following table represents the number of religious exemptions and the assessed values for the last five years:

<table>
<thead>
<tr>
<th>ASSESSMENT YEAR</th>
<th>NUMBER OF EXEMPTIONS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>122</td>
<td>$51,982,335</td>
</tr>
<tr>
<td>2001-02</td>
<td>114</td>
<td>$47,748,079</td>
</tr>
<tr>
<td>2000-01</td>
<td>112</td>
<td>$45,722,628</td>
</tr>
<tr>
<td>1999-00</td>
<td>118</td>
<td>$45,722,628</td>
</tr>
<tr>
<td>1998-99</td>
<td>115</td>
<td>$42,897,021</td>
</tr>
</tbody>
</table>

The following table represents the number of church exemptions and the assessed values for the past five years:

<table>
<thead>
<tr>
<th>ASSESSMENT YEAR</th>
<th>NUMBER OF EXEMPTIONS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>10</td>
<td>$583,170</td>
</tr>
<tr>
<td>2001-02</td>
<td>13</td>
<td>$788,468</td>
</tr>
<tr>
<td>2000-01</td>
<td>14</td>
<td>$820,582</td>
</tr>
<tr>
<td>1999-00</td>
<td>15</td>
<td>$750,809</td>
</tr>
<tr>
<td>1998-99</td>
<td>16</td>
<td>$1,107,736</td>
</tr>
</tbody>
</table>

Our review of the assessor's religious and church exemption programs found no problems.

Welfare Exemption

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

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

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

The following table summarizes welfare exemptions granted on the local roll for the last five years:

<table>
<thead>
<tr>
<th>ASSESSMENT YEAR</th>
<th>NUMBER OF CLAIMS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>218</td>
<td>$358,154,178</td>
</tr>
<tr>
<td>2001-02</td>
<td>209</td>
<td>$317,286,856</td>
</tr>
<tr>
<td>2000-01</td>
<td>184</td>
<td>$185,257,698</td>
</tr>
<tr>
<td>1999-00</td>
<td>203</td>
<td>$194,682,972</td>
</tr>
<tr>
<td>1998-99</td>
<td>170</td>
<td>$159,724,654</td>
</tr>
</tbody>
</table>

To evaluate the effectiveness of the assessor's welfare exemption program, we reviewed a variety of claims. The focus of our review was on claims that contained special findings. These findings included, but were not restricted to, the following:

- First-time filings (new claims);
- "Not been met" for any reason (i.e., a claim that was denied);
- "Late filed" claims; and
- Mid-year acquisitions eligible for cancellation or proration of taxes pursuant to section 271.

Specific property types reviewed included:

- Low-income housing;
- Hospitals;
- Reasonably necessary staff housing, including parsonages;
- Religious schools;
• Multispecialty health care clinics; and
• Exempt organizations subject to mandatory audit pursuant to section 469.

In general, the assessor maintains complete files for each claimant. Additionally, there is a permanent file for every active organization. However, we found room for improvement in one area of the assessor's welfare exemption program.

RECOMMENDATION 1: Grant the welfare exemption for qualifying multispecialty health care clinics.

We found that the assessor has denied the welfare exemption claim of a qualifying organization operating several multispecialty medical clinics in Yolo County. The assessor denied that claim on the grounds that none of the clinics met the specific criteria of section 214.9, which requires 40 or more physicians practicing at least 10 specialties, with at least two-thirds of the physicians practicing full time at the clinic.

Section 214.9 provides that for purposes of section 214, "hospital" includes outpatient clinics that provide psychiatric services to emotionally disturbed children or clinics of the type described in section 1206(l) of the Health and Safety Code. The BOE has determined that for purposes of the welfare exemption, claimants may aggregate multiple locations to meet the requirements of section 214.9. Thus, although the claimant's clinics in Yolo County did not individually meet the standard for exemption, when viewed as a whole, the clinics met the criteria specified in section 214.9. Acting on this direction, BOE staff approved the organization's welfare exemption claim for the 1997-98 roll. However, the assessor has denied the claim.

We recommend that the assessor grant the welfare exemption for multispecialty clinics that qualify based on multiple locations.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors has no authority to exempt property with a total base year value or full value of more than $5,000, or more than $50,000 in the case of certain possessory interests. The board of supervisors must adopt any such exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

In August 1991, the Yolo County Board of Supervisors adopted Resolution No. 91-105, which implemented the provisions of section 155.20, commencing with fiscal year 1990-91. In its current form, this resolution exempts personal and real property with a taxable value of $2,000 or less.
RECOMMENDATION 2: Properly apply the low-value property exemption resolution.

We found that the assessor follows the low-value property exemption resolution in regard to personal property, but he enrolls all real property regardless of value. Because the county auditor has the authority not to bill amounts of $20 or less, the assessor believes that the county resolution is effectively implemented.

Since the auditor bills those properties with values greater than $1,000, those properties with values between $1,000 and $2,000 do not receive the exemption to which they are entitled.

The assessor's practice fails to properly implement the intent of the board of supervisors in authorizing an exemption for all property with a taxable value of $2,000 or less. The assessor should apply the exemption to the assessment roll as intended in the resolution, regardless of any subsequent action by another county official.

We recommend the assessor properly apply the low-value property exemption resolution.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assessees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared by the Governor to be in a state of disaster, or to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

To implement section 170 the Yolo County Board of Supervisors adopted Ordinance No. 1051, which contains provisions for time limits on filing and procedures for reassessments.

The assessor discovers calamities through building permits issued for repairs, newspaper articles, taxpayer notification, and field investigation. The assessor does not receive fire reports from fire protection agencies in the county. However, after thorough review, we conclude that this does not appear to present a problem in Yolo County.

We reviewed four properties for which the owners had filed disaster relief claims. The disasters consisted of three instances of fire damage and one instance of a car being driven into a house. We conducted our review in light of statutory requirements as they existed on January 1, 2002, and found, with the exception of the following recommendation, that the assessor's program conformed to those requirements.

RECOMMENDATION 3: Revise disaster relief forms to conform to the requirements of section 170.

The wording of the assessor's disaster relief application form, Application for Reassessment of Damaged or Destroyed Property In Excess of $10,000, does not require the applicant to indicate the
condition and value of the damaged property after the disaster or calamity. In addition, the form available on the assessor's Web site indicates that the loss in value from the damage must be in excess of $5,000, instead of $10,000 as provided in section 170.

The assessor is not in compliance with section 170 requirements regarding the wording of his disaster relief application. Section 170 provides that the application must include the condition and value, if any, of the property immediately after the damage or destruction.

We also found that the assessor provides incorrect information to the taxpayer concerning appealing the reassessment value after repairing the damage. The assessor uses the Notice of Supplemental Assessment to notify the taxpayer of the proposed reassessed value. The reverse side of the form states that an assessee has 60 days to appeal the new assessment.

Section 170 (c) provides that a claimant has six months to file an appeal protesting a disaster relief reassessment. The assessor's notification form states an incorrect time limit for filing an appeal.

The assessor must provide the taxpayer with correct information regarding the amount of time allowed for filing such an appeal. Because an incorrect time limit appears on the notification of disaster relief reassessment, claimants may fail to appeal a disaster relief reassessment if they believe they have missed the 60-day deadline, when, in fact, they have an additional four months in which to file.

We recommend the assessor correct both his application for disaster relief and his notification of disaster relief reassessment to comply with the provisions of section 170.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. The BOE currently prescribes 75 forms for use by county assessors and one form for use by the county's assessment appeals board. Generally, the assessor has the option to change the appearance (e.g., size and color) of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form provided the assessor obtains prior approval from the BOE.

Assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file such a form or questionnaire.

The BOE annually sends three checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, and return the property statements and miscellaneous forms checklists by October 15, and the exemption forms checklist by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.
We found that the assessor consistently returns the checklists as requested and uses the prototype BOE-prescribed forms (54 of 58 are prototypes). We reviewed the forms that the assessor rearranged and found that they conformed to BOE standards.

**Assessment Roll Changes**

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute. All assessment roll changes are based on specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

The assessor processed 615 roll corrections and enrolled 719 escape assessments during 2001-02. The following table charts the workload of assessment roll changes for the previous five years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>ESCAPES</th>
<th>CORRECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SECURED</td>
<td>UNSECURED</td>
</tr>
<tr>
<td>2001-02</td>
<td>447</td>
<td>272</td>
</tr>
<tr>
<td>2000-01</td>
<td>511</td>
<td>356</td>
</tr>
<tr>
<td>1999-00</td>
<td>342</td>
<td>360</td>
</tr>
<tr>
<td>1998-99</td>
<td>431</td>
<td>257</td>
</tr>
<tr>
<td>1997-98</td>
<td>419</td>
<td>224</td>
</tr>
</tbody>
</table>

Appraisers and auditor-appraisers submit roll changes to the chief appraiser. After review, the chief appraiser submits them for processing and the assessor notifies the taxpayer of the change. Following the taxpayer notification, the roll changes are submitted to the auditor-controller.

We examined several escape roll changes to determine if they had been processed in a timely manner and if the escapes were properly added only to years within the statute of limitations. We found that the notice of escape assessment is consistent with statutory requirements and that all escapes were processed timely and applied only to years within the statute of limitations. For the most part, the record keeping for the roll change program is excellent. However, several exceptions were noted in the areas of required statutory references and low-value roll changes.
Statutory Reference

**RECOMMENDATION 4:** Include the specific notation required by section 533.

The assessor does not add the section 533 notation to the assessment roll for escape assessments. The assessor instead identifies escape assessments with a code on his computer system. However, this code does not tell the system user the year a property escaped assessment, the amount of the escape, or the reason an escape was added.

Section 533 requires a specific notation be entered on the assessment roll for escape assessments added to roll years other then the year in which the property escaped assessment. The notation must read, "Escaped assessment for year ____ pursuant to Sections ____ of the Revenue and Taxation Code."

Title companies and other researchers seeking information at the public counter are at a disadvantage because the assessor's computer system does not include the section 533 caption indicating the year in which a property escaped assessment or the applicable code sections, and only shows activity for the last four years.

We recommend the assessor add the required notation to his roll for all escape assessments.

Low-Value Roll Changes

**RECOMMENDATION 5:** Enroll all roll changes regardless of value.

The assessor does not enroll low-value roll changes for real property. It is his policy not to enroll escapes or corrections for value changes less than $1,000.

Section 531 provides that if any property belonging on the local roll has escaped assessment, "the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment." There is no allowance in section 531 for ignoring either escapes or refund corrections below a minimum amount. The assessor must assess and enroll all taxable property and may not exempt property because the valuation is small.

By not enrolling low-value roll changes, the assessor may exempt some taxpayers from paying property taxes, possibly for several years. In other cases, taxpayers may not receive refunds due to them for assessor’s errors.

We recommend that the assessor enroll all roll changes regardless of value.

**Assessment Appeals**

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 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 BOE has adopted rules 301 through 326 to regulate the functioning of the assessment appeal process.

Yolo County Ordinance No. 987 provides for the creation and defines the duties of the county’s assessment appeals board. Currently, there is one appeals board. The board consists of three members and two alternates. Each is appointed directly by the board of supervisors. Assessment appeals board hearings are held on the fourth Wednesday of each month.

Applications are received by the clerk of the assessment appeals board, reviewed and verified, and a copy is forwarded to the assessor's office. After review, the chief appraiser contacts the applicants by telephone. If the applicants decide to withdraw their appeals or agree to stipulated values, the chief appraiser drafts a response and respective letters are sent for their signatures. Upon receipt of a signed letter, the assessor forwards the letter to the assessment appeals board for approval. If no agreement can be reached, the deputy clerk of the board of supervisors schedules a hearing.

The chief appraiser tracks the progress of assessment appeals. No appeal in the last four years has gone unresolved for more than two years, unless the taxpayer agreed to an extension. Over 90 percent of appeals are resolved in the first year. On average, 187 appeals were filed annually from 1998-99 through 2001-02.

The following table shows the breakdown of appeal findings over the last four years:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Appeals³</th>
<th>Appeals Board Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Open</td>
<td>Withdrawn</td>
</tr>
<tr>
<td>2001-02</td>
<td>281</td>
<td>56</td>
</tr>
<tr>
<td>2000-01</td>
<td>199</td>
<td>28</td>
</tr>
<tr>
<td>1999-00</td>
<td>226</td>
<td>41</td>
</tr>
<tr>
<td>1998-99</td>
<td>177</td>
<td>44</td>
</tr>
</tbody>
</table>

³ Total appeals includes new appeals filed and appeals carried over from the prior year.

Over the most recent four-year period, about 64 percent of the appeals involved commercial/industrial property, 14 percent involved residential properties, 11 percent involved rural properties, and the remaining 11 percent involved a mixture of other property types. Over the same period, there was an average of just under $400 million in disputed value in each year.

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

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax. Rule 1046(b) provides that in order to qualify as a racehorse, a horse must be registered or be eligible to be registered with one of the five agencies currently recognized by the California Horse Racing Board (CHRB).

The assessor's discovery methods include intercounty communications of transfers, newspaper articles and advertisements, telephone yellow pages, business directories, Agricultural Property Statements (Form BOE-571-F), and audits of agricultural properties. Racehorse owners and trainers in the county are required to file either Form BOE-571-J, Annual Racehorse Tax Return, or Form BOE-571-J1, Annual Report of Boarded Racehorses. Our review of racehorse statements indicated there was only one racehorse in Yolo County, which was moved to another county prior to the current assessment year. We reviewed the procedures for assessing racehorses and found that the program is being administered correctly.
ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following 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 land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

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

As of September 2002, the assessor's staff assigned to perform the duties of the real property program consisted of nine employees, including the assistant assessor, a chief appraiser, and seven appraisers. The real property appraisal staff is also responsible for the assessment of manufactured homes. Because manufactured homes are classified as personal property, this subject is discussed in the Assessment of Personal Property and Fixtures section of this report.

Appraisal crews are organized first by function and then by geographic area. Each crew has a computerized sales database and worksheets that are customized by property type.

Change in Ownership

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

Document Processing

The assessor's primary means of discovering properties that have changed ownership is review of deeds and other documents recorded with the county recorder. The assessor 's computer system is connected to the recorder's system and receives all recorded documents. In addition, all forms BOE-502-A, Preliminary Change of Ownership Report (PCOR), are forwarded to the assessor. An assessment technician analyzes the recorded document to determine if the event is reappraisable, the percentage
ownership transferred, and assigns the appraisal file and related documents to the appraisers for valuation.

The number of documents received from the recorder has remained relatively stable over the last five years, with the exception of 2001, when the recorded documents increased from an average of 36,000 annually to 48,000. The number of reappraisable events has ranged from 3,400 in 1997 to over 5,500 in 2001.

Change in Ownership Statements

The recorder's office requires PCOR's for the recordation of certain types of documents. A $20 fee is applied to the recording fee for these documents when not accompanied by a completed PCOR. In 2001, the recorder's office collected this fee in 600 cases.

RECOMMENDATION 6: Utilize the Change of Ownership Statement when a Preliminary Change of Ownership Report has not been filed.

In our prior survey, we recommended the assessor use Form BOE-502-AH, Change of Ownership Statement (COS), when a PCOR has not been filed. We repeat this recommendation. The assessor believes it is more expedient to contact the transferee, either by letter or telephone, or to rely on the indicated sales price based on the documentary transfer tax amount. However, we found instances where contradictory sales information was reported by telephone or letter, without the required declaratory signature on the COS. Moreover, we found instances where the documentary transfer tax amount was either not reported or unverified. Section 480 states that when a change in ownership occurs the transferee shall file a signed COS (or signed PCOR, as required by section 480.3) with the county recorder or assessor. Furthermore, in order to equitably assess all taxpayers, it is imperative to verify and enroll confirmed sales prices. We again recommend the assessor utilize the COS when the PCOR has not been signed or filed.

Base Year Value Transfer Exclusions

Section 69.5 allows qualified homeowners over age 55 to transfer the base year value of their principal residence to a replacement dwelling of equal or lesser value purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed with the assessor and certain other requirements are met. In addition, section 69.5 applies to certain intercounty transfers and transfers by qualified applicants who are severely and permanently disabled. We found that claims are reviewed by the assessor's staff, and applicants not qualifying for the exclusion are properly denied, while qualified applicants are granted relief in a timely, consistent manner.

RECOMMENDATION 7: File quarterly reports with the BOE for all base year value transfer claims as required by section 69.5.

In order to prevent statewide duplication of claims, section 69.5(b)(7) requires assessors to report quarterly to the BOE specified information to identify all claimants who have received relief. The assessor has not furnished the BOE with a section 69.5 report since 1995.
We recommend the assessor file quarterly reports for all section 69.5 claims with the BOE.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements, such as sewers, sidewalks, lighting, and water lines, that generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with the 1911, 1913, or 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of evidence. However, if the assessor is unaware of which parcels are encumbered with bonds, this presumption cannot be rebutted.

**RECOMMENDATION 8:** Value properties subject to improvements bonds in accordance with section 110(b).

The assessor adds the value of improvement bonds to all sale prices without developing the evidence required to support the addition of bond amounts to the nominal sales price.

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 could result in overassessments. We recommend the assessor comply with section 110(b) in valuing property subject to improvement bonds.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation of section 64 changes in ownership or control and applicable exclusions. Discovery of such changes in ownership is difficult because ordinarily there is no recorded notice of the transfer.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the 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 detailed information pertaining to the counties in which they have property, the assessor's parcel number, or how many parcels they own. Because of lack of reliable data provided by the entities, the LEOP unit advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.
We reviewed a number of properties on the LEOP list for Yolo County and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor is processing LEOP notices properly and, therefore, capturing LEOP changes in ownership.

**New Construction**

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Rule 463 further governs the assessment of new construction. Board-approved guidance on this subject is found in Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

Most new construction activity is discovered from building permits. Currently, the assessor receives an average of about 8,000 permits annually from six permit-issuing agencies. The agencies are the cities of Winters, Woodland, West Sacramento, and Davis; and the Yolo County departments of Health Services and Planning and Public Works. Most permits are accompanied by plans. Upon receipt, an assessment technician enters all permit data into the assessor's database. Appraisers and auditor-appraisers are responsible for culling permits assigned to them. Parameters for culling are based on permits for repair and replacement and typically include re-roofing, electrical, plumbing, mechanical, siding, air conditioning, change of contractor, and temporary power poles.

Additional sources of discovery include newspaper articles, business property statements, and reports from interested citizens. Staff appraisers may also discover new construction activity while working their assigned areas of the county.

Upon completion the new construction is enrolled and a supplemental assessment is generated. The assessor enrolls all discovered new construction, including low-value items such as walls and patio covers.

**Self Reporting**

The assessor utilizes a self-reporting questionnaire as an investigative tool. For most types of new construction the questionnaire is mailed at the discretion of the appraiser or auditor-appraiser. In addition to sending the self-reporting questionnaire, the assessor may also contact property owners and contractors or inspect the new construction if necessary. These contacts will confirm the accuracy of the self-reporting program and may provide additional information about the new construction. Questionnaires that are not returned result in an inspection of the new construction.

Overall, we found the assessor's procedures for new construction to be effective. As noted in the prior survey, the assessor's comprehensive program for assessing new construction complies with all statutory requirements. The permit processing program results in thorough monitoring of new construction and an effective valuation process. Appraisal files are well documented and easy to follow.
**Supplemental Assessments**

Sections 75 et seq. require the assessor to appraise property at its full cash value on the date the property changed ownership or upon completion of new construction. The increase or decrease in assessed value resulting from a change in ownership or new construction results in a supplemental assessment that is reflected in a prorated tax bill covering the portion of the fiscal year remaining after the date of change in ownership or new construction.

The assessor's supplemental assessment program is automated through his computer system, which is capable of producing supplemental assessment notices and transmittal forms for the auditor's office. The system also tracks supplemental assessments historically, so that staff can review input and notice status (including the cancellation of supplemental assessments) from monthly batch lists. An assessment office specialist enters supplemental assessment data provided by appraisers. She keeps computerized notes of the step-by-step methods used to batch, enter, and verify supplemental assessment accounts as discussed in the assessor's procedures manual.

Until recently, the assessment office specialist was forced to delay processing some supplemental assessments due to difficulty in obtaining the new tax rates from the county auditor. This problem has been resolved and supplemental assessments are now worked upon receipt. Small supplemental assessments are not enrolled, as Yolo County Ordinance No. 1293, effective January 1, 2003, authorizes the assessor to exempt supplemental assessments that result in an assessment of $50 or less. We examined several supplemental assessments entered in recent batches. All had been worked and notices had been sent to taxpayers within the month received from the appraiser.

We found that the assessor properly enrolls supplemental assessments for fixtures, manufactured homes, nonrestricted portions of Williamson Act properties, and other properties for which supplemental assessments are required. We did find, however, that the assessor improperly enrolls supplemental assessments on taxable government-owned properties and newly developed homesites on land subject to California Land Conservation Act (CLCA) contract, and fails to issue supplemental assessments for tenant improvements. These issues will be addressed in other portions of this report.

**Decline in Value**

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value, as defined in section 110. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.

The assessor's primary means of discovering declines in property values is taxpayers' requests for review. In addition, the assessor will review the assessments of all residences in a homogeneous subdivision where a taxpayer-requested review results in an assessment below the property's factored base year value.
Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor. This coding also flags each of these properties for annual review. Due to the strengthening of the local real estate market in recent years, the number of properties with decline-in-value assessments has decreased significantly, from 7,719 in 1999 to 983 for 2002.

In recent years, many of the traditional single-family residences have been returned to their factored base year value. Presently, most of the properties with decline-in-value assessments are residential manufactured homes, along with a smaller number of commercial, industrial, and agricultural properties. When a property's value is increased in subsequent years, the assessor sends the taxpayer a notification card and a letter of explanation.

We found that the assessor has an effective and thorough program of annually reviewing and adjusting real property assessments to reflect declines in value.

**California Land Conservation Act Property**

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 govern the assessment of land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

On the 2002-03 tax roll, the assessor enrolled 3,064 parcels, encompassing approximately 424,214 acres, subject to CLCA contracts. Nonrenewal acreage represents approximately 7,900 acres of the total restricted acreage. The total assessed value for CLCA properties for 2002-03 was $586,000,000.

**Income and Expenses**

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by an 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 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.

**RECOMMENDATION 9:** Document the rents, expenses, and rates used to value CLCA property.

For 2001, the assessor reduced irrigated land rents by 25 percent without any supporting documentation. For 2002, the assessor adjusted these rents upward by no more than 20 percent, again without any support.

In our prior survey, we recommended that the assessor develop a market yield rate and make a provision for the income attributable to unrestricted, nonliving vineyard improvements. The assessor is deducting an expense for vineyard improvements, but we were unable to determine the basis for that deduction or whether it involved a "return on and of" the improvements. We could find no documentation for the expenses used in the valuation of tree and vine properties. The AH 521 recommends that those expenditures charged against revenue must be only those which are ordinary and necessary in the production and maintenance of the revenue; and that when the income used is from operating the land being valued, deductions from the income should include allowances for a fair return on capital investment in operating assets other than the land, for amortization of depreciable property, and for compensation of the owner-operator for his management services.

We again recommend that the assessor document the rents, expenses, and rates used to value CLCA property.

**RECOMMENDATION 10:** Use an appropriate income stream when valuing restricted vineyards and orchards.

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

The AH 521 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

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4 See Part II, Chapter 3.
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.

We recommend that the assessor use an appropriate income stream for capitalizing restricted tree and vine income.

Capitalization Rates

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

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

RECOMMENDATION 11: Use appropriate risk components for different types of agricultural properties.

The assessor uses the same risk component in the land valuation of all properties under CLCA contract, regardless of location, property characteristics, or crop. The assessor also annually adjusts the risk rate upwards or downwards in opposition to fluctuations in the BOE-announced CLCA rate. We found no study or market data to support the risk rate selections or adjustments.

Typically, farmers recognize varying degrees of risk among different types of agricultural properties. 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.

The AH 521 recommends a basic risk component of one percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. The AH 521 also notes that the risk component will vary according to the risks associated with 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 use of the same risk rate for all properties and the policy of adjusting the risk rate to nullify any change in the BOE-announced yield rate has resulted in incorrect assessments of CLCA properties.

We recommend that the assessor use appropriate risk rates for the valuation of CLCA lands.
RECOMMENDATION 12:  Add the value of surface rights associated with mineral deposits to the value of CLCA land.

We found the assessor does not value the surface rights associated with areas containing mineral deposits located on CLCA land where the active extraction of these deposits disrupts the surface use of the property. The failure to include these rights has resulted in underassessments.

The proper method of valuing open-space land that contains valuable mineral deposits (including oil, natural gas, sand and gravel, and ores of various types) as stated in the AH 521 (Part II, pages 17 and 18), is to determine the open-space value of the surface use of the land by the capitalization of income method as prescribed in section 423, and add to it the taxable value of any valuable mineral rights. When the development of mineral resources would disrupt the surface use, an appropriate adjustment should be made to the income attributed to the surface rights prior to capitalization. Even if the surface use is disrupted, the rights still have value.

We recommend the assessor value mineral deposits on open-space land in accordance with BOE guidelines.

RECOMMENDATION 13:  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 property's use changes from agricultural to residential and the value of the site likely increases significantly due to this change in use. However, rule 463 defines "newly constructed" to mean any substantial physical alteration of land which constitutes 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 cannot be reassessed as new construction.

The assessor's practice has resulted in improper assessment of such land. We recommend the assessor issue supplemental assessments in accordance with BOE guidelines.

RECOMMENDATION 14:  Ensure that the data in the CLCA computer program is correct.

We noted two errors in the assessor's spreadsheet program used to calculate CLCA values.

We found several parcels in which the land rent used in the nonrenewal calculation and the rent used in the tree and vine calculation was not the same as the rents programmed into the assessor's computer system for CLCA calculations. This has resulted in incorrect assessments. In addition, we noted that the
assessor used the prior year's yield rate in the tree and vine calculation. This has resulted in underassessments of restricted tree and vine values on the 2002-03 roll.

We recommend that the assessor ensure that the correct data is used in the CLCA computer program.

**Taxable Government-Owned Property**

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

Each lien date, Section 11 land must be valued the lowest of: (1) the 1967 assessed value multiplied by a factor annually supplied by the BOE, (2) the factored base year value, or (3) the current fair market value. Yolo County has 45 taxable Section 11 parcels with a total assessed value of approximately $4,300,000 on the 2002-03 assessment roll.

**RECOMMENDATION 15:** Use the BOE-announced 1967 factor to determine the restricted value of taxable government-owned property as required by section 11 of article XIII of the California Constitution.

The assessor uses the 1966 factor instead of the 1967 factor to calculate the restricted value. This practice has continued since 1995.

The 1966 factor applies only to taxable government-owned lands in Inyo County. In accordance with section 11 of article XIII of the California Constitution, for all other taxable government-owned lands, the restricted value is the 1967 assessed value multiplied by the annual BOE-announced 1967 factor.

Yolo County's incorrect calculation of restricted section 11 values has resulted in overassessments of Section 11 properties. We recommend that the assessor use the correct factor to calculate the restricted value.

**RECOMMENDATION 16:** Establish base year values for taxable government-owned property acquired after March 1, 1975 according to BOE guidelines.

The assessor establishes the market value of Section 11 properties at the time of acquisition as the base year value of the property. In future years, the assessor indexes this value by the California Consumer Price Index and treats it as the factored base year value of the property.

BOE guidelines set forth in Letter To Assessors (LTA) 2000/037, dated June 23, 2000, provide that base year values for taxable government-owned properties acquired after March 1, 1975 are established at either the lower of current fair market value as of the date of change in ownership or the 1967 assessed value multiplied by the appropriate factor as of the date of change in ownership.
assessor's practice has resulted in over assessments of Section 11 properties because, in most cases, the restricted value is lower than the current market value.

We recommend that the assessor establish base year values for properties acquired after March 1, 1975 according to BOE guidelines.

**RECOMMENDATION 17:** Assess taxable government-owned property at the lowest of current market value, factored base year value, or section 11 restricted value.

We found that the assessor assesses Section 11 properties that are subject to CLCA contracts at the section 423 restricted value, rather than the section 11 restricted value. These properties were under CLCA contract at the time of acquisition by a municipality and the assessor has continued to value them as CLCA restricted parcels.

Although it is not the responsibility of the assessor to cancel CLCA contracts when properties are acquired by a public agency, Government Code Section 51295 provides that whenever a CLCA restricted property is acquired by a public agency for a public improvement, the CLCA contract is null and void. Government Code Section 51290.5 describes a "public improvement" as any "fee interest" in real property acquired by a public agency. The assessor's practice of enrolling the CLCA restricted value has resulted in underassessments of these Section 11 properties.

We recommend that the assessor assess Section 11 properties at the lowest of current market value, factored base year value, or section 11 restricted value.

**RECOMMENDATION 18:** Review the assessable status of government-owned properties to determine whether they are taxable.

We identified a number of parcels owned by government agencies that were located outside those agencies' boundaries but were not assessed. We also found one parcel that was assessed as a Section 11 property, despite the fact that the tax rate area indicates the property has been annexed by the local government agency that owns it.

The assessor should research the history of these parcels to determine if they are located outside the agencies' boundaries and were taxable when acquired. If the assessor confirms these facts, he must assess these properties in conformance with section 11(a) of article XIII of the California Constitution.

We recommend that the assessor review all government-owned properties to determine whether they are taxable pursuant to section 11 of article XIII.

**RECOMMENDATION 19:** Enroll supplemental assessments only for qualifying properties.

We found that the assessor incorrectly issues supplemental assessments for Section 11 properties when there is a change in ownership.
In LTA 2000/037, the BOE advises that taxable government-owned properties are not subject to supplemental assessment, and therefore should be enrolled on the lien date following acquisition. Issuing supplemental assessments on Section 11 properties has resulted in the governing agency paying taxes that are not owed.

We recommend the assessor enroll supplemental assessments only for qualifying properties.

**Possessory Interests**

A taxable possessory interest results from the possession, or a right to possession, of publicly owned real property, where 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 is based on the value of the rights actually held by the possessor.

Yolo County assessed 187 possessory interests on the 2002-03 roll with a total enrolled value of $55,450,429.

**RECOMMENDATION 20:** Review all private uses of fairgrounds to determine whether taxable possessory interests exist.

This recommendation was also made in our 2000 survey. We found that a number of concessionaires have been using the Yolo County fairgrounds for several years during the annual county fair. We also found several recurring events held at the fairgrounds throughout the year. The recurring use of fairground facilities by the same private person or entity over a number of years may qualify as a durable, exclusive, and independent use, and may therefore warrant assessment as a possessory interest. Since Yolo County currently does not have a section 155.20 low-value property exemption for fairgrounds possessory interests of $50,000 or less, we believe the assessor should enroll any low-value possessory interests discovered in his review in excess of the county's $2,000 low-value exemption limit.

We again recommend that the assessor investigate these uses of the fairgrounds to determine whether they qualify as taxable possessory interests.

**RECOMMENDATION 21:** Annually obtain written tenant and rental information from government agencies.

Since 1996, the assessor has not requested written confirmation regarding tenancies and rents from most public agencies. Instead, the assessor relies on information obtained by telephone conversations with various agencies.

Phone conversations are too informal for this purpose. They rely on the memory of the person spoken to, fail to leave a paper trail, and can lead to the use of outdated or incorrect information. Outdated or incorrect information can lead to inappropriate assessments if the imputed rents, capitalization rates, and expense allowances do not reflect current market conditions. Not having a current written list of tenants can lead to escape assessments.
We recommend that the assessor annually obtain current written confirmation from all public agencies about private uses of their property.

**RECOMMENDATION 22:** Value possessory interests that are month-to-month tenancies in accordance with section 61(b)(2).

The assessor values month-to-month tenancies at the Yolo County airport and the University of California airport as annual changes in ownership.

Section 61(b)(2) provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest does not result in a change in ownership until the end of that reasonably anticipated term of possession. For example, a taxable possessory interest is originally valued using a reasonably anticipated term of possession of five years. That interest, even though renewed monthly under a month-to-month tenancy, 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 practice of annually revaluing month-to-month possessory interests as changes in ownership has resulted in incorrect assessments. We recommend the assessor reappraise only those possessory interests that qualify as changes in ownership pursuant to section 61(b)(2).

**RECOMMENDATION 23:** Do not assess private interests in property used exclusively for public school purposes.

The assessor has assessed the interest of a private concessionaire who provides food service at a state university. The concessionaire provides food and beverages at a variety of locations on campus, including recreation facilities, dining halls, fast food outlets, and vending machines. The assessor has based the assessment on the terms of the written lease agreement.

The BOE has long held that property used by concessionaires exclusively for providing food service to public schools, community colleges, state colleges, and state universities is exempt from property taxation under article XIII, section 3(d). This constitutional provision exempts property used exclusively for public school purposes. It does not require that the public school own the property; even privately owned property used exclusively for such purposes may be exempted. Hence, the interests of concessionaires are not taxable possessory interests.

The consequence of the assessor's practice is that the intent of the public school exemption is not carried out. We recommend that the assessor exempt property used by concessionaires exclusively to provide food service at the University of California.

**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 a period of time, they may add and 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 the business property statement, coordination between the assessor's real property and business property divisions 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 appraisers should determine the proper classification of the property to ensure appropriate assessment and avoid escapes and double assessments. The assessor must determine whether costs are for work that properly qualifies as repair and maintenance and is, therefore, not assessable; whether additions are properly classified as structural improvements or fixtures; and if additions are properly enrolled. Additionally, both divisions must agree on which items will be assessed by which division; otherwise, escapes or double assessments may result.

The most common sources of discovery for tenant improvements are business property statements (BPS) and building permits. A section of the BPS is specifically for reporting real estate owned by the occupants of premises being leased or rented. Such taxpayers are annually required to list additions or deletions of real property.

The assessor's business property section refers all reported structural costs on the BPS to the real property section. The commercial appraiser reviews all referrals for commercial and industrial properties, while the agricultural appraiser reviews all agricultural referrals. Both of these appraisers determine if new structural improvement costs reported on the BPS are assessable new construction. Unsecured accounts are assessed directly for their assessable structural improvements. Assessable structural improvements for secured accounts are assessed to the owner of the land and improvements.

Prior Recommendations

In our 2000 survey, we recommended that the assessor properly classify tenant improvements and make supplemental assessments of qualifying structural improvements. We found that the assessor now values all leasehold improvements in the proper manner. However, the assessor still does not make supplemental assessments for unsecured structural improvements.

**RECOMMENDATION 24**: Enroll supplemental assessments for all unsecured structural improvements.

We found that the assessor still does not issue supplemental assessments for unsecured tenant improvements. The assessor has noted these tenant improvements on the appraisal records, but has not processed the required assessments. The assessor intends to review all new unsecured structural improvements and, at that time, those that are deemed assessable new construction will be placed on the supplemental roll through the roll correction process.
Because structural tenant improvements are real property, they are subject to supplemental assessment. The assessor's practice overlooks this statutory requirement.

We recommend the assessor issue supplemental assessments on all new unsecured structural improvements.

**Water Company Property**

Water company property assessed on the local tax roll may include property of private water companies and mutual water companies. Portions of government-owned water systems may also be taxable. Each type presents different assessment problems.

We found no privately owned water companies in Yolo County. A list provided by the California Public Utilities Commission (CPUC) listed no regulated water companies in Yolo County.

We also found that Yolo County has no mutual water systems. The county's two mutual water companies have been dissolved. One company transferred to the City of Davis; the second company consists of a non-producing well on private property. We found no assessable taxable government-owned land currently held by Yolo County municipal water utilities.

We reviewed a number of assessments for water supply sources annually inspected by the county's Department of Environmental Health and the State Department of Health Services. We found that when a well or pond or other water source property is reported, its value is included in the property's assessment.

Overall, we found the assessor is properly enrolling value attributable to water sources.

**Pipeline Rights-of-Way**

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority (*Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42). The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing county assessors in the valuation of intercounty pipeline lands and rights-of-way.

Nine different companies have pipeline rights-of-way in Yolo County. All of the 158.78 miles of pipeline rights-of-way are low density, single-transmission natural gas lines. The total assessed value on the 2002-03 roll for these pipeline rights-of-way is $2,621,246.

The assessor has assigned the duty of assessing pipeline rights-of-way to the assistant assessor. Pipeline owners are each assigned a single parcel number under which the pipeline value from each tax-rate area is totaled and placed on the roll each lien date. We checked the current roll values and confirmed that the values have been correctly factored from their 1975 base year.
Mineral Property

Yolo County produces natural gas (petroleum) and sand and gravel. The county contracts with a mineral consultant for the valuation of the properties that produce these resources. Under the assessor's authority, the mineral consultant requests necessary information from the various taxpayers for the appraisal of the individual properties. He also collects industry-wide data concerning discount rates, price forecasts, market demand, production trends, environmental and regulatory requirements, and general economic data and trends for the appraisal of these properties.

Mining Property

Rule 469(b) provides that the rights to enter upon land for the purpose of exploration, development, or production of minerals are "taxable real property interests to the extent they individually or collectively have ascertainable value." Each subdivision of the rule thereafter specifically sets forth what to value and when to value it.

RECOMMENDATION 25: Recognize the proper appraisal unit for valuing mineral properties according to rule 469.

We found several properties where the assessor enrolled the factored base year value of the minerals, but the current market value of the fixtures and improvements was lower. The assessor has incorrectly mixed the factored base year value of the minerals with the current market values of fixtures and structures.

Rule 469(e)(2)(C) requires that declines in value be measured against the adjusted base year value of the entire appraisal unit. The assessor's practice of separately appraising the mineral rights and the business property has resulted in underassessments.

We recommend that the assessor identify the proper appraisal unit for mineral properties in order to properly value them.

Petroleum Property

Rule 468, subdivision (a), specifically provides that the right to remove minerals from the earth is a taxable real property interest. Changes in the recoverable amounts of minerals will change the value of that interest. Proved reserves are defined and the steps to ensure that property values are estimated in accordance with article XIII and article XIII A of the California Constitution are detailed in rules 468 and 469.

Pursuant to rule 468, the base year value for proved reserves must be adjusted annually to account for production and other changes to proved reserves, and new construction and equipment removal must be accounted for.

The assessor uses the services of a consultant to value the 90 gas wells located in Yolo County. Of these 90 wells, 54 are active and 36 are "shut-in." Gas wells are typically assessed as separate parcels,
even though the well may be operated as part of a larger field. Yolo County produces 9.5 percent of the state's dry gas.

RECOMMENDATION 26: Impose the section 463 penalty for late filing of annual mineral production reports.

We found that the assessor did not impose the section 463 penalty when the taxpayer failed to timely file the mineral production report. In these cases, the mineral production reports were either filed late or were incomplete, and subsequent requests for additional information from the taxpayer went unanswered.

The assessor mails the annual mineral production reports to the taxpayers. These reports are required to be completed by the taxpayers and sent back to the assessor within the time limit specified. When these reports are not returned, or are not completed with the required information, the assessor estimates the value of the property under section 501.

Section 463 provides that if any person who is required by law or is requested by the assessor to make an annual property statement (including the mineral production report) fails to file an annual property statement within the time limit specified by section 441 or make and subscribe the affidavit representing his or her name and place of residence, a penalty of 10 percent of the assessed value of the unreported taxable tangible property of that person placed on the current roll must be added to the assessment made on the current roll. Section 441(b) requires that the penalty be applied if the statement is not filed by May 7 annually.

The assessor's practice disregards an express statutory requirement and has removed an option to encourage taxpayer cooperation. We recommend the assessor impose the section 463 penalty if the taxpayer fails to timely file the annual mineral production reports.

RECOMMENDATION 27: Enroll proved reserves on a petroleum-producing property after all development work has been completed.

We found that the assessor enrolls the base year value for proved reserves for petroleum-producing properties once the well has been completed but prior to connection to a pipeline.

Letter To Assessors 87/100, dated December 15, 1987, and Assessors' Handbook Section 566, Assessment of Petroleum Properties, provide guidance to assessors for assessing proved reserves where there is a delay in putting in place all of the necessary production equipment to bring the commodity to market. The well improvements should be assessed and a base year value established when the well is ready for use. The AH 566 provides that proved reserves are not to be enrolled until the requirements of rule 468(b) have been satisfied. This includes completion of the connection to a pipeline or some other means of bringing the production to market. Reserves do not become proved until the production facilities are built.

We recommend that the assessor enroll new reserves only after all development work has been completed.
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 Program

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

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers who have business tangible personal property and trade fixtures valued at $400,000 or more.

In fiscal year 2001-02, the assessor had a total workload of approximately 265 mandatory audit accounts that met section 469 requirements for mandatory audits. These accounts will be audited in the next four years. In fiscal year 2001-02, 64 mandatory audits were completed. The assessor is current on his audit workload and performs audits according to his four-year schedule. All three auditor-appraisers perform both mandatory and nonmandatory audits, with support from an assessment office specialist III.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

In fiscal year 2001-02, the assessor completed 97 nonmandatory audits. We found that the assessor maintains an adequate nonmandatory audit program.
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, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

We found that the assessor is very conscientious about obtaining a waiver of the statute of limitations when there is a need to extend the audit period.

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 audited amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

The assessor uses computer software named *Personalty Audit Spreadsheet System* for audits. We found that the program generated audit worksheets that are easy to read and understand. We noted that the audits had good detail and supporting documentation. Also, the audit worksheets included an audit checklist to define the areas of investigation. An analysis of the audit program indicated that the assessor's staff maintains an adequate audit program. The following tables display the results of the audit program for the past five years:

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<td>$47,370,637</td>
<td>$42,187,886</td>
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**Business Property Statement Program**

Section 441 requires each person owning taxable personal property (other than manufactured homes) having an aggregate cost of $100,000 or more to annually file a business property statement with the assessor. Any other person must file a property statement if requested by the assessor. These statements cover a wide variety of property types, including commercial property, industrial property, agricultural property, vessels, and certificated aircraft.

In the Yolo County Assessor's office, an assessment technician reviews business property statements for completeness. Another technician prepares replacement cost estimates on the computer system by applying full value factors to reported costs. Final review is performed by a certified auditor-appraiser. For the 2002-03 roll, the assessor processed 5,277 business property statements, of which 853 were secured assessments and 4,424 were unsecured. Direct-billed accounts on both the secured and unsecured rolls totaled 678 assessments.

Our review of filed property statements indicated the assessor has an adequate business property statement program.

**Business Equipment Valuation**

Commercial, Industrial, and Agricultural Equipment

Assessors' offices use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors (depreciation factors) for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that, in its judgment, will promote uniformity in appraisal practices and in assessed values throughout the state. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).
The AH 581 contains price index factors for various property categories, a percent good table for commercial and industrial equipment, and valuation tables for special property categories.

The price index factors are designed to calculate the reproduction cost new of property based on the type of property and its historical cost in the year of original acquisition. Reproduction Cost New (RCN) is an estimate of the amount, in current dollars, required to purchase a new replica of the property being assessed at the current lien date.

The percent good factors estimate the average percentage of remaining value of the property over its estimated economic life after allowance for normal depreciation. The arithmetic product of the price index factor and the percent good factor (for a given year of acquisition) is commonly known as a valuation factor. The proper application of a valuation factor to a reported historical cost yields an estimate of taxable value known as Replacement Cost New Less Depreciation (RCNLD). This is the preferred method of valuing business property in a mass appraisal environment.

In our 2000 survey, we recommended that the assessor apply individual indices to historical costs of equipment, rather than an average index. Since the BOE officially adopted the averaging practice in its 2001 edition of AH 581, we do not repeat this recommendation.

The equipment valuation factors and service lives used by the assessor for the January 1, 2002, lien date were those recommended by the California Assessors’ Association. We found problems with the way the assessor applies the depreciation tables contained in AH 581.

RECOMMENDATION 28: Use Assessors' Handbook Section 581 as intended.

The assessor uses minimum valuation factors in the valuation of machinery and equipment without market data to support the practice.5

A valid approach to valuing equipment that has survived beyond the recommended average service life is to compute the recommended life at 125 percent and to then apply the price index factor of that extended life to audited historical cost. The AH 581 indicates that the appraiser should apply a percent good factor based on the actual age of the appraisal unit.

Correct valuation procedures are necessary to arrive at a reasonable assessed value. Percent good factors should be based on the actual age of the appraisal unit and should decrease over time to the AH 581-recommended levels. The effect of the assessor’s practice is that assessed values are maintained at a higher level than can be supported by market data. This results in overassessment of older machinery and equipment.

We recommend the assessor use the AH 581 as intended, without applying an arbitrary minimum percent good to business property that has exceeded its average service life.

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5 Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner (AB 2714, Ch. 299, Stats. 2002, adding section 401.16 to the Revenue and Taxation Code).
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 taxable situs, reporting errors by lessees and lessors, taxability, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, Assessment of Personal Property and Fixtures.

We found that the reported leased equipment is assessed at the proper trade level, including adjustments for sales tax, freight, and installation charges. The business property files are noted to remind staff to check for equipment purchases, by the lessee, at the end of the lease term.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

The assessor's direct billing program includes accounts with a full value between $10,000 and $30,000 of reportable business property. The assessor has approximately 700 business property accounts in the direct billing program.

**RECOMMENDATION 29:** Require assessees whose business property accounts are direct-billed to file a Business Property Statement at least once every four years.

We found that most of these direct billing accounts have not been reviewed within the last four years to determine whether they should remain on direct billing.

The direct billing program can be productive and effective only if direct-billed accounts are periodically reviewed and updated. This can be accomplished by requiring all direct-billed accounts to file a business property statement every four years. Failure to review and update direct billing accounts could lead to overassessments or the escape of taxable property.

We recommend the assessor require assessees of direct-billed accounts to file a business property statement at least once every four years.
Aircraft

General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. 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 as an alternate for aircraft not listed in the Bluebook.

The Yolo County assessor enrolled 157 general aircraft on the 2002-03 assessment roll with a total assessed value of about $47 million. We found that the assessor annually reviews the values of the aircraft to determine their full value.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

The historical aircraft exemption is not automatic. The owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, and pay a filing fee of thirty-five dollars ($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 assesse is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assesse does not use the aircraft for commercial purposes or general transportation; and (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

The assessor granted 10 historical aircraft exemptions totaling about $192,000 on the 2002-03 assessment roll.

RECOMMENDATION 30: Grant the historical aircraft exemption only to qualifying aircraft.

We found a number of claims where the dates the aircraft had been displayed to the public were not sufficiently detailed to ensure that the required number of days had been satisfied. Also, there was one claim form on which the signature of the claimant was neither notarized nor witnessed by a designee of the assessor.

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. It also requires that the claim be either notarized or witnessed by the assessor's representative.
The assessor should ensure that the requirements for claiming this exemption have been completely met. We recommend that the assessor grant the historical aircraft exemption only to qualifying aircraft.

**Vessels**

For the 2002-03 tax roll, the assessor enrolled 1,489 boats and documented vessels with a total assessed value of about $17 million. This amount includes three commercial vessels with an assessed value of approximately $22,000, which qualified for the four percent assessment provided by section 227.

The methods of discovering taxable vessels include certificates of documentation, harbormaster's marina reports, field canvassing, referrals from other counties, Department of Motor Vehicles (DMV) reports and property statements. Annually, the assessor obtains from DMV a printed report containing sales data and information about registered owners.

In our prior survey report, we recommended that the assessor upgrade the vessel appraisal procedures by annually appraising vessels at market value. We found that the assessor's practice has not changed.

**RECOMMENDATION 31:** Annually appraise all vessels at market value.

We found that after the assessor establishes the initial assessment of a vessel, he reduces it by a fixed percentage each year for successive roll years. For the 2002 lien date, the fixed percentage was 20 percent for new vessels and 5 percent for all other vessels. This adjustment is not based on any study and results in an arbitrary assessment of vessels.

Sections 401 and 401.3 require the assessor to assess vessels at market value each year. The assessor’s current policy does not comply with that requirement. The current procedure seldom reflects the actual market value of the vessels. While this valuation procedure is expedient, it is also inaccurate and may result in over- and underassessments of vessels in Yolo County.

We recommend that the assessor annually determine the market value of vessels and assess them at that value.

**Animals**

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and rule 133.

**Show Horses**

Show horses are one of a few types of animals subject to property taxation. Show horses (and other nonexempt horses) are assessed in the same manner as any other personal property. The assessor annually sends Form BOE-571-F2, *Registered and Show Horse Statement*, to 19 owners of taxable
show horses. Returned statements indicate that there are over 50 show horses in Yolo County. We reviewed the procedures for assessing taxable show horses and found that the program is being administered correctly.

**Manufactured Homes**

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Most manufactured homes are classified as personal property and enrolled on the secured roll.

The assessor enrolled 1,089 manufactured homes on the 2002-03 secured roll, with an approximate value of $27 million. Of these, 1,067 are sited in manufactured home rental parks and the remainder are sited on fee or leased land. In Yolo County, one real property appraiser processes all assessments of manufactured homes.

The assessor discovers new and transferred properties primarily through lists routinely provided by the Department of Housing and Community Development (HCD). These lists also include manufactured homes voluntarily converted from vehicle license fee status to local property taxation and manufactured homes that have been moved to new locations. In addition, the assessor obtains information through dealers' reports of sale, building permits, the owners and managers of manufactured home parks, and field inspections. The assessor properly enrolls manufactured homes as personal property and applies the homeowners' exemption where appropriate.

**Manufactured Home Accessories**

During our previous survey, we recommended that the assessor assess newly constructed manufactured home accessories. We found that the assessor now enrolls accessories such as carports, awnings, and porches. The assessor has complied with this recommendation.

Records for manufactured home assessments are well kept. In addition, most files contain dealers' reports of sale, HCD lists, permits, and copies of questionnaires returned by manufactured home owners. However, there are two areas of the program that need attention.

**Inflation Factor**

**RECOMMENDATION 32:** Document decline-in-value status for manufactured homes in rental parks.

We found some instances where the assessor recognized decline-in-values for manufactured homes but failed to document this fact. The assessor uses a table to update all manufactured home values based on yearly comparisons of manufactured home sales in Yolo County. The table is designed to prevent
inadvertent application of the inflation factor to a manufactured home having a stagnant or declining value.

One record included a notation that the property would be reviewed for decline in value, but most records contained no mention of such a review. Our review of 15 manufactured home records contained five with no factoring of taxable value for one or more lien dates. In addition, these properties were not coded for decline-in-value status in the assessor's computer system.

Section 5813 states, in part, "For each lien date after the lien date for which the base year value is determined, the taxable value of a manufactured home shall be the lesser of: (a) Its base year value, compounded annually since the base year by an inflation factor…(b) Its full cash value…"

While the assessor's annual market value comparison is a good idea, he should ensure that when the values of manufactured homes are held the same for successive roll years, without inflation factoring, that this value is clearly coded in the computer system as a decline in value. This would provide proper notice that annual review was in order.

We recommend the assessor formally document decline-in-value status for manufactured homes in rental parks.

Site Value

RECOMMENDATION 33: Place greater emphasis on published value guides for manufactured homes.

We found the assessor does not remove site value from the selling prices of manufactured homes located in rental parks. The assessor accepts the sale price as provided by the new owner. One sales comparison list showed selling prices of manufactured homes of similar size and age, but sited in different manufactured home parks, ranging from $34,000 to $57,000. These sale prices were enrolled as assessed values for these similar manufactured homes and used in the sales analysis spreadsheet.

Section 5803(b) prohibits the inclusion of site value in manufactured home assessments. It also requires the assessor to consider published value guides such as the Kelley Blue Book Official Manufactured Housing Guide, National Automobile Dealers Association's Manufactured Housing Appraisal Guide, or BOE cost guides in establishing taxable values for manufactured homes in rental parks. It is likely that certain parks in Yolo County influence selling prices of homes located within them, either positively or negatively. For this reason, the assessor should not rely on nominal selling prices of units located in rental parks.

We recommend that the assessor place greater emphasis on published value guides when valuing manufactured homes located in rental parks.
APPENDICES

A. County Property Tax Division Survey Group

Yolo County Assessment Practices Survey

Chief, County Property Tax Division:
Mickie Stuckey

Survey Program Director:
Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:
Peter Gaffney Supervising Property Appraiser

Survey Team Leader:
Glenn Danley Senior Specialist Property Appraiser

Survey Team:
James McCarthy Senior Petroleum and Mining Property Engineer
Simeon Okoroike Senior Petroleum and Mining Property Engineer
Zella Cunningham Associate Property Appraiser
Bob Marr Associate Property Appraiser
Bob Rossi Associate Property Appraiser
David Barbeiro Associate Property Auditor-Appraiser
Pam Bowens Associate Property Auditor-Appraiser
Larry Gee Associate Property Auditor-Appraiser
Kim Trotto Assistant Property Appraiser
Marilyn Jones Tax Technician II
B. Assessment Sampling Program

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

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

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

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

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

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

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

   a) **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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6 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.

7 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.
b) **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.

c) **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.

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

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

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

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

   a) **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?
b) **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?

c) **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?

d) **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?

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

7. 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.

8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

Government Code

15640. Survey by board of county assessment procedures.
(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

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

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

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

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

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

15641. Audit of Records; Appraisal Data Not Public.
In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

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

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

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

15642. **Research by board employees.**

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

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

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

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

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

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

15644. **Recommendations by board.**

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

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

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

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

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

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

(3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.
Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

(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.


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.
January 12, 2004

Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
450 “N” Street, MIC 62
Sacramento, CA 95814

Re: Yolo County Assessment Practice Survey

Dear Ms. Stuckey:

I wish to thank the entire survey team for the professional and caring manner in which the survey was conducted. Pursuant to section 15645 of the California Government Code, the following is the Yolo County Assessor’s response to the recommendations presented in this Assessment Practices Survey conducted by the State Board of Equalization survey team. Please incorporate my response in your final Assessment Practices Survey Report.

I also want to thank the Staff of the Yolo County Assessors’ Office for their excellent work. The Yolo County Assessment Roll was sampled in this survey as well as the last survey. The ratio in the last sample was 99.9 percent and the current sample was 100 percent. I think the staff performance in light of the budget problems faced by local government has been outstanding. In real terms budget for the Assessors Office have decreased and costs have been a major concern when considering policies and procedures.

Yours truly,

Dick Fisher

Dick Fisher, Yolo County Assessor
RECOMMENDATION 1: Grant the Welfare exemption for qualifying multispecialty health care clinics.

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.

RECOMMENDATION 2: Properly apply the low-value exemption resolution.

We believe we are following the intent of the resolution.

RECOMMENDATION 3: Revise disaster relief forms to conform to the requirements of section 170.

This was done prior to survey, however, due to limited staffing, the updating of the web page was not completed before the survey began. The form is now updated on the web site.

RECOMMENDATION 4: Include the specific notation required by section 533.

We believe this section is outdated and the Assessors’ Association and State Board have both proposed legislation that would remove this requirement.

RECOMMENDATION 5: Enroll all roll changes regardless of value.

The cost of generating and collecting low value roll corrections exceed the revenue. It is not effective to enroll these values and our new low value resolution takes care of this issue.

RECOMMENDATION 6: Utilize the Change of Ownership Statement when a Preliminary Change of Ownership Report has not been filed.

We do send a Change of Ownership Statement when we believe it is needed. In most cases we believe direct phone contact or letter is the most efficient and cost effective method to arrive at the correct value. Needless paperwork haunts both taxpayers and government.
RECOMMENDATION 7: File quarterly reports with the BOE for all base year value transfer claims as required by section 69.5.

We agree this was not done for a period of three years due to staffing problems. We have submitted all past reports and now perform this function quarterly.

RECOMMENDATION 8: Value properties subject to improvements bonds in accordance with section 110(b).

We do not add bonds to all proprieties. We do add bonds on all commercial property because we have data to rebut the presumption. Our position has been upheld in hearings before the Assessment Appeal Board.

RECOMMENDATION 9: Document the rents, expenses, rates used to value CLCA property.

We base our CLCA values on information gathered from local farmers and consideration of other economic factors. Staff and the Assessor meet to set rents, expenses, and rates. We spend a large amount of time and resources in valuing CLCA properties and the information we use is sufficient to support our values. Adjustment to rents and rates were based on a long-term pattern of declining farm income and closure of several food processing plants restricting the market for local product.

RECOMMENDATION 10: Use an appropriate income stream when valuing restricted vineyards and orchards.

We believe the straight-line method gives reasonable values and while the SBE prefers a more detailed method; straight-line is an acceptable appraisal practice. Should resources improve we would consider changing methods.

RECOMMENDATION 11: Use appropriate risk components for different types of agricultural properties.

See response to 9.

RECOMMENDATION 12: Add the value of surface rights associated with mineral deposits to the value of CLCA land.

We believe that it is our practice to add mineral rights to CLCA value; if we failed to do so on some properties we will do so in the future.

RECOMMENDATION 13: Enroll supplemental assessment only for qualifying new construction on home sites on CLCA land.
We disagree with the survey team position and are enrolling proper supplemental assessments.

RECOMMENDATION 14: Ensure that the data in the CLCA computer program is correct.

We do recognize that this causes some minor problems however we do not have staff or resources to fix all computer program problems. We do fix errors as we catch them.

RECOMMENDATION 15: Use the BOE-announced 1967 factor to determine the restricted value of taxable government owned property as required by section 11 of article XIII of the California Constitution.

We agree.

RECOMMENDATION 16: Establish base year values for taxable government-owned property acquired after March 1, 1975 according to BOE guidelines.

We agree and we will do so when staffing and resources allow.

RECOMMENDATION 17: Assess taxable government-owned property at the lower of the current market value, factored base year value, or section 11 restricted value.

We disagree and believe that government property in CLCA that is still being farmed should have CLCA value when applicable.

RECOMMENDATION 18: Review the assessable status of government-owned properties to determine whether they are taxable.

We agree and we will do so when staffing and resources allow.

RECOMMENDATION 19: Enroll supplemental assessments only for qualifying properties.

We agree.

RECOMMENDATION 20: Review all private use of fairgrounds to determine whether taxable possessory interests exist.

Our current low value resolution takes care of this issue.

RECOMMENDATION 21: Annually obtain written tenant and rental information from government agency.
We disagree, in the past we have sent written request and got less information than we get from personal contact.

RECOMMENDATION 22: Value possessory interest that are on month to month tenancies in accordance with section 61(b)(2).

We agree

RECOMMENDATION 23: Do not assess private interests in property used exclusively for public school purpose.

We disagree. The sample found one property that the survey team believed was exempt; the Concessionaire at the University property is not used exclusively for public school purpose and our Assessment is proper.

RECOMMENDATION 24: Enroll supplemental assessments for all unsecured structural improvements.

We agree and are doing. However, should workloads increase this will not be a high priority.

RECOMMENDATION 25: Recognize the proper appraisal unit for valuing mineral properties according to rule 469.

We believe we have two rules in conflict since Rule 461(e) state fixtures are a separate appraisal unit. We do not appraisal mineral properties as one unit but rather using the royalty rate to appraises mineral rights separately. Since they have been appraised separately they should be consider separate units.

RECOMMENDATION 26: Impose the section 463 penalty for late filing of annual mineral production reports.

We agree.

RECOMMENDATION 27: Enroll proven reserves on petroleum-producing properties after all development work has been completed.

We disagree; we hire an outside consultant that has staff of former BOE employees with combined experience of over 75 years. They and county counsel have reviewed this issue. They agree that the Assessor’s enrollment is proper.

RECOMMENDATION 28: Use Assessors’ Handbook Section 581 as intended.
We disagree; we do use AH581 as intended. Our minimum percent good is supported. We use recognized appraisal industry cost guides per good factors, appraisal publications, and when we prepare for assessment appeals we sample our factor against market sales.

RECOMMENDATION 29: Require assessees whose business property account is direct-billed to file a Business Property Statement at least once every four years.

The purpose of the direct billing program is to lessen the burden of paper work on very small business. These businesses are a minimal portion of the assessment roll and we do not believe, by not sending a property statement every four years, there are a significant number of improper assessments. We include some direct bill accounts in our non-mandatory audit program and other accounts are reviewed from time to time.

RECOMMENDATION 30: Grant historical aircraft exemption only to qualifying aircraft.

We agree, however, we might note that when this exemption came into existence it was the BOE position that the Assessor should be liberal in the application of this exemption.

RECOMMENDATION 31: Annually appraise pleasure boats at market value.

My response is the same as in the last survey “Boats are appraised annually by market value. Our procedure of annually depreciating boat values from their purchase price provides a reasonable value and is a procedure that is cost effective to administer. Boats account for less than a quarter of a percent (.0025) of the total assessed value and the average value of a boat is less than $9,000. We do believe that the value difference between the state’s method and county’s method would not justify the added cost of the program.”

RECOMMENDATION 32: Document decline-in-values status for manufactured homes in rental parks.

We have done decline in values reviews as a mass project using computer runs. We do not have the staff or resources to update each individual record. The appraisers keep the computer runs at their desks for a year or so.

RECOMMENDATION 33: Place greater emphasis on published value guide for manufactured homes.

We do not believe this is necessary. Most parks in Yolo County are not in locations that command a site premium.