

TEHAMA COUNTY ASSESSMENT PRACTICES SURVEY

SEPTEMBER 2016

CALIFORNIA STATE BOARD OF EQUALIZATION

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STATE BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
1-916-274-3350 • FAX 1-916-285-0134
www.boe.ca.gov

SEN. GEORGE RUNNER (RET.)
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Second District, San Francisco

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Executive Director

No. 2016/033

September 15, 2016

TO COUNTY ASSESSORS:

**TEHAMA COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Tehama 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 specific counties to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Dale Stroud, Tehama 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 Tehama County Board of Supervisors, and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from March through April 2015. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

Sincerely,

/s/ David Yeung for

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

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INTRODUCTION

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

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

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

OBJECTIVE

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

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

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey included an assessment sample of the 2014-15 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

¹ Government Code section 15642.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.³

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

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf>.

We conducted reviews of the following areas:

- Administration

We reviewed the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, assessment appeals, disaster relief, and exemptions.

- Assessment of Real Property

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

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, aircraft assessments, and vessel assessments.

³ For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

EXECUTIVE SUMMARY

We examined the assessment practices of the Tehama County Assessor's Office as for the 2014-15 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit – the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

In the area of administration, we made no recommendations for managing staffing and workload, assessment appeals, and disaster relief. However, we made recommendations for improvement in the exemptions programs.

In the area of real property assessment, we made no recommendations for enrolling declines in value and California Land Conservation Act property. However, we made recommendations for improvement in the change in ownership, new construction, taxable possessory interests, and mineral property programs.

In the area of personal property and fixtures assessment, we made no recommendations for processing business property statements, business equipment valuation, and assessing aircrafts and vessels. However, we made recommendations for improvement in the audit and manufactured home programs.

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

The Tehama County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2014-15 assessment roll indicated an average assessment ratio of 100.17 percent, and the sum of the absolute differences from the required assessment level was 1.35 percent. Accordingly, the BOE certifies that Tehama County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF TEHAMA COUNTY

Tehama County is situated in the northern Sacramento Valley. The Sacramento River runs through the central portion of the county seat, Red Bluff. The county encompasses 2,949.71 square miles and has three incorporated cities: Corning, Red Bluff, and Tehama. The county is bound on the north by Shasta County, on the west by Trinity and Mendocino Counties, on the south by Glenn and Butte Counties, and on the east by Plumas County. The county's economy is largely agricultural. The top annual farm production includes walnuts, dried plums, almonds, olives, and milk. Governed by a five-member board of supervisors, Tehama County has a population of 63,067.



FINDINGS AND RECOMMENDATIONS

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

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

- RECOMMENDATION 1:** Properly apply late-filing provisions for welfare exemption claims that are not timely filed.7
- RECOMMENDATION 2:** Correctly calculate the amount of the exemption to be granted for a late-filed claim on the low-income disabled veterans' exemption.8
- RECOMMENDATION 3:** Improve the LEOP program by: (1) timely reassessing all properties owned by a legal entity having undergone a change in control and (2) properly implementing the penalty process in accordance with section 482(b).11
- RECOMMENDATION 4:** Improve the new construction program by: (1) consistently classifying wells as land pursuant to Rule 124 and (2) granting new construction exclusions for claims for disabled access improvements only upon compliance with sections 74.3 and 74.6.....12
- RECOMMENDATION 5:** Improve the taxable possessory interest program by: (1) using proper methodology in developing the capitalization rate in the appraisal of taxable possessory interests and (2) discovering and assessing all taxable possessory interests.14
- RECOMMENDATION 6:** Measure and use the long-term trend to forecast production of the petroleum property, matching reserves to those supported by the cash flow analysis, and recognizing declines in base year reserves for reductions other than depletion.16
- RECOMMENDATION 7:** Improve the audit program by: (1) using a comprehensive audit checklist as a standard component of all audits and (2) enrolling all escape assessments and over assessments discovered during the course of an audit.18
- RECOMMENDATION 8:** Periodically review manufactured home assessments for declines in value.....19

ADMINISTRATION

Exemptions

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

Our review of the assessor's exemptions program included the church and religious, welfare, and disabled veterans' exemptions. We found no problems with the assessor's church and religious exemption programs and consequently have no recommendations in this area.

Welfare Exemption

We reviewed a number of welfare exemption files in Tehama County and found that they were generally well administered. The assessor uses the correct versions of BOE-267 (first filing) and BOE-267-A (annual filing). Claim files generally include field inspection reports, original signatures, and supplemental affidavits if required. Organizations are required to submit copies of valid OCCs when submitting a first filing claim. In subsequent years, the assessor verifies the claimant is still the holder of a valid OCC before granting the exemption. We commend the assessor on the implementation and use of BOE-267-F (finding sheet) for providing claimants written notification of the assessor's determination of eligibility for exemption. However, in our review of the assessor's program for the administration of the welfare exemption, we did find an area in need of improvement.

RECOMMENDATION 1: Properly apply late-filing provisions for welfare exemption claims that are not timely filed.

We found several properties where the assessor did not properly apply the late-filing provisions for welfare exemption claims. When a claimant for the welfare exemption files after the annual February deadline, the assessor allows only a reduced exemption of 85 or 90 percent, depending upon when the claim form is filed. The assessor applies this reduced exemption amount to each parcel of real property or unsecured business property account for which the qualifying organization has claimed the exemption. The effect is that the tax liability in some cases exceeds \$250 in total, and in other cases exceeds \$250 per parcel or account.

Section 255(a) provides that annual claims for the welfare exemption must be filed with the assessor between January 1 and 5 p.m. on February 15. Section 270 states that 90 percent of any tax, penalty, or interest will be cancelled or refunded if the claim is filed on or before January 1 of the next calendar year. If a claim is filed with the assessor after January 1 of the next calendar

⁴For a detailed description of the scope of our review of this topic, please refer to the document entitled *Exemptions*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

year, then 85 percent of any tax, penalty, or interest shall be cancelled or refunded. However, section 270(b) provides that the total amount of tax, penalty, and interest may not exceed \$250.

Section 271 provides that a welfare exemption claim filed on property acquired after the lien date is considered filed timely if filed within 90 days from the first day of the month following the month in which the property was acquired or by February 15 of the following calendar year, whichever occurs earlier. If the claimant does not file the application within the prescribed time period, but files an exemption claim later, then 85 percent of any tax, penalty, or interest is cancelled or refunded. Also, the combined tax, penalty, or interest imposed may not exceed \$250.

This late-filing provision is to be applied to the exempt organization as a whole, not to each property for which an exemption claim was filed late. Assessors' Handbook Section 267, *Church, Religious, and Welfare Exemptions* (October 2004), provides on page 110 of Part I: "The \$250 should not be based on each parcel in a claim, or on each claim if there is more than one claim, but on the claimant's total property that is exempt in the county."

By not limiting the amount of tax, penalty, and interest to a maximum of \$250, whether the claim involves a single location or multiple locations, the assessor is not properly applying the penalty limitations of section 270 and 271.

Disabled Veterans' Exemption

We reviewed a number of disabled veterans' exemption files in Tehama County and found that they were generally well administered. However, we did find an area for improvement in the administration of the disabled veterans' exemption.

RECOMMENDATION 2: Correctly calculate the amount of the exemption to be granted for a late-filed claim on the low-income disabled veterans' exemption.

When applying late-filing provisions for a late-filed claim on the low-income provision of the disabled veterans' exemption, we found the assessor incorrectly calculates the amount of the partial exemption to be granted for the property. The assessor calculates the partial exemption to be granted based on the entire amount of the exemption rather than the amount over the basic exemption.

Section 276(b) states, "If a late-filed claim for the one-hundred-fifty-thousand-dollar (\$150,000) exemption is filed in conjunction with a timely filed claim for the one-hundred-thousand-dollar (\$100,000) exemption, the amount of any exemption allowed under the late-filed claim under subdivision (a) shall be determined on the basis of that portion of the exemption amount, otherwise available under subdivision (a), that exceeds one hundred thousand dollars (\$100,000)."

The disabled veterans' exemption requires a one-time filing. Thereafter, the basic amount of the exemption does not require a separate filing. However, a claimant for the disabled veteran's exemption must annually file for any amount over the basic amount and it is that amount on which the partial exemption is to be calculated.

Calculating the amount of the exemption to be granted for the property based on the entire exemption amount rather than the amount exceeding the basic level deprives claimants of the proper amount of exemption to which they are entitled. The assessor should adjust his procedures to grant the claimant the proper amount of the exemption.

ASSESSMENT OF REAL PROPERTY

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.⁵

Legal Entity Ownership Program (LEOP)

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

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Our review of several property records undergoing a change in control indicated a number of areas in need of improvement.

RECOMMENDATION 3: Improve the LEOP program by: (1) timely reassessing all properties owned by a legal entity having undergone a change in control and (2) properly implementing the penalty process in accordance with section 482(b).

Timely reassess all properties owned by a legal entity having undergone a change in control.

We reviewed appraisal records of legal entities having undergone a change in control, and we found several parcels that had not been reassessed even though the assessor was notified of a change in control for those legal entities through the BOE's LEOP section.

Section 64(c)(1) provides that when a legal entity acquires controlling interest of another legal entity by obtaining more than 50 percent of the voting stock or a majority ownership interest in that legal entity, there is a change in ownership of the real property owned by the legal entity being acquired.

By not reassessing properties owned by legal entities identified as having undergone a change in control, the assessor may be enrolling incorrect assessments for those properties.

Properly implement the penalty process in accordance with section 482(b).

We reviewed several appraisal records, and we found that the assessor is not applying penalties in accordance with section 482(b) when a legal entity fails to timely file a BOE-100-B due to a change in control or ownership.

Sections 480.1 and 480.2 require the filing of a signed BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, whenever a legal entity has undergone a change in control or ownership. Section 482(b) states that if a legal entity required to file a BOE-100-B fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership of the legal entity, or (2) the date of a written request by the BOE, a specific penalty shall be applied.

The BOE provides the assessor with several reports, as well as copies of BOE-100-Bs, indicating whether a penalty applies. The assessor should review these reports and the BOE-100-Bs to identify entities with late-filings or failures to file and apply penalties accordingly. By failing to apply the required section 482(b) penalty, the assessor is not following statutory requirements and is not treating all taxpayers equitably.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that

converts an improvement to the substantial equivalent of a new improvement constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.⁶

We reviewed several new construction records and found the assessor's program for the discovery and assessment of new construction to be generally well administered. The assessor's property records were well documented, showing construction in progress assessed as of the lien date, completed new construction assessed as of the date of completion, and supplemental assessments issued as of the date of completion, when applicable. However, we found two areas in need of improvement.

RECOMMENDATION 4: Improve the new construction program by: (1) consistently classifying wells as land pursuant to Rule 124 and (2) granting new construction exclusions for claims for disabled access improvements only upon compliance with sections 74.3 and 74.6.

Consistently classify wells as land pursuant to Rule 124.

It is the assessor's policy to classify wells as structural improvements except for California Land Conservation Act (CLCA) parcels; for CLCA parcels, the assessor correctly classifies wells as land. Rule 124 provides that wells are land. By not attributing any value to the land for value added by the new construction of domestic water wells, the assessor is underassessing the land and overassessing the improvements. This may also result in incorrect special assessments.

Grant new construction exclusion for claims for disabled access improvements only upon compliance with sections 74.3 and 74.6.

The assessor excludes new construction performed for the purpose of making a dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling without the information required by section 74.3. The assessor also excludes new construction performed for the purpose of making a building or structure more accessible to, or more usable by, a disabled person without the information required by section 74.6. If the permit description indicates the permit is for disabled persons' access improvements, a site inspection is performed to verify the accuracy of the description. The construction is excluded from increases in property taxation if the permit description is accurate.

Section 74.3(a) provides that "newly constructed" does not include the construction, installation, or modification of any portion or structural component of an existing single or multi-family dwelling that is eligible for the homeowners' exemption as described in section 218, if the construction, installation, or modification is for the purpose of making the dwelling more

⁶ For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/newconstruction_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

accessible to a severely and permanently disabled person who is a permanent resident of the dwelling. For this exclusion to apply, the following conditions must be met: (1) the construction, installations, or modifications must be completed on or after June 6, 1990 on an existing dwelling, (2) the dwelling must be eligible for the homeowners' exemption, and (3) the work performed must be for the purpose of making the dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling.

To receive the exclusion, the disabled person, their spouse, or their legal guardian must submit to the assessor the following: (1) a statement signed by a licensed physician or surgeon, of appropriate specialty, certifying the person is severely and permanently disabled as defined in section 74.3(b), and identifying specific disability-related reasons why the accessibility improvements or features are needed, and (2) a statement by the claimant identifying the construction, installation, or modification necessary to make the dwelling more accessible to the disabled resident.

For buildings other than owner occupied dwellings, section 74.6 provides that "newly constructed" and "new construction" does not include the construction, installation, removal, or modification of any portion or structural component of an existing building or structure to the extent that it is done for the purpose of making the building or structure more accessible to, or more usable by, a disabled person. For this exclusion to apply, the following must be met: (1) the construction, installation, removal, or modification must be completed on or after June 7, 1994 to an existing building, (2) the work performed must be for the purpose of making the building more accessible to, or more usable by, a disabled person, and (3) the construction must not qualify for the construction exclusion provided by section 74.3(a).

To receive the exclusion, the following shall be submitted to the assessor: (1) notification by the property owner prior to, or within 30 days of, completion of any project that the property owner intends to claim the exclusion for improvements making the building or structure more accessible to, or usable by, a disabled person, (2) a statement from the property owner, primary contractor, civil engineer, or architect identifying those portions of the project making the building or structure more accessible to, or usable by, a disabled person, and (3) all documents necessary to support the exclusion, filed by the property owner, no later than six months after the completion of the project.

Use of BOE-63, *Disabled Persons Claim for Exclusion of New Construction*, and BOE-63-A, *Claim for Disabled Accessibility Construction Exclusion from Assessment*, facilitates this process. Both forms guide the property owner in providing the assessor the statements and certifications necessary to receive the exclusion. If the information required by sections 74.3 and 74.6 is not provided, the assessor is not authorized to exclude new construction from assessment for improvements intended to provide accessibility or usability for a disabled person. Failure to obtain the necessary information required by sections 74.3 and 74.6 may cause the assessor to grant exclusions for new construction that would otherwise be taxable.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private

benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.⁷

The assessor enrolled 174 taxable possessory interests on the 2014-15 roll with a total assessed value of \$26,468,029. The majority of taxable possessory interests are private interests in airport hangars and tie-downs and privately owned cabins on U.S. Forest Service land. Other types of taxable possessory interests include cable television rights-of-way, private recreational pier leases, employee housing, and grazing rights.

We reviewed a number of taxable possessory interest records and found areas in need of improvement.

RECOMMENDATION 5: Improve the taxable possessory interest program by:
(1) using proper methodology in developing the capitalization rate in the appraisal of taxable possessory interests and (2) discovering and assessing all taxable possessory interests.

Use proper methodology in developing the capitalization rate in the appraisal of taxable possessory interests.

In accordance with Rule 21(e)(3)(A), the assessor uses the direct income approach to value taxable possessory interests whenever possible. However, we noted the assessor is deriving a capitalization rate that includes a property tax component when the tenant pays the property taxes, which is contrary to Rule 8.

Under Rule 8(f), the capitalization rate should include a property tax component, where applicable. According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interest* (AH 510), when the landlord (lessor) is responsible for paying the property taxes, the capitalization rate should include a component for property taxes. However, if the tenant (lessee) is responsible for paying the property taxes in addition to rent, the capitalization rate should not include a component for property taxes. With most taxable possessory interests, the possessory interest tax is paid by the tenant in addition to rent. Therefore, the capitalization rate should not include a component for property taxes.

Using improper methodology to develop a capitalization rate when valuing taxable possessory interests may cause the assessor to apply an inappropriate capitalization rate and enroll incorrect assessments.

⁷ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Discover and assess all taxable possessory interests.

The assessor does not request annual rent information from the Tehama District Fair to determine whether taxable possessory interests exist at the county fairgrounds. Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide a private benefit. Several concessionaires' interests at the fairgrounds may meet the requirements and should be reviewed for possible assessment as taxable possessory interests.

The county's low-value property exemption ordinance has a value ceiling of \$1,000, which may not be high enough to exempt many of the taxable possessory interests at the county fairgrounds. Section 155.20(b)(1) allows a board of supervisors to exempt taxable possessory interests at publicly-owned fairgrounds, convention centers and cultural facilities with a value up to \$50,000. The assessor may wish to request that the board of supervisors increase the existing low-value property exemption amount for such taxable possessory interests as allowed under section 155.20(b)(1).

Failure to assess all taxable possessory interests not otherwise exempt under the low-value ordinance results in taxable property that avoids assessment.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.⁸

Our review of the assessor's mineral property program included petroleum property and mining property. There are no current recommendations regarding mining properties in Tehama County.

Petroleum Property

Tehama County has numerous gas wells located in the county. The county has recently begun appraising its mineral properties utilizing a senior appraiser on staff instead of a mineral consultant. There are several recommendations to improve the appraisal of these properties that the assessor should consider.

⁸ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

RECOMMENDATION 6: Measure and use the long-term trend to forecast production of the petroleum property, matching reserves to those supported by the cash flow analysis, and recognizing declines in base year reserves for reductions other than depletion.

A review of the assessor's mineral property appraisal worksheets indicates that the assessor is using a uniform decline rate to forecast future production. This conflicts with acceptable appraisal practices for petroleum properties and the guidelines presented in Assessors' Handbook Section 566 (AH 566), *Assessment of Petroleum Properties*. All petroleum production declines over time. This is a function of the reservoir characteristics and production rates over time. The decline rate can be observed by plotting the production versus time. Production graphs are a critical tool for the analysis of any property and should be one of the first things an appraiser updates when beginning a mineral property appraisal. The data necessary to generate these graphs can be downloaded from the California Department of Conservation website and plotted using a spreadsheet program. Measuring the annual decline trend of production may or may not capture the proper decline rate. The best solution and part of the art of petroleum property appraisals is an examination of several years of production to identify the proper decline rate. A further discussion of Decline Curves can be found in Chapter 4 of AH 566.

Each year as part of the appraisal process, the assessor makes an estimate of the current market value of a petroleum property. This includes an estimate of the reserves for that property. The assessor fails to adjust the base year reserves estimate to match the reserves estimate from the cash flow analysis. Pursuant to Rule 468(b), these numbers have to be the same because the current estimate reflects the definition of proved reserves for a property. There cannot be two different proved reserves estimates for a given property used for property tax valuation.

The base year estimate of reserves needs to be adjusted to reflect the same reserve estimate found under the current market value estimate. The assessor's procedures do not adjust base year reserves to account for reductions for other than depletion as is required by Rule 468(c)(2). Failure to make this adjustment can result in an overstatement of the adjusted base year mineral rights value, which can carry over to future years.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.⁹

As noted above, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to BOE's calculations, the statute requires the assessor to complete 11 audits per year with 5 and 6 audits being selected alternatively from the largest business property owners, and the remaining audits selected from all other business property accounts. During the most recent roll year of 2014-15, the assessor met his statutory obligation by completing a total of 12 audits.

Audit Quality

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

During our review, we found that the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. We reviewed several recently completed audits and found in all cases audits were supported by sufficient documentation evidencing the relevant findings. Audit quality is further enhanced by a standardized review process where every completed audit is reviewed by the assessor. We also examined the assessor's application of roll corrections to reflect audit findings. We found that audit differences discovered over multiple tax years are appropriately applied to each year's associated tax rate in accordance with section 531.

Overall, the assessor's audit quality is consistently good. However, we found areas for improvement involving both audit quality and enrollment procedures.

⁹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

RECOMMENDATION 7: Improve the audit program by: (1) using a comprehensive audit checklist as a standard component of all audits and (2) enrolling all escape assessments and over assessments discovered during the course of an audit.

Use a comprehensive audit checklist as a standard component of all audits

Frequently, during our review of sampled audits, we could not determine the scope of the assessor's audit investigations because an audit checklist was not included in the workpapers. We subsequently found that the assessor's audit program does not include the use of a comprehensive audit checklist indicating the areas of investigation.

An audit checklist can serve to remind auditor-appraisers of the various issues to research and procedures to follow during an audit. It may also provide an outline of topics and pertinent issues covered in the audit. Furthermore, it serves as a useful research tool when preparing for subsequent audits of the same entity or related entities. Most importantly, without a comprehensive audit checklist, it is difficult for a reviewer to know what topics were covered during the course of the audit.

The consistent use of a comprehensive audit checklist reinforces quality control and is a vital component in any audit program.

Enroll all escape assessments and over assessments discovered during the course of an audit.

The assessor typically does not enroll escape assessments or perform roll corrections that amount to differences reflecting one to two percent or less of the original value of audited business property. Furthermore, the assessor does not have a low value ordinance in place precluding the enrollment of low value escapes. While this policy may be expedient, there is no basis in law for failing to enroll escaped property discovered during the audit process.

Section 531 specifically states, "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." Furthermore, section 469 provides that if the result of an audit discloses property subject to an escape assessment, the assessee is entitled to appeal the assessment of all the property at the location of the trade, profession, or business. The assessor's failure to enroll escapes makes it very difficult for the assessee to exercise that right of appeal. In addition, section 5096 requires a refund of taxes paid if they were paid on an assessment in excess of the value of the property as determined by the assessor pursuant to section 469.

The current arbitrary minimum audit enrollment policy fails to meet the assessor's obligation to assess all property subject to taxation.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after

July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.¹⁰

In Tehama County, for the 2014-15 assessment roll, there were 869 taxable manufactured homes, located in 47 mobile home parks, enrolled with a total assessed value of \$14,528,018. There are also approximately 2,054 manufactured homes sited on lands other than mobile home parks with an assessed value of \$41,941,255.

We reviewed several property records, and recognized one area in need of improvement in the assessor's assessment program for manufactured homes.

RECOMMENDATION 8: Periodically review manufactured home assessments for declines in value.

We found that since 2007, assessments for manufactured homes situated on fee owned land are not reviewed for declines in value but instead are factored annually, increasing assessed values from year to year. Manufactured homes located in mobilehome parks also are not reviewed for declines in value.

Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its factored base year value or its full cash value as of the lien date, considering reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of manufactured homes to ensure declines in value of manufactured homes are recognized accurately and consistently. The assessor's practice may lead to the overassessment of manufactured homes.

¹⁰ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2014-15 assessment roll:¹¹

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$1,507,479,876
	Improvements	\$2,782,060,229
	Personal Property	\$204,239,010
	Total Secured	\$4,493,779,115
Unsecured Roll	Land	\$5,577,807
	Improvements	\$28,520,594
	Personal Property	\$159,271,870
	Total Unsecured	\$193,370,271
Exemptions¹²		(\$150,889,119)
	Total Assessment Roll	\$4,536,260,267

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:¹³

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2014-15	\$4,536,260,000	1.5%	6.2%
2013-14	\$4,469,189,000	3.0%	4.3%
2012-13	\$4,338,961,000	-3.5%	1.4%
2011-12	\$4,497,494,000	0.0%	0.1%
2010-11	\$4,498,858,000	-4.8%	-1.9%

¹¹ Roll values are from BOE 822 Report for 2014-15.

¹² The value of the Homeowners' Exemption is excluded from the exemptions total.

¹³ Roll Values and Statewide changes are from the State Board of Equalization Annual Report, Table 7, years 2010-11 through 2014-15.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from \$1,268,881 in 2011-12 to \$1,507,828 in 2014-15.

As of the date of our survey, the Tehama County Assessor's Office has a full-time budgeted staff of 18 positions. This includes the assessor, deputy assessor, one chief appraiser, four senior appraisers, one appraiser, one auditor-appraiser, one chief cadastral drafting technician, one cadastral drafting technician, one transfer clerk, three senior assessment clerks, and three assessment clerks.

The following table shows the assessor's total budget and staffing over recent years:¹⁴

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2014-15	\$1,507,828	7.6%	18.0
2013-14	\$1,400,955	2.1%	18.0
2012-13	\$1,372,302	8.2%	17.0
2011-12	\$1,268,881	-3.6%	17.0
2010-11	\$1,315,768	-7.0%	18.0

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:¹⁵

YEAR	ASSESSMENT APPEALS FILED
2014-15	52
2013-14	67
2012-13	139
2011-12	263
2010-11	210

¹⁴ Gross Budget retrieved from Table A in *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office 2010-11 through 2013-14*. Received the 2014-15 information from assessor. Note that the 2010-11 "Permanent Staff" number indicated 36 in the *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office* report. Confirmed with assessor that this number should be 18. The "Support Staff" line was mistaken for a total line.

¹⁵ Statistical information from *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office* for 2010-11 through 2013-14. Statistics for the 2014-15 roll year were provided by the assessor.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:¹⁶

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2014-15	61	\$100,743,629
2013-14	61	\$94,731,180
2012-13	61	\$97,739,099
2011-12	60	\$94,944,434
2010-11	57	\$84,316,134

Table 6: Change in Ownership

The following table shows the total number of transfer documents received and the total number of reappraisable events in Tehama County in recent years.¹⁷

ROLL YEAR	TRANSFER DOCUMENTS RECEIVED	REAPPRAISABLE EVENTS
2014-15	4,616	2,781
2013-14	4,457	2,717
2012-13	4,957	3,037
2011-12	2,632	2,632

¹⁶ Statistics provided by BOE-802, *Report on Exemptions*, for years 2010 through 2014.

¹⁷ See *A Report on Budgets, Workloads, and Assessment Appeals Activities* for years 2010-2011 through 2013-2014. Statistics for the 2014-15 roll year were provided by the assessor. For the 2011-2012 roll year, we confirmed the assessor reported the same count for documents received and reappraisable events; transfer documents received will normally be expected to be a larger number than transfer documents that lead to reappraisable events. For the 2010-2011 roll year, the assessor did not report these statistics.

Table 7: New Construction

The following table shows the number of building permits received and the number of resulting new assessments in recent years:¹⁸

ROLL YEAR	BUILDING PERMITS	NEW ASSESSMENTS
2014-15	2,056	1,642
2013-14	1,632	1,115
2012-13	1,202	803
2011-12	1,440	545

Table 8: Declines In Value

The following table sets forth the number of decline-in-value assessments for recent years:¹⁹

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2014-15	8,514
2013-14	10,657
2012-13	10,724
2011-12	10,611

¹⁸ Per *Report on Budgets, Workloads, and Assessment Appeals Activities* for years 2011-12 through 2013-14. Statistics for the 2014-15 roll year were provided by the assessor. For the 2010-2011 roll year, the assessor did not report building permits or new construction assessments counts.

¹⁹ See *A Report on Budgets, Workloads, and Assessment Appeals Activities* for years 2011-2012 through 2013-2014. Statistics for the 2014-15 roll year were provided by the assessor. For the 2010-2011 roll year, the assessor did not report a count for decline-in-value assessments.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Tehama County

Chief:

David Yeung

Survey Program Director:

Diane Yasui

Manager, Property Tax

Survey Team Supervisor:

Andrew Austin

Supervising Property Appraiser

Survey Team Leader:

Tammy Aguiar

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Cheron Burns

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Debra Wilson

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Jorge Torres

Assistant Property Appraiser

Cyrus Haze Ghazam

Assistant Property Auditor-Appraiser

Lisa Law

Junior Property Appraiser

Dany Lunetta

Associate Governmental Program Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	
<i>Government Code</i>	
§15640	Survey by board of county assessment procedures.
§15641	Audit of records; appraisal data not public.
§15642	Research by board employees.
§15643	When surveys to be made.
§15644	Recommendations by board.
§15645	Survey report; final survey report; assessor's report.
§15646	Copies of final survey reports to be filed with local officials.
<i>Revenue and Taxation Code</i>	
§75.60	Allocation for administration.
<i>Title 18, California Code of Regulations</i>	
Rule 370	Random selection of counties for representative sampling.
Rule 371	Significant assessment problems.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The Tehama County Assessor's response begins on the next page.

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

RECEIVED

MAY 26 2016

County-Assessed Properties Division
State Board of Equalization

DALE STROUD
ASSESSOR



May 23, 2016

Attn: David Yeung, Chief

County Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, Ca. 94279-0064

Dear Mr. Yeung:

Enclosed is our response to the Board's recent Assessment Practice Survey and recommendations. This response is made pursuant to section 15645 of the Government Code and inclusion with the final published report.

When the final report is published it will be the culmination of not only a survey but a sample as well. The results of the sample found that for the 2014 assessment year Tehama County's assessment roll was 2 tenths of 1% different then the numbers indicated by the expansion of samples pulled by the State Board team. I believe this is validation that my team is working very hard to achieve the ultimate goal of an accurate assessment roll. The results of the survey pointed out some things for us to improve, but was also a validation of my staff's dedication and hard work. I am proud of my staff and these accomplishments.

I also would like to acknowledge the State Board and the team that they brought to my office. They came to my office at a difficult time. We were preparing to convert to a new software system and trying to close out the current assessment roll. Their assignment was to be in our office in March which is a trying time as we all know. However, they were professional and very careful to not be any more disruptive then they absolutely necessary. I am very appreciative of their attitude and efforts while they were here.

Sincerely,

Dale Stroud
Tehama County Assessor

ASSESSOR'S RESPONSE TO BOE RECOMMENDATIONS

2014 Survey and Sample

RECOMMENDATION #1: Properly apply late-filing provisions for welfare exemption claims that are not timely filed.

Response: We concur with this recommendation and are modifying our procedures to make sure our operations are compliant with this recommendation.

RECOMMENDATION #2: Correctly calculate the amount of the exemption to be granted for a late-filed claim on the low-income disabled veterans' exemption.

Response: We concur with this recommendation and are altering our method of calculation as suggested.

RECOMMENDATION #3: Improve the LEOP program by: 1) timely reassessing all properties owned by a legal entity having undergone a change in control and (2) properly implementing the penalty process in accordance with section 482(b).

Response: We agree with both parts of this recommendation and believe that our current policies are in compliance with this recommendation. We believe the survey discovered events that were items of human error rather than a policy error. We will try to improve our attention to detail to avoid these discrepancies in the future.

RECOMMENDATION #4: Improve the new construction program by: (1) consistently classifying wells as land pursuant to Rule 124 and (2) granting new construction exclusions for claims for disabled access improvements only upon compliance with sections 74.3 and 74.6.

Response: (1) We believe that this allocation does not result in an overassessment or underassessment to the appraisal unit so the total value impact is fairly insignificant. We are also moving to a new software system that, hopefully, will allow the more accurate tracking of multiple base years

of specific property classifications. This may allow us to alter our current practice to become more compliant with this recommendation.

(2) We agree with this portion of the recommendation and are currently implementing this suggestion.

RECOMMENDATION #5: **Improve the taxable possessory interest program by: (1) using proper methodology in developing the capitalization rate in the appraisal of taxable possessory interests and (2) discovering and assessing all potential taxable possessory interests.**

Response: (1) We concur with this recommendation and will implement it in our calculations.

(2) We agree with this recommendation, however, with staffing levels and budget restrictions it has been and will continue to be difficult to come into compliance.

RECOMMENDATION #6: **Measure and use the long-term trend to forecast production, matching reserves to those supported by the cash flow analysis, and recognizing declines in base year reserves for reductions other than depletion.**

Response: Petroleum appraisals are new to our office. We have already implemented a couple of the suggestions that were made by the survey team. We will continue to evaluate our process as we become more knowledgeable and experienced .

RECOMMENDATION #7: **Improve the audit program by: (1) using a comprehensive audit checklist as a standard component of all audits and (2) enrolling all escape assessments and over assessments discovered during the course of an audit.**

Response: (1) We certainly concur that an audit checklist could be a valuable tool to the survey team when trying to follow the work of the local Assessor. I am unaware of its use being described in the audit manual. We will evaluate this recommendation to determine if it is of value for our process.

(2) We disagree with this recommendation. We believe that appraisal is not an exact science. No matter the type of property being appraised, value is a range. Based on this philosophy, we use appraisal judgment to conclude the entire assessment is either accurate or not. If the taxpayer has reported appropriately plays a significant role.

RECOMMENDATION #8: **Periodically review manufactured home assessments for declines in value.**

Response: We concur with this position. However, the final determination of an overassessment is much more difficult than one might think. In our County the value of these units are more dependent on the physical condition than age, make, model or any other physical characteristic. In order to make current condition assessments we would have to do a field inspection. These field inspections are limited due to budget restrictions.

BOE COMMENTS TO ASSESSOR'S RESPONSE

Recommendation 7, part 2: Improve the audit program by: (2) enrolling all escape assessments and over assessments discovered during the course of an audit.

Assessor's Response: (2) We disagree with this recommendation. We believe that appraisal is not an exact science. No matter the type of property being appraised, value is a range. Based on this philosophy, we use appraisal judgment to conclude the entire assessment is either accurate or not. If the taxpayer has reported appropriately plays a significant role.

BOE Comments to Assessor's Response:

Section 531.9 provides a mechanism for the assessor to avoid making an escape assessment through a low value ordinance. Without an ordinance in place allowing the exemption of low value escapes, the assessor does not have the authority to ignore either over- or under-assessments discovered during an audit.

In addition, by nullifying, offsetting, or ignoring the actual audit findings, the assessor inadvertently denies the assessee their rights to appeal the audit findings.