BUTTE COUNTY
ASSESSMENT PRACTICES SURVEY

SEPTEMBER 2010

CALIFORNIA STATE BOARD OF EQUALIZATION

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RAMON J. HIRSIG, EXECUTIVE DIRECTOR
TO COUNTY ASSESSORS:

BUTTE COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Butte 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 Fred Holland, Butte 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 Butte County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

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

The retired assessor, the Honorable Kenneth O. Reimers, and the current assessor, the Honorable Fred Holland, and their staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure
# TABLE OF CONTENTS

**INTRODUCTION** ......................................................................................................................... 1  
**SCOPE OF ASSESSMENT PRACTICES SURVEYS** ........................................................................ 2  
**EXECUTIVE SUMMARY** ........................................................................................................... 3  
**OVERVIEW OF BUTTE COUNTY** ............................................................................................ 5  
**ADMINISTRATION** ..................................................................................................................... 6  
  - **Budget and Staffing** ............................................................................................................. 6  
  - **Workload** .......................................................................................................................... 6  
  - **Appraiser Certification** ....................................................................................................... 7  
  - **Staff Property Procedures** .................................................................................................. 7  
  - **Assessment Appeals** .......................................................................................................... 8  
  - **Disaster Relief** .................................................................................................................. 9  
  - **Exemptions** ...................................................................................................................... 11  
  - **Assessment Forms** .......................................................................................................... 14  
**ASSESSMENT OF REAL PROPERTY** ........................................................................................ 16  
  - **Change in Ownership** ....................................................................................................... 16  
  - **New Construction** .......................................................................................................... 19  
  - **Declines in Value** ............................................................................................................ 21  
  - **California Land Conservation Act Property** ..................................................................... 23  
  - **Taxable Possessory Interests** ............................................................................................ 25  
  - **Leasehold Improvements** ................................................................................................ 29  
  - **Mineral Properties** ........................................................................................................... 30  
**ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES** ................................................. 33  
  - **Audit Program** .................................................................................................................. 33  
  - **Business Property Statement Program** ............................................................................ 35  
  - **Business Equipment Valuation** .......................................................................................... 36  
  - **Manufactured Homes** ..................................................................................................... 36  
**APPENDIXES** ........................................................................................................................... 38  
  - **A. County-Assessed Properties Division Survey Group** .................................................. 38  
  - **B. Relevant Statutes and Regulations** ................................................................................. 39  
**ASSessor’S RESPONSE TO BOE’S FINDINGS** ...................................................................... 46
INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Butte 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 Board, and the Senate and Assembly, and to the Butte County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Fred Holland, Butte County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

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

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

Our survey of the Butte 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 Butte County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.\(^2\)

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.

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\(^1\) Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

\(^2\) All rule references are to sections of the California Code of Regulations, Title 18, Public Revenues.
EXECUTIVE SUMMARY

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

Many of our recommendations concern portions of programs which are currently effective but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

The assessor is effectively managing most aspects of his administrative programs: budget and staffing, appraiser certification, staff-owned property procedures, assessment appeals, exemptions, and assessment forms. One area of concern in administration is the need for the assessor to revise the application for disaster relief to include all of the requirements of section 170.

In the area of real property assessment, the assessor has effective programs for handling major portions of the following programs: change in ownership, new construction, declines in value, restricted properties, and leasehold improvements. However, we do provide recommendations for further improvement to the new construction and decline-in-value programs. Additionally, we note recommendations for improvement in the taxable possessory interests and mineral property programs.

In the assessment of personal property and fixtures, the assessor has effective programs for business equipment valuation, business property statement processing, and for the assessment of manufactured homes. We provide one recommendation in this aspect of the assessor's operations.

Despite the recommendations noted below, we found most properties and property types are assessed correctly. We found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Butte County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Butte County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling.

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

RECOMMENDATION 1: Modify disaster relief procedures by: (1) revising the application for disaster relief to meet the requirements of section 170(a), and (2) ensuring the notice of proposed reassessment includes all information required by section 170(c). .........................................................11
RECOMMENDATION 2: Assess new construction of water wells. ..............................................21

RECOMMENDATION 3: Revise the notice of amount of assessment to include all information required by section 619.................................................................22

RECOMMENDATION 4: Improve the taxable possessory interest program by:
(1) assessing all taxable possessory interests at the fairgrounds; (2) assessing taxable possessory interests based on the stated term of possession; (3) periodically reviewing taxable possessory interests with stated terms of possession for declines in value; (4) revaluing taxable possessory interests at the end of the reasonably anticipated term of possession; (5) deducting allowable expenses from gross income when valuing taxable possessory interests; (6) adding the present worth of unpaid future contract rents to the sales price of taxable possessory interests; and (7) properly issuing supplemental assessments on taxable possessory interests.......................................................................................................................25

RECOMMENDATION 5: Improve the valuation of petroleum property by: (1) modifying the cash flow analysis to comply with Rule 8, and (2) adjusting base year values of reserves to account for depletion and new reserves. .................................................................30

RECOMMENDATION 6: Improve the valuation of mining properties by: (1) appraising mining properties as a unit, and (2) treating settling ponds as separate appraisal units. .......................................................31

RECOMMENDATION 7: Obtain waivers of the statute of limitations pursuant to section 532 when a mandatory audit will not be completed timely. .........................................................................................................................34
OVERVIEW OF BUTTE COUNTY

Butte County, one of the original California counties, was founded on February 18, 1850. Butte's name is derived from the Marysville or Sutter Buttes, which lay within the boundaries of the county when it was created. The city of Oroville serves as the county seat. Neighboring counties include Tehama to the northwest, Plumas to the northeast, Yuba to the southeast, Sutter to the south, Colusa to the southwest, and Glenn to the west.

Butte County's population of 218,779 for 2007 makes it the 27th most populous county in California. There are five incorporated cities in the county: Biggs, Chico, Gridley, Oroville, and Paradise.

The following table illustrates the growth in assessed values over recent years:

<table>
<thead>
<tr>
<th>ASSESSMENT ROLL</th>
<th>TOTAL ROLL VALUE</th>
<th>INCREASE</th>
<th>STATEWIDE INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>$18,663,845,000</td>
<td>5.4%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>$17,702,646,000</td>
<td>9.4%</td>
<td>9.6%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$16,174,352,000</td>
<td>11.9%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2005-06</td>
<td>$14,456,452,000</td>
<td>10.8%</td>
<td>11.1%</td>
</tr>
<tr>
<td>2004-05</td>
<td>$13,050,601,000</td>
<td>8.5%</td>
<td>8.3%</td>
</tr>
</tbody>
</table>
ADMINISTRATION

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

Budget and Staffing

As shown in the following table, the assessor's office budget levels have increased over recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>INCREASE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>$3,968,293</td>
<td>8.3%</td>
<td>43</td>
</tr>
<tr>
<td>2007-08</td>
<td>$3,662,634</td>
<td>3.6%</td>
<td>44</td>
</tr>
<tr>
<td>2006-07</td>
<td>$3,534,683</td>
<td>5.6%</td>
<td>44</td>
</tr>
<tr>
<td>2005-06</td>
<td>$3,346,938</td>
<td>6.4%</td>
<td>44</td>
</tr>
<tr>
<td>2004-05</td>
<td>$3,146,789</td>
<td>--</td>
<td>45</td>
</tr>
</tbody>
</table>

Even though funding for the assessor has increased for recent years, his staffing level has declined slightly from a high of 45 employees in 2004 to 43 employees in 2008. The 43 employees consist of the assessor, the assistant assessor, 19 real property appraisers, 3 auditor-appraisers, 2 cadastral drafting technicians, 1 senior information systems technician, and 16 support staff.

Workload

While the roll value and gross budget have increased for each of the past five years as shown in the prior two tables, there has been a decline in the number of assessable changes in ownership. While the number of permits resulting in value changes increased several of the past five years, they declined significantly the last year. The decline in assessable changes in ownership and permit work were replaced by significant workload increases in the areas of decline-in-value assessments, appeals, and disaster relief.
The following table illustrates these changes:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>ASSESSABLE CHANGES IN OWNERSHIP</th>
<th>PERMITS RESULTING IN VALUE CHANGES</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
<th>APPEALS</th>
<th>DISASTER RELIEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>3,403</td>
<td>2,362</td>
<td>12,219</td>
<td>1,026</td>
<td>165</td>
</tr>
<tr>
<td>2007-08</td>
<td>4,658</td>
<td>2,932</td>
<td>1,865</td>
<td>284</td>
<td>402</td>
</tr>
<tr>
<td>2006-07</td>
<td>8,195</td>
<td>2,612</td>
<td>257</td>
<td>99</td>
<td>94</td>
</tr>
<tr>
<td>2005-06</td>
<td>9,255</td>
<td>2,548</td>
<td>321</td>
<td>82</td>
<td>66</td>
</tr>
<tr>
<td>2004-05</td>
<td>9,618</td>
<td>2,626</td>
<td>325</td>
<td>101</td>
<td>45</td>
</tr>
</tbody>
</table>

**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 24 certified appraisers on staff, including the assessor; 16 hold advanced appraiser's certificates. We found the assessor and his staff possess the required appraiser's certificates. Additionally, we found the auditor-appraisers who performed mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Butte County, the functions of the training coordinator are performed by a supervising appraiser. Some of the duties performed by the training coordinator include:

- Tracking staff training hours to ensure they have the requisite training each year to maintain their appraisal certification;

- Arranging for staff to attend a variety of training opportunities each year, such as in-house courses and seminars, conferences, BOE courses, or courses presented by the Appraisal Institute; and

- Tracking the progress of newly hired appraisal staff to ensure they complete the BOE's certification program within the one-year time frame.

We found no problems with the assessor's appraiser certification and training program.

**Staff Property Procedures**

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from valuing their own property.
The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring property, and from the certified staff's annual filing of the Fair Political Practices Commission form 700, *Statement of Economic Interests*. Form 700 requests information regarding employee ownership in any real property, other than a primary residence, as well as ownership interests in any business entities. Employees are required to provide information pertaining to the nature of the interest and the percentage of ownership.

The assessor also has an administrative directive, issued September 6, 1983, which outlines the assessor's policy regarding the valuation of staff-owned properties. The directive states that employees of the assessor's office are prohibited from valuing property in which they or their relatives by blood or marriage have an interest.

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

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

**Assessment Appeals**

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

In Butte County, there is one assessment appeals board consisting of three regular members and one alternate member. The county also uses the services of a hearing officer. For an appeal to be heard by the hearing officer, the total assessed value of the property under consideration, as shown on the current assessment roll, cannot exceed five hundred thousand dollars ($500,000), unless the property is a single-family dwelling, condominium or cooperative, or multiple-family dwelling of four units or less.
The following table illustrates the appeal workload for recent years:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeals Filed</td>
<td>284</td>
<td>99</td>
<td>82</td>
<td>101</td>
</tr>
<tr>
<td>Appeals Carried Over From Prior Year</td>
<td>62</td>
<td>44</td>
<td>41</td>
<td>87</td>
</tr>
<tr>
<td><strong>Total Appeals Workload</strong></td>
<td><strong>346</strong></td>
<td><strong>143</strong></td>
<td><strong>123</strong></td>
<td><strong>188</strong></td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawn</td>
<td>142</td>
<td>19</td>
<td>20</td>
<td>67</td>
</tr>
<tr>
<td>Stipulation</td>
<td>82</td>
<td>40</td>
<td>41</td>
<td>47</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>4</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>11</td>
<td>7</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Appeals Increased</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Other Determination*</td>
<td>9</td>
<td>6</td>
<td>4</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total Resolved</strong></td>
<td><strong>249</strong></td>
<td><strong>81</strong></td>
<td><strong>79</strong></td>
<td><strong>147</strong></td>
</tr>
<tr>
<td>To Be Carried Over**</td>
<td>97</td>
<td>62</td>
<td>44</td>
<td>41</td>
</tr>
</tbody>
</table>

* Note: Includes, but is not limited to, late-filed appeals, applicants' failure to appear and board-denied applications.

**Note: Includes appeals with time extensions by mutual agreement of the parties.

The clerk of the assessment appeals board is responsible for receiving and processing appeals applications and for scheduling appeal hearings. The clerk is also responsible for date-stamping all completed applications and for sending copies of the applications to the assessor. Both the clerk and the assessor track the applications to ensure that they are resolved within the specified two-year time frame.

Pursuant to section 1604(c)(1), taxpayers and the assessor sign waivers of the statute of limitations for all appeals that will not be resolved within two years of the date of timely filing of the application for changed assessment. No appeal in the last four years has gone unresolved for more than two years, unless the taxpayer agreed to a waiver of the statutory time limit.

Overall, the assessor's portion of the assessment appeals program is well administered.

**Disaster Relief**

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief for qualifying property damaged or destroyed by a misfortune or calamity. The relief is available to any assessee whose property suffers damage exceeding $10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.
To obtain relief under section 170, assessees must file a written application within the specified time period to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage caused by misfortune or calamity, the assessor must provide the last known owner with an application for reassessment in accordance with section 170(d)(1). Alternatively, section 170(a) provides that the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by a misfortune or calamity.

Butte County's disaster relief ordinance was amended effective August 21, 2008, to conform to section 170. The ordinance applies to any taxable property, both real and personal.

The following table shows the number of disaster relief applications processed for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DISASTER RELIEF APPLICATIONS PROCESSED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>165</td>
</tr>
<tr>
<td>2007-08</td>
<td>93</td>
</tr>
<tr>
<td>2006-07</td>
<td>47</td>
</tr>
<tr>
<td>2005-06</td>
<td>19</td>
</tr>
<tr>
<td>2004-05</td>
<td>21</td>
</tr>
</tbody>
</table>

The assessor is actively engaged in the discovery of properties damaged or destroyed by a misfortune or calamity. Means of discovery include taxpayer-initiated contacts, incident reports from the California Department of Forestry and Fire Protection, local newspaper articles, and building permits. In addition, the assessor advises his appraisal staff to carry disaster relief applications with them when they are in the field.

Upon the discovery of a calamity, the assessor mails an application to the property owner. Returned applications are date-stamped upon receipt and entered into a Calamity Claim Log to track progress. Owners of property qualifying for a changed assessment due to a calamity are sent form BOE-67-B, Notice of Supplemental Assessment, after a negative assessment is processed through a roll change order for the decrease in taxable value.

We reviewed a number of disaster relief claims processed by the assessor and found that they were handled properly. In applicable cases, the assessor noted the disaster information in the taxpayer records and adjusted the assessed values for the properties damaged by the disasters. However, we noted two areas needing improvement in the assessor's disaster relief program.
RECOMMENDATION 1: Modify disaster relief procedures by: (1) revising the application for disaster relief to meet the requirements of section 170(a), and (2) ensuring the notice of proposed reassessment includes all information required by section 170(c).

Revise the application for disaster relief to meet the requirements of section 170(a).

The current application for reassessment of property damaged by misfortune or calamity does not meet the requirements of section 170(a). Section 170(a) provides that disaster relief may be claimed by any person whose property was damaged so long as the owner was not at fault in causing the damage. The current application is not in compliance with section 170(a) because it does not provide for an affirmation by the claimant that the damage or destruction to the property was not caused by his or her fault. A declaration that the disaster was through no fault of the owner is a key statutory element, which has been omitted from the form. Therefore, we recommend the assessor revise the application for disaster relief to meet the requirements of section 170(a).

Ensure the notice of proposed reassessment includes all information required by section 170(c).

We found the assessor's notice of proposed reassessment does not contain accurate information regarding the timing of filing an appeal as required by section 170(c). Section 170(c) provides that the notice of proposed reassessment shall state that the applicant may appeal the proposed reassessment to the local board of equalization within six months of the date of mailing the notice. The assessor is currently using form BOE-67-B, Notice of Supplemental Assessment, to notify assesses of any proposed reassessments, which references a 60-day appeals filing deadline rather than a six-month filing deadline for reassessments due to a calamity or disaster. The assessor's practice does not properly inform property owners of their appeal rights. In addition, the assessor may be misleading taxpayers. Claimants may fail to appeal a disaster relief reassessment if they believe they have missed the 60-day deadline, when in fact they have up to four additional months in which to file. Therefore, we recommend the assessor revise the notice of proposed reassessment for disaster relief to meet the requirements of section 170(c).

Exemptions

Church and Religious Exemptions

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

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

The assessor processed 11 church exemption claims and 276 religious exemption claims for the 2008-09 roll year.

The following table illustrates the number of church and religious exemptions granted and their exempted value for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>CHURCH EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
<th>RELIGIOUS EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>11</td>
<td>$2,043,603</td>
<td>276</td>
<td>$114,094,926</td>
</tr>
<tr>
<td>2007-08</td>
<td>7</td>
<td>$2,299,710</td>
<td>223</td>
<td>$110,286,573</td>
</tr>
<tr>
<td>2006-07</td>
<td>6</td>
<td>$1,886,136</td>
<td>208</td>
<td>$105,145,892</td>
</tr>
<tr>
<td>2005-06</td>
<td>6</td>
<td>$1,952,879</td>
<td>200</td>
<td>$101,181,253</td>
</tr>
<tr>
<td>2004-05</td>
<td>6</td>
<td>$1,847,147</td>
<td>203</td>
<td>$98,508,052</td>
</tr>
</tbody>
</table>

Our current review indicates that the assessor properly processes church and religious exemption claim filings. We found no problems with the assessor's church and religious exemption programs.

Welfare Exemption

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

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

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

The assessor processed 329 welfare exemption claims for the 2008-09 roll year. The following table illustrates the number of welfare exemptions processed and their exempted value for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>WELFARE EXEMPTION</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>329</td>
<td>$418,761,791</td>
</tr>
<tr>
<td>2007-08</td>
<td>249</td>
<td>$388,024,965</td>
</tr>
<tr>
<td>2006-07</td>
<td>251</td>
<td>$392,396,631</td>
</tr>
<tr>
<td>2005-06</td>
<td>251</td>
<td>$406,580,333</td>
</tr>
<tr>
<td>2004-05</td>
<td>244</td>
<td>$344,199,659</td>
</tr>
</tbody>
</table>

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. During our review of exemption claims, we inspected claims for low-income housing property, including properties owned by limited partnerships. Our review indicates that the assessor is properly administering the welfare exemption.

Homeowners' and Disabled Veterans' Exemptions

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

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or a deceased disabled veteran's unmarried surviving spouse). The amount of exemption is $100,000 or, for qualifying low-income veterans, $150,000. Both of these amounts are adjusted annually by a cost of living index factor.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible.

The assessor processed 42,011 homeowners' exemption claims and 492 disabled veterans' exemption claims for the 2008-09 roll year.
The following table illustrates the number of properties and the assessed value exempted under the homeowners' and disabled veterans' exemptions for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>HOMEOWNERS' EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
<th>DISABLED VETERANS' EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>42,011</td>
<td>$293,407,000</td>
<td>492</td>
<td>$49,367,000</td>
</tr>
<tr>
<td>2007-08</td>
<td>42,077</td>
<td>$293,809,000</td>
<td>472</td>
<td>$45,726,000</td>
</tr>
<tr>
<td>2006-07</td>
<td>42,091</td>
<td>$293,853,000</td>
<td>446</td>
<td>$39,851,000</td>
</tr>
<tr>
<td>2005-06</td>
<td>42,199</td>
<td>$294,712,000</td>
<td>415</td>
<td>$35,893,000</td>
</tr>
<tr>
<td>2004-05</td>
<td>42,113</td>
<td>$294,006,000</td>
<td>352</td>
<td>$28,365,000</td>
</tr>
</tbody>
</table>

Our review of the homeowners' and disabled veterans' exemption records indicates that the assessor is properly processing these exemptions.

**Assessment Forms**

Government Code section 15606 requires the Board to prescribe and enforce the use of all forms for the assessment of property for taxation. Generally, the assessor may not change, add to, or delete the specific wording in a Board-prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally-developed forms to assist them in their assessment duties; however, such forms may not be used as substitutes for Board-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

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

Review of the forms used by the Butte County Assessor's Office for the year 2008-09 revealed the following:

- The assessor used 58 of the 89 Board-prescribed forms.
- Of the 58 forms used, the assessor rearranged four.

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3 See also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.
• The assessor has timely provided the BOE with copies of rearranged forms, final prints, and forms checklists.

We have no recommendations for this program.
ASSessment of Real Property

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

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

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

Change in Ownership

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

Document Processing

The assessor's primary source of discovering properties which have changed ownership is through deeds and other documents recorded at the county recorder's office. Ordinance No. 3982, adopted by the Butte County Board of Supervisors on March 25, 2008, requires the assessor's parcel number to be included on all documents evidencing a change in ownership. When a deed is recorded, the recorder's office requires form BOE-502-A, Preliminary Change of Ownership Report (PCOR), to be filed at the same time, or a fee of $20 is levied. Over the past several years, approximately 97 percent of the documents submitted for recordation have had PCORs attached to them. PCORs are available at both the assessor's and recorder's front counters as well as on their websites.

If a PCOR is not filed for a change in ownership, or is incomplete, the assessor sends the transferee form BOE-502-AH, Change of Ownership Statement (COS). About 70 percent of these forms are returned. The assessor has an effective program in place for tracking the return of COSs and for applying penalties, as appropriate and as required by section 482 for failure to file the COS.

The following table shows the total number of recorded documents reviewed and assessable transfer documents processed by the assessor's office for recent years:
<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DOCUMENTS REVIEWED</th>
<th>ASSESSABLE CHANGES IN OWNERSHIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>12,903</td>
<td>4,658</td>
</tr>
<tr>
<td>2006-07</td>
<td>15,009</td>
<td>8,195</td>
</tr>
<tr>
<td>2005-06</td>
<td>17,536</td>
<td>9,255</td>
</tr>
</tbody>
</table>

Recorded documents that evidence a transfer in ownership of property are imaged, scanned by the recorder's office, and transmitted electronically to the assessor's office twice a day along with any documents specifically requested by the assessor. In the assessor's office, documents are reviewed by assessment clerks to ensure they contain the correct assessor's parcel numbers. Documents with missing assessor's parcel numbers or errors are forwarded to the assessor's mapping section for research and assignment of the assessor's parcel number.

All recorded documents are reviewed to determine if a reappraisable change in ownership has occurred. They are then posted onto the computer system and forwarded to appraisers with worksheets attached if no additional research is needed.

Once an appraisal is completed, it is reviewed by the supervising appraiser and entered into the computer system.

We reviewed the files for several properties recently valued by the assessor for changes in ownership. We found the assessor establishes the correct base year value, uses reasonable appraisal techniques, correctly values partial interest transfers, applies the annual inflation adjustment factor, and correctly enrolls supplemental assessments.

**Legal Entity Ownership Program (LEOP)**

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

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property involved. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.
We reviewed the assessments of a number of properties owned by legal entities reported by the BOE to have experienced a change in control within the last few years. When the assessor receives the LEOP listing from the BOE, the assessor reviews the list, identifies the parcels, and updates the computer database with the transfer information. For the properties experiencing a change of control which were reviewed, the assessor properly and promptly revalued all parcels owned by the legal entities.

Section 408.1 Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year property transfer list, which is available to the public for review at a charge of $10.00, which is allowed pursuant to section 408.1(d). Information on the transfer list is updated quarterly as required by section 408.1. We have no recommendations for this area.

Change in Ownership Exclusions

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first one million dollars of other real property between parents and their children. Certain transfers of real property from grandparents to their grandchildren are also eligible for this exclusion.

Section 69.5 allows a qualified homeowner who is 55 years of age or older, or severely and permanently disabled, to transfer the base year value of their principal residence to a replacement dwelling of equal or lesser value if purchased or newly constructed within two years of the sale of the original property within the same county if they meet certain specified requirements. Claims must be filed within three years of purchase or completion of the new construction of the replacement dwelling. Section 69.5 also allows counties to adopt an ordinance to include inter-county transfers; however, Butte County does not have such an ordinance.

The assessor submits section 63.1 and section 69.5 quarterly reports as requested by the BOE. Applications and information regarding the exclusions are available at the assessor's office and from the assessor's website. We found the program for processing section 63.1 and section 69.5 claims effective and in compliance with statute.

Improvement Bonds

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

In Butte County, the assessor adds the outstanding improvement bond balance to the sales price if market evidence indicates that the outstanding bond balance was not reflected in the purchase price. Section 110(b) provides 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 the
consideration paid.

We reviewed a number of sales with outstanding bond balances at the time of sale and found the
assessor had sufficient evidence (enough to establish by a preponderance of the evidence that all
or a portion of the value of those improvements were not reflected in the consideration paid) to
overcome the rebuttable presumption that the outstanding bond balances were included in the
total purchase price. Therefore, the assessor's practice of adding value for the bonds is
appropriate.

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.

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

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

Discovery

Building permits are the main source the assessor uses to discover assessable new construction.
To ensure all qualifying new construction is valued, the assessor must receive a copy of all
approved building permits pursuant to section 72(a). Currently, the assessor receives building
permits from five permit-issuing agencies: the cities of Chico, Gridley/Biggs, Oroville, Paradise,
and the County of Butte Department of Development Services. Other sources used to discover
new construction include newspaper articles, business property statements, and field canvassing.

Permit Processing

The Department of Development Services, Building Division, transmits hard copies of permit
information to the assessor twice a week. Permit information issued by the cities of Chico,
Gridley/Biggs, Oroville, and Paradise is picked up by the assessor's staff.
An assessment clerk in each of the assessor's offices reviews, processes, and assigns permits to the appraisers according to their geographical areas of responsibility. The appraisers are responsible for culling permits assigned to them. Permits culled are those for repair and replacement, such as those for re-roofing, minor electrical, plumbing, and mechanical. All additional permits are reviewed for assessable new construction.

The following table indicates the number of permits resulting in a change in value for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>PERMITS RESULTING IN VALUE CHANGE</th>
<th>NET VALUE ADDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>2,362</td>
<td>$235,016,473</td>
</tr>
<tr>
<td>2007-08</td>
<td>2,932</td>
<td>$325,123,805</td>
</tr>
<tr>
<td>2006-07</td>
<td>2,612</td>
<td>$290,215,027</td>
</tr>
<tr>
<td>2005-06</td>
<td>2,548</td>
<td>$227,557,888</td>
</tr>
<tr>
<td>2004-05</td>
<td>2,626</td>
<td>$194,533,963</td>
</tr>
</tbody>
</table>

Valuation

The assessor attempts to perform a field inspection on all permits for new construction. To obtain construction costs, questionnaires are sent to owners at the appraisers' discretion. Upon completion of new construction the value is enrolled, and supplemental assessments are generated. New construction is assessed at its fair market value upon completion, and a base year value assigned.

The assessor determines the value of new construction primarily by the market approach, but he also relies on several cost sources. These include local cost studies; Assessors' Handbook Section 531, *Residential Building Costs*; the owner's actual cost; and, for commercial and industrial properties, *Marshall Valuation Service*.

The assessor correctly values construction in progress at its full value on each lien date pursuant to section 50. Overall, we found the assessor's program for the assessment of new construction to be thorough and the values reasonable; however, there is one area where improvement can be made.
RECOMMENDATION 2: Assess new construction of water wells.

The Butte County Public Health Department's Division of Environmental Health does not forward permits issued for septic systems and water wells to the assessor. Even though these permits are not forwarded to the assessor, the assessor can access this information on the County of Butte Developmental Services' website. These permits represent potential assessable new construction.

In our review of the assessor's records for new construction, we found a number of new wells escaping assessment even though the assessor was in receipt of a permit issued by the Butte County Public Health Department's Division of Environmental Health. A permit for a well can be issued independently of a structure permit, when, for example, an owner plans to drill the well and build later, or when an owner of a vacant parcel drills a well as an added enticement for selling the parcel. Additionally, agricultural wells are often drilled as insurance against drought or reductions in water allocations from irrigation districts.

It is the duty of the county assessor to inventory and assess all taxable property within his or her jurisdiction. By not assessing new wells as of the date of completed new construction, the assessor is allowing property to escape assessment.

**Declines in Value**

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

The following table shows the number of properties enrolled at less than FBYV over recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>12,219</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,865</td>
</tr>
<tr>
<td>2006-07</td>
<td>257</td>
</tr>
<tr>
<td>2005-06</td>
<td>321</td>
</tr>
<tr>
<td>2004-05</td>
<td>325</td>
</tr>
</tbody>
</table>

To discover declines in value, the assessor depends primarily on taxpayer requests for appraisal review and the appraisers' knowledge of property values in their assigned areas of responsibility. Due to a less active real estate market over the past years, the number of properties in Butte County experiencing a decline in value has increased.
Butte County has few homogeneous neighborhoods with single-family residences of similar size and quality of construction. This makes it difficult for the assessor to determine if all homes in a specific neighborhood are affected by a decline in value. Thus, the assessor reviews each decline-in-value request on an individual basis, and, if appropriate, will review the entire tract.

When a property owner requests an assessment review for decline in value, the appraiser responsible for that geographical area will conduct the review. If the appraiser determines that the market value of the total property has declined below its FBYV, the indicated market value is enrolled. A letter is mailed to the property owners informing them whether or not their property received a decline-in-value assessment. For all properties receiving a decline-in-value assessment, the annual property tax bill is the owners' first notice of a change in the assessed value. In addition to informing the property owner of the new assessed value, the property tax bill also includes information about the assessment appeals process.

Once a decline-in-value assessment is enrolled for a property, it is coded in the computer system to prevent application of the annual inflation factor. This coding also provides the assessor with a means of tracking properties needing annual review due to decline-in-value status. The assessor reviews each decline-in-value property annually to determine its current market value or to determine if the FBYV should be restored pursuant to section 51(e).

During our examination of assessment files for these properties, we found the files to be well documented and the values reasonable. However, we did note one area for improvement in the assessor's program for properties in decline-in-value status.

**RECOMMENDATION 3:** Revise the notice of amount of assessment to include all information required by section 619.

The notice of amount of assessment used by the assessor to inform owners of property in decline-in-value status of an increase in a property's full cash value does not include all the information required under section 619. Section 619 requires the assessor to notify each assesse of real property on the local secured roll whose assessed value has increased from the prior year of the new value to appear on the completed local roll. Section 619 sets forth specific items that are required to be included in the notice.

We reviewed a number of notices informing owners of property in decline-in-value status of an increase in value; we found the notices did not provide all of the information about the taxpayers' appeal rights as required by section 619(b). Section 619(b) requires the notice to include a notification of hearings by the county board of equalization, the appeals filing period, the place where appeals may be filed, and an explanation of the stipulation process.

In addition, we found that the notices did not include the FBYV of the property as required by section 619(c). Section 619(c) requires that when a decline-in-value assessment increases from the prior year, a notice of the increase must be sent to the assesse. The notice must include both the FBYV of the property, compounded annually by the appropriate inflation factor, and the current full cash value.
By omitting this information from the notice, the assessor has failed to properly inform the taxpayer of all information relevant to the property's assessment as required by section 619.

**California Land Conservation Act Property**

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

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

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

The bulk of the agricultural revenue generated in Butte County is derived from almonds, rice, and walnuts. The county surpassed $507.2 million in gross production value of agricultural commodities in 2007, an increase of approximately 11.5 percent from 2006.

For the 2007-08 roll year, Butte County had 1,444 parcels encumbered by CLCA contracts, totaling approximately 215,979 acres with a total assessed value of $363,871,054. This included 12,581 acres in nonrenewal status. Nonrenewal values are calculated according to section 426. Butte County has had one contract recently cancelled. In accordance with section 51283(a) of the Government Code, the assessor determines the cancellation value by determining the current fair market value of the land as if unrestricted.

In Butte County, one supervising appraiser is responsible for the valuation of CLCA properties. Because of low response rates, CLCA questionnaires are not mailed annually to CLCA property owners, but only periodically. Each year, the assessor calculates the restricted values of the land in accordance with section 423.3. Butte County adopted a resolution pursuant to section 423.3 that provides for the assessment of CLCA properties at the lesser of 80 percent of the FBYV or the restricted value determined pursuant to section 423. The assessor compares the restricted value to 80 percent of the FBYV and the current market value, and enrolls the lesser of the three values.

**Homesites**

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521, at page II-51, provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually
be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the lesser of the FBYV or the fair market value of a comparable homesite. We found that this is the assessor's policy and practice. Homesites are correctly valued according to section 428, and supplemental tax bills are issued on unrestricted portions of CLCA properties when appropriate.

Capitalization Rates

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

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

In developing the capitalization rate used in the valuation process for CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE, and includes components for risk and tax rate. The risk rates used by the assessor in the capitalization rate are two percent for row crops, three percent for orchards, and one percent for rangeland, while the tax rate is specific to the property's location. The risk rate and tax rate used are in conformance with the guidelines set forth in AH 521.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands with similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring on the property, 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 of the income. 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.

Income and expenses are derived from a market analysis performed by the assessor. The analysis utilizes data from crop reports from several different counties, agricultural property sales, questionnaires, cost reports, information from property owners, and other agricultural resources. We reviewed several CLCA assessments, and found the assessor has an efficient and well organized program in place to value these types of properties.

**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.

For the 2007-08 roll year, the assessor enrolled 236 taxable possessory interests with a total assessed value for land and improvements of approximately $77.2 million. The assessor's program for discovering taxable possessory interests includes annual polling of the government entities within the county and requesting information from them on agreements with private parties. The assessor sends BOE-502-P, *Possessory Interests Annual Usage Report*, to approximately 28 public agencies annually, requesting current information on new or changed tenancies and rents.

In our review of the assessor's program for the assessment of taxable possessory interests, we noted a number of areas in need of improvement.

**RECOMMENDATION 4:**

Improve the taxable possessory interest program by:

1. assessing all taxable possessory interests at the fairgrounds;
2. assessing taxable possessory interests based on the stated term of possession;
3. periodically reviewing taxable possessory interests with stated terms of possession for declines in value;
4. revaluing taxable possessory interests at the end of the reasonably anticipated term of possession;
5. deducting allowable expenses from gross income when valuing taxable possessory interests;
6. adding the present worth of unpaid future contract rents to the sales price of taxable possessory interests; and
7. properly issuing supplemental assessments on taxable possessory interests.
Assess all taxable possessory interests at the fairgrounds.

In October 2007, the county board of supervisors adopted Resolution 07-165, exempting from taxation, as provided in section 155.20, any taxable possessory interest with a value of $50,000 or less located within a publicly owned fairground facility or convention center. However, we found the assessor wrongfully exempts qualified taxable possessory interests located at the fairgrounds valued over the $50,000 threshold.

There are two fairgrounds located within Butte County: the Silver Dollar Fairgrounds in the city of Chico and the Butte County Fairgrounds in the city of Gridley. The assessor requests information from the Silver Dollar Fairgrounds on an annual basis. Based on this information, the assessor assesses several taxable possessory interests at the Silver Dollar Fairgrounds.

However, the assessor does not request information from the Butte County Fairgrounds in Gridley, and therefore, is not assessing any taxable possessory interests there. We obtained a list of concessionaires, vendors, and interim uses of the Butte County Fairgrounds from 2007 through 2008 and found several concessionaires and interim uses that appear to be sufficiently durable, beneficial, exclusive, and independent to warrant assessment as taxable possessory interests. Based on the rent they pay to the fairgrounds, these taxable possessory interests would have a value above the low-value property tax exemption.

The assessor's practice of not assessing all taxable possessory interests at the fairgrounds results in a loss of revenue.

Assess taxable possessory interests based on the stated term of possession.

In valuing taxable possessory interests with a stated term of possession created by a contract, the assessor uses an anticipated term of possession rather than the stated term of possession.

Rule 21(d)(1) provides that the stated term of possession shall be deemed the reasonably anticipated term of possession used in valuing a taxable possessory interest unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. We found no evidence of such understandings or agreements.

Thus, the assessor's use of an anticipated term of possession different from the stated contract term of possession is contrary to Rule 21.

Periodically review taxable possessory interests with stated terms of possession for declines in value.

We found, for lien dates subsequent to the establishment of the base year value, the assessor does not review taxable possessory interests with stated terms of possession for declines in value. Instead, he enrolls the factored base year value until the contract term expires or there is a change in ownership.
Section 51(a) requires the assessor to value real property, including taxable possessory interests, at the lesser of the factored base year value or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. Rule 21(d)(1) provides that a contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have reached a mutual understanding or agreement that calls for a different term. Rule 21(a)(6) also provides that the "stated term of possession" for a taxable possessory interest is the remaining period of possession. Thus, the stated term of possession declines on each lien date, which may have a material effect on the value of the interest. For this reason, the appraiser must estimate the current market value on the lien date (based on the stated term of possession), compare this value with the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized.

Revalue taxable possessory interests at the end of the reasonably anticipated term of possession.

We found several instances where the assessor failed to revalue taxable possessory interests for a change in ownership at the end of the reasonably anticipated term of possession used to establish the base year value.

If a taxable possessory interest is originally valued using a reasonably anticipated term of possession of five years, even though renewed monthly under a month-to-month tenancy, the interest should be reappraised as a change in ownership at the expiration of the five-year term unless the interest transfers to a new tenant prior to the expiration of this anticipated term. Assessors' Handbook Section 510, Assessment of Taxable Possessory Interests (AH 510), at page 58, provides that "the change in ownership would not be recognized until the end of the reasonably anticipated term of possession used by the assessor to establish the existing base year value of the interest." The assessor's current practice of not reappraising taxable possessory interests at the end of the anticipated term of possession is contrary to statute and results in incorrect assessments.

Deduct allowable expenses from gross income when valuing taxable possessory interests.

When valuing taxable possessory interests by the income approach, the assessor typically capitalizes the actual contract rent without making any deductions from the gross rent for management and other operating expenses incurred by the public lessor. Assessors' Handbook Section 510, Assessment of Taxable Possessory Interests, provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Moreover, Rule 21(e)(3)(A) provides that, in the direct income approach, the amount to be capitalized to arrive at a value estimate is the future net income the taxable possessory interest is capable of generating under typical, prudent management during the term of possession.
Similarly, Rule 8(c) provides that it is appropriate to reduce a lessor's rental income for typical management and other property related expenses incurred by the lessor.

A public owner will, at a minimum, incur some management expense with each possessory interest. Some lease agreements may require the public owner to pay for insurance, maintenance, or utilities. Capitalizing the gross income without deducting management and other property-related expenses may overstate the value of the taxable possessory interest.

**Add the present worth of unpaid future contract rents to the sales price of taxable possessory interests.**

Upon the sale of a taxable possessory interest of a U.S. Forest Service cabin, it is the assessor's current practice to enroll the sales price of the cabin as market value, allocating the total between land and improvements. The assessor does not add to the reported sales price the present value of unpaid future contract rent for the term of possession.

Under Rule 21(e)(1)(A), the direct method of the comparative sales approach is one of the generally accepted methods for valuing a taxable possessory interest. In this method, an important adjustment to the reported purchase price is the addition of the present value of the unpaid future contract rent over the remaining term of possession. It is also important to consider the cost of site restoration at the end of the term of possession.

When determining the value of a taxable possessory interest, the assessor must include the total consideration paid for the interest. To arrive at the total consideration, the assessor must add the present value of the unpaid future contract rents (reduced by any allowable expenses) for the reasonably anticipated term of possession to the sales price. If this adjustment is not made, the value indicator does not reflect the full value of the taxable possessory interest.

**Properly issue supplemental assessments for taxable possessory interests.**

We discovered several taxable possessory interests where the assessor failed to issue supplemental assessments upon renewal of the applicable leases.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction.

We also discovered several taxable possessory interests where the assessor improperly calculated the supplemental assessment by offsetting the fair market value against the prior value on the regular roll. According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, at pages 59-60, when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll when one taxable possessory interest is terminated during an assessment year and a second (but distinct) taxable possessory interest is created involving the same land and improvements during the same assessment year.
The assessor's failure to properly issue supplemental assessments is contrary to statute, and results in a loss of revenue.

**Leasehold Improvements**

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

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

When real property is reported on form BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

**Discovery**

The primary discovery tools for leasehold improvements are Schedule B of the BPS and building permits. Other discovery tools include review of leases, field observations, and audits of business records.

The assessor has developed a program to assess leasehold improvements, which combines the resources of the real property and business property divisions. Expenditures reported on Schedule B, columns 1, 2, or 4, are referred by the business property division to the real property division for review. The real property division determines whether the reported costs represent assessable new construction, or if they represent nonassessable work, such as replacement or repair of existing improvements. If it is determined that there is assessable new construction to be enrolled on the secured roll, the appraiser submits a posting sheet for any value changes. The appraiser initials and dates the BPS along with notes regarding the actions taken with respect to the reported costs. The BPS is then returned to the business property division for assessment of any unsecured improvements.

Although communication between the business property and real property divisions is informal, we found the coordination between the two divisions is reasonably consistent.

**Valuation**

We reviewed a number of business property statements and real property records indicating tenant improvements. We checked for reported costs and descriptions, proper identification of
tenant improvements by the business property division, coordination between the business property division and the real property division to ensure proper assessment, and proper assessment of tenant improvements. We determined information reported on the business property statements pertaining to real property was properly transmitted to the real property division and processed in a timely manner.

We found the assessor properly classified and assessed reported structural improvements to the secured roll, and fixtures to the unsecured roll. Overall, we found the assessor's leasehold improvement program to be in compliance with statutory requirements.

**Mineral Properties**

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.

**Petroleum Property**

Butte County has a small number of petroleum (natural gas) wells. The properties are valued by a real property appraiser using a discounted cash flow analysis. We have two recommendations concerning the valuation of petroleum property.

**RECOMMENDATION 5:** Improve the valuation of petroleum property by: (1) modifying the cash flow analysis to comply with Rule 8, and (2) adjusting base year values of reserves to account for depletion and new reserves.

**Modify the cash flow analysis to comply with Rule 8.**

In our prior survey, we recommended the assessor adjust the cash flow analysis as to mineral right royalty payments to comply with Rule 8. The assessor has corrected this procedure; however, he is adding a cash flow item for local taxes based on a percentage of net revenue. This item should be removed to comply with Rule 8(c), which provides that property taxes, among certain other expenses, are not to be accounted for in the determination of net income. Instead, property taxes are to be accounted for in an adjustment to the discount rate.

**Adjust base year values of reserves to account for depletion and new reserves.**

Appraisers of natural gas properties use reserves as a proxy to determine the mineral right value. Under Rule 468, when reserve values change, either through depletion or changes in the property economics, the base year value of the mineral rights must reflect this change.
The assessor does not make adjustments to the base year values of reserves to account for depletion or reserve changes as required by Rule 468. The assessor has noted that in the cases where this adjustment was not made the taxpayers did not provide a reserves estimate with the annual production reports. While estimates of reserves are useful to check the assessor's estimate, the assessor should use the information generated by his discounted cash flow analysis. A summation of the projected annual production will give the assessor the estimated reserves to compare to the prior year's reserves. After adjusting the prior year's estimate for production, it should be compared to the current year's estimate, and any difference should be accounted for. Increases should be added at the current market value, while decreases should be removed from the base year value. Failure to perform this part of the appraisal process has led to the underassessment of gas wells. Under the assessor's analysis the gas wells have gone from being enrolled at current market value to an incorrectly adjusted base year value. There have been increases in reserves due to improved economics that the assessor's calculations did not consider when adjusting the base year value. An example well, worked by BOE, shows the gas well to be underassessed by $100,000.

Mining Property

Butte County has several sand and gravel quarries. The quarries are valued by a real property appraiser using a royalty method. We have two recommendations concerning the valuation of mining property.

**RECOMMENDATION 6:** Improve the valuation of mining properties by: (1) appraising mining properties as a unit, and (2) treating settling ponds as separate appraisal units.

**Appraise mining properties as a unit.**

The Butte County Assessor separates the appraisal of mining properties into two separate components, real property and business property. The real property staff appraises the land and mineral rights, while the business property staff values the improvements and fixtures associated with the property. Except for changes in ownership and new mining properties, each appraisal is done separately and independently of the other. There is no coordination between the business property and real property staff to determine the value of the total appraisal unit. The assessor determines the lower of the market value or factored base year value of the real property, determines the market value of the business property, and adds the two values together for the total value of the appraisal unit.

For purposes of measuring declines in value, Rule 469(e)(2)(C) provides that declines in the value of mineral property shall be recognized when the current market value of the appraisal unit (namely, land, improvements including fixtures, and reserves) is less than the factored base year value of the same unit. The lesser of these two values should be enrolled as the assessed value. Failure to determine the total appraisal unit value can result in the mineral rights being enrolled at the factored base year, and the fixtures and equipment enrolled at the current market value.

**Treat settling ponds as separate appraisal units.**
We found the assessor continues to include settling ponds in its valuation of mining operations as a whole and does not value settling ponds as separate appraisal units as required by section 53.5.

Section 53.5 provides that each leach pad, tailing facility, or settling pond shall be considered a separate appraisal unit. Settling ponds can be associated with sand and gravel operations where the gravel is washed and the sand is later collected for further sorting. The existence of settling ponds can be identified by reviewing the conditional use permit from the county's planning department or visual inspection of the property.

As a separate appraisal unit, the assessor can better recognize declines in value associated with this segment of the mining operation. The assessor's practice may lead to overassessments.
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; and
- Auditing taxpayers whose assessments are based on information provided in property statements.

The assessor's staff assigned to the business property program consists of six positions: a supervising auditor-appraiser, a senior auditor-appraiser, an auditor-appraiser, and three clerical support staff.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business property, and assessing manufactured homes.

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 property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

The following table shows the total number of audits completed over recent years:

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<th>ROLL YEAR</th>
<th>TOTAL AUDITS</th>
<th>MANDATORY AUDITS</th>
<th>NONMANDATORY AUDITS</th>
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At the time of our field work, the assessor had three full-time auditor-appraisers assigned to do audits; one auditor-appraiser position was vacant. The auditor-appraisers perform mandatory and non-mandatory audits, as well as process annual business property statements.

Mandatory Audits

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

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

For the 2008-09 assessment roll, the assessor had a total workload of 239 mandatory audit accounts, or an average of about 60 audits per year. Each year, the assessor has generated a computer listing of accounts attaining values of $400,000 or more for four consecutive years; this listing has formed the basis of the mandatory audit workload. The assessor is behind in completing his mandatory audit workload for the past four years, and has failed to secure waiver letters for those audits which cannot be completed prior to the expiration of the statute of limitations. Because of the recent change in the law, we have no recommendations regarding completing the mandatory audit workload. However, we have one recommendation for improving the audit program.

**RECOMMENDATION 7:** Obtain waivers of the statute of limitations pursuant to section 532 when a mandatory audit will not be completed timely.

We found the assessor did not request waivers for all mandatory audit accounts that were not going to be completed prior to the expiration of the four-year statute of limitations. The assessor secured waivers only for mandatory audit accounts where the audit was to be completed by another county under the California Counties Cooperative Audit Services Exchange program.

Section 532 provides that an escape assessment found during an audit must be enrolled within four years after July 1 of the assessment year in which the property escaped assessment or was underassessed. If the assessor cannot complete the mandatory audit within the prescribed time limit, the assessor may ask the taxpayer to grant an extension of time. This can be accomplished by requesting that the taxpayer sign a waiver of the statute of limitations, as authorized by section 532. This waiver protects the taxpayer by allowing him or her to seek a refund beyond the statute of limitations if there was an overassessment while at the same time allowing the assessor to enroll an escape assessment if a reporting deficiency is discovered.
Audit Quality

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

We found the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, we found that the assessor's mandatory audits were accurate and well documented.

Business Property Statement Program

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

For the 2008-09 assessment roll, the assessor processed a total of 7,578 BPSs. The secured roll value from these statements totaled $436,092,022, while the unsecured roll value totaled $672,021,413.

We reviewed the assessor's business property statement processing procedures and files to ensure that they conform to statutory and regulatory guidelines. Additionally, we reviewed a sampling of business property, vessel, and general aircraft statements to verify the use of Board-prescribed forms, processing by certified staff, completeness of the property statements, proper application of penalties, coordination with the real property division, and record storage and retention.

We found staff checks for completeness and for a valid signature, and date-stamps all statements with the date received. If a statement is unsigned, a copy is made and the original is returned to the taxpayer. If a statement is received late, the envelope is retained and a penalty is added as prescribed by section 463. If a statement reports any additions or deletions to real property items, those changes are referred to the real property division for review.

Discovery

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate and current listings of assessable business properties. Discovery sources include field canvassing; building permits; business licenses; business and telephone directories; form BOE-600-B, Report of Locally Assessable Equipment Leased to State Assessee; and tenant information from landlords.
We found the assessor has an adequate program for discovering assessable business property.

**Business Equipment Valuation**

**Commercial, Industrial, and Agricultural Equipment**

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

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

In Butte County, the assessor primarily uses AH 581 and California Assessors' Association business assessment factors to value assessable equipment. The assessor uses acceptable methods of valuing business equipment, appropriately classifies machinery and equipment, and follows the BOE-recommended AH 581 guidelines when valuing small, mid-range, and large computers. We have no recommendations for this topic.

**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.

For the 2008-09 assessment roll, there were 7,545 manufactured homes in Butte County with an assessed value of $201,709,075. Of the 7,545 manufactured homes, 3,598 of them can be found in the 117 mobilehome parks located throughout the county; the remaining 3,947 are located outside of parks. There are also 3,227 homes, previously classified as manufactured homes, which have been affixed to permanent foundations and are now assessed as real property, rather than personal property, on the secured roll.

The assessor learns of new taxable manufactured homes, new home installations, sales, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development listings. This discovery program is supplemented by dealer reports of sale, building permits, and deed recordings.

Each appraiser in the assessor's office is responsible for processing assessed values for manufactured homes located within his or her assigned geographical areas of responsibility. Each appraiser is responsible for field inspection of manufactured homes, creating and maintaining building records, and for creating value reports for changes in ownership, new construction, and declines in value. To create the value reports for manufactured homes, the
The assessor uses a costing module on his computer database, which utilizes the cost factors from the National Automobile Dealers Association Manufactured Housing Appraisal Guide. Use of a value guide is consistent with the provisions of section 5803(b).

We found no problems with the assessor's program for the assessment of manufactured homes.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Butte County

Chief
Dean Kinnee

Survey Program Director:
Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:
Sally Boeck Supervising Property Appraiser

Survey Team Leader:
Ronald Louie Senior Specialist Property Appraiser

Survey Team:
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Alan Dannen Associate Property Auditor-Appraiser
Patty Lumsden Associate Property Appraiser
Bryan Bagood Assistant Property Appraiser
Jennifer Prince Assistant Property Appraiser
Bryan Roth Assistant Property Appraiser

Appendix A
B. Relevant Statutes and Regulations

Government Code

15640. Survey by BOE 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 of the Revenue and Taxation Code. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

(b) The surveys of the 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.

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
(5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

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

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

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

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

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

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

The Butte County Assessor's response begins on the next page. The BOE has no comments on the response.
July 15, 2010

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

Dear Mr. Kinnee,

Pursuant to California Government Code Section 15645, enclosed please find my response to the Butte County Assessment Practices Survey as presented by the State Board of Equalization in June 2010. On behalf of the staff of this office, I want to acknowledge the favorable and constructive comments contained in the Survey, and I thank you for incorporating this response into your final survey report.

Survey Supervisor Sally Boeck and the BOE team conducted this survey with professionalism, courtesy, and efficiency, and we truly enjoy working with them. The periodic, independent survey of Assessors’ assessment practices provides important information to be considered in enhancing office policies and procedures, and in providing fair and accurate assessments.

I commend the excellence, dedication, and expertise of my staff. We continue to optimize time-saving measures, build interdepartmental alliances, and expand the use of technology and system upgrades in our continuing effort to provide the best in customer service.

Sincerely,

Fred Holland
Butte County Assessor

Enclosure
Dear Mr. Kinnee,

The following responses to recommendations one through seven of the above-referenced survey are forwarded to you for your review:

**Recommendation 1:** Modify disaster relief procedures by: (1) revising the application for disaster relief to meet the requirements of section 170(a), and (2) ensuring the notice of proposed reassessment includes all information required by section 170(c).

*Response:* The Calamity Claim application has been revised to meet the requirements of section 170(a); we have added the language that states in order to qualify for relief, the damage must not be the fault of or caused by the owner. We are revising our procedure for keying values due to calamity relief/restoration, and we are writing a separate "Notice of Proposed Reassessment" which includes the information required by section 170(c). We have added reference to the 6-month appeal filing deadline for reassessment due to calamity relief.

**Recommendation 2:** Assess new construction of water wells.

*Response:* All well and septic permits are being keyed as the information is now included in the permit list received from the Butte County Environmental Health Department (DEH). The "TRAKIT" program has been a work in progress for several years and the level of communication and understanding between the appraisal staff and DEH has improved, but there may have been an interim period when the appraisal staff was not effectively accessing the well and septic permit information.

**Recommendation 3:** Revise the notice of amount of assessment to include all information required by section 619.

*Response:* We are revising our Prop 8 letter(s) to include explanation of the appeal rights as required by section 619(b). We have a standard "Megabyte" letter we will be using in the future.

**Recommendation 4:** Improve the taxable possessory interest program by: (1) assessing all taxable possessory interests at the fairgrounds; (2) assessing taxable possessory interests based on the stated term of possession; (3) periodically reviewing taxable possessory interests with stated terms of possession for declines in value; (4) revaluing taxable possessory interests at the end of the reasonable anticipated term of possession; (5) deducting allowable expenses from gross income when valuing taxable possessory interests; (6) adding the present worth of unpaid future contract rents to the sales price of taxable possessory interests; and (7) properly issuing supplemental assessments on taxable possessory interests.
Response (1): Most transitory use PI's are exempt from assessment per Section 155.20 of the R&T Code, and per Butte County Resolution 07-165. The few interim use PI's which may exist and appear to be sufficiently durable, beneficial, exclusive, and independent will be addressed as staffing, budget, and time permits.

Response (2): Starting with 09/10, Rule 21 is being applied to stated term PI's through the use of a spreadsheet which declines the value of the interest according to remaining term and any changes to rate, incomes, and/or expenses. Our experience suggests that many PI's have a reasonably anticipated term of possession longer than the stated term of possession, however, we are aware of Rule 21(d)(1) and the criteria of "clear and convincing evidence", and will be diligent in the future to properly apply said criteria.

Response (3): Starting with 09/10, Rule 21 is being applied to stated term PI's through the use of a spreadsheet which declines the value of the interest according to remaining term and any changes to rate, incomes, and/or expenses.

Response (4): We concur and will develop a tracking program for review/revaluation of end-of-anticipated-term PI's.

Response (5): We concur and will recognize lessor expenses when and where appropriate and as this information is made available.

Response (6): We concur and will adjust sales prices accordingly to arrive at an estimate of total consideration.

Response (7): We concur and will recognize supplemental assessment as fair market value for the newly created PI without offset for a prior value on the regular roll for the terminated PI.

Recommendation 5: Improve the valuation of petroleum property by: (1) modifying the cash flow analysis to comply with Rule 8, and (2) adjusting base year values of reserves to account for depletion and new reserves……………………………………………………………………31

Response (1): As stated in the survey the assessor has corrected the cash flow procedure to comply with Rule 8 with the exception of removal of local property taxes to determine net revenue. Future assessments will account for property tax expense through adjustment to the discount rate, in compliance with Rule 8(c).

Response (2): Without "anticipated" reserves reported by the assessee, estimation of reserves by the assessor is speculative (though arrived at through analysis of all information available). Without proper reporting, reserves are extremely difficult to pinpoint, especially when well production is sporadic and/or fluctuates. We will make every attempt in the future to reduce base year values as production is reported. We will also adjust base year values when previously unknown reserves are either reported or can be reasonably estimated. At the request of our appraiser responsible for gas well assessments, the BOE auditor indicated (during the audit) that he would supply samples of both valuation methodologies as well as how to account for the addition and removal of base values on wells having anticipated or unrealized reserves. We look forward to receiving these samples, and anticipate they will help improve our gas well assessment practices.
Recommendation 6: Improve the valuation of mining properties by: (1) appraising mining properties as a unit, and (2) treating settling ponds as separate appraisal units.

Response (1): The real property and business property staff will consult with each other in the future to consider enrollment of an "appraisal unit" value for mining properties consisting of separate assessments.

Response (2): Settling ponds have historically not contributed materially to the value of mining operations in Butte County. Few mining operations within the County require a settling pond as a condition of their permit. As ponds become a Butte County requirement for the extraction of product, the cost/benefit will become apparent and a separate value may be determined for these unique declining-value assets.

Recommendation 7: Obtain waivers of the statute of limitations pursuant to section 532 when a mandatory audit will not be completed timely.

Response: We attempt to secure waivers on audits performed for us by other counties in case we are unable to complete them timely. We also attempt to receive, and at times have received, waivers on audits where we have performed the field work ourselves but have been unable to complete the audits by the end of the tax year. On a couple of occasions when we tried to secure a waiver for an audit that we planned to do the following year, the taxpayer declined. Due to significant staffing constraints in our business division, the backlog of mandatory audits was so large that the time and resources involved in attempting to secure waivers for all of them outweighed the benefit of obtaining waivers for audits that we could not possibly get to.