October 20, 2005

TO COUNTY ASSESSORS:

EL DORADO COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the El Dorado 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 Tim Holcomb, El Dorado 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 El Dorado County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed fieldwork for this survey from March through July 2004. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure
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INTRODUCTION

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

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

The assessor is required to file a response with the board of supervisors 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 provided to the Governor, the Attorney General, the BOE, the Senate, the Assembly, the El Dorado County Grand Jury and Assessment Appeals Board. The 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 Tim Holcomb, El Dorado County Assessor, elected to file his initial response prior to the publication of the BOE's. That response is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see Scope of Assessment Practices Surveys) and information that may be useful to other assessors. The latter information is provided with 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 imposed upon the assessor.

In addition, pursuant to Revenue and Taxation Code\textsuperscript{1} section 75.60, the BOE determines through the survey program whether the county assessment roll meets the minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

The BOE’s survey of the El Dorado County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in El Dorado County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2003-04 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This survey report offers recommendations to help the assessor resolve the problems identified. The recommendations contained in this report are the results of research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

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

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

This report emphasizes problem areas in the operations of the assessor's office. The report also identifies program elements that were particularly effective. Finally this report describes areas of improvement observed since our last assessment practices survey.

In the 2001 El Dorado County Assessment Practices Survey, 24 recommendations were made to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 15 of the recommended changes, partially implemented one, and did not implement eight. Two recommendations were dropped and are not repeated in this report. One, dealing with using average cost indices for business equipment, is no longer relevant since the BOE now advocates averaging in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*. The other, recommending that the assessor obtain leases and other documentation for taxable possessory interests, involves no statutory violation on the assessor's part. Therefore, only the partially implemented recommendation and the remaining recommendations not implemented are repeated in this report.

Several positive areas were noted in the assessor's programs:

- The assessor effectively administers assessment appeals.
- The assessor also has a sound program for administering the welfare, church, and religious exemptions for institutions.
- The assessor’s assessments of leased equipment, mineral properties, and Timberland Production Zone properties fully conform to statutory requirements.
- The assessor and his staff possess the appraisers' certificates required by section 670.
- The assessor has participated in the State-County Property Tax Administration Program every year since the 1997-98 fiscal year, and the county auditor-controller has certified to the State Department of Finance that the county has met the contractual requirements for loan or grant payments.
- In 2004, the California State Association of Counties (CSAC) officially commended the assessor for a feature on his website titled "Taxpayer's Key to Understanding Supplemental Assessment Calculations."
- The assessor was also commended in the 2004-05 El Dorado County Grand Jury Report for excellence in the use and integration of information technology into daily routines.

Several areas were noted where improvement is recommended, which are grouped into three categories: administration, real property, and personal property and fixtures. In the area of administration, the assessor should:
• Grant disaster relief only when an application is filed timely and calculate disaster relief in accordance with section 170;

• Use correct assessment forms and submit final prints of the property statements and in lieu forms as required by Rule 171; and

• Provide taxpayers with the *Notice of Proposed Escape Assessments* as required by section 531.8; send a *Notice of Enrollment of Escape Assessment* as required by section 534; enroll the required penalty; and notify the auditor-controller of interest that should be added to an escape assessment.

In the area of real property, the assessor should:

• Apply the penalty for failure to file a *Change of Ownership Statement*;

• Enroll supplemental assessments for changes in ownership or new construction of unsecured possessory interests having a stated term of possession;

• Assess all taxable vines and nonliving improvements; use an appropriate income stream when valuing restricted vineyards and orchards; calculate restricted values for California Land Conservation Act (CLCA) properties using the current interest component as required by section 423; and recognize the restricted appraisal unit on CLCA land;

• Identify and enroll all taxable government-owned properties and establish a correct base year value for all such properties;

• Capitalize net income to the lessor when valuing possessory interests using the income approach; periodically review possessory interests having stated terms of possession for possible declines in value; and properly apply the comparative sales approach to privately-owned cabins on United States Forest Service land by adding the present worth of future contract rents to the cabin's sales price;

• Issue supplemental assessments for structural tenant improvements;

• Properly assess the personal property included in timeshares remaining in the developer's inventory; and

• Assess all water company property at the lower of its factored base year value or its full cash value.

In the area of personal property and fixtures, the assessor should:

• Complete mandatory audit accounts, including audits of exempt organizations as required by section 469, and request waivers of the statute of limitations from taxpayers when his staff anticipates an audit will not be completed in a timely manner;
• Accept property statement filings only on BOE-prescribed forms;

• Use only supportable minimum percent good factors; establish procedures to identify and assess all pollution control equipment financed by state bonds; properly assess personal property in apartments; and discontinue use of minimum valuation factors in assessing computers;

• Use the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft; and

• Assess vessels annually at market value and include sales tax as a component of market value when appraising vessels.

The El Dorado County assessment roll meets the requirements for assessment quality established by section 75.60. Our sampling of the 2003-04 assessment roll indicated an average assessment ratio of 99.07 percent, and the sum of the absolute differences from the required assessment level was 1.56 percent. Accordingly, the BOE certifies that El Dorado County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Revise disaster relief procedures by: (1) granting disaster relief only upon the filing of a timely application, and (2) calculating disaster relief in accordance with section 170. ..................19

**RECOMMENDATION 2:** Ensure that (1) correct assessment forms are always used and (2) final prints of forms are always submitted as required by Rule 171.................................................................20

**RECOMMENDATION 3:** Improve the assessment roll changes by: (1) providing taxpayers with the *Notice of Proposed Escape Assessment* as required by section 531.8, (2) sending a *Notice of Enrollment of Escape Assessment* as required by section 534, and (3) notifying the auditor-controller when interest should be added to an escape assessment.........................................21

**RECOMMENDATION 4:** Apply the penalty for failure to file the *Change of Ownership Statement*.................................................................26

**RECOMMENDATION 5:** Enroll supplemental assessments for changes in ownership or new construction of qualifying possessory interests assessed on the unsecured roll.............................................................30
RECOMMENDATION 6: Revise California Land Conservation Act (CLCA) assessment procedures by: (1) assessing all taxable vines and nonliving improvements, (2) using an appropriate income stream when valuing restricted vineyards and orchards, (3) calculating restricted values for CLCA properties using the current interest component as required by section 423, and (4) appraising each CLCA property as an appraisal unit............31

RECOMMENDATION 7: Revise taxable government-owned property assessment procedures by: (1) identifying and enrolling all taxable government-owned properties, and (2) establishing a base year value for all taxable government-owned properties. ..................33

RECOMMENDATION 8: Improve possessory interest assessment procedures by: (1) capitalizing net income to the lessor when valuing possessory interests by the income approach, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (3) adding the present worth of unexpired contract rents to sales prices of possessory interests in the comparative sales approach to value. .................36

RECOMMENDATION 9: Issue supplemental assessments for structural tenant improvements.................................................................38

RECOMMENDATION 10: Assess personal property at market value in timeshare units held by the developer.................................................38

RECOMMENDATION 11: Assess all water company property at the lower of its factored base year value or its full cash value. ........................................39

RECOMMENDATION 12: Revise audit procedures by: (1) auditing the books and records of professions, trades, and businesses pursuant to section 469; and (2) obtaining a signed waiver of the statute of limitations when an audit will not be completed in a timely manner. ..........42

RECOMMENDATION 13: Accept property statement filings only on BOE-prescribed forms. ........................................................................43

RECOMMENDATION 14: Revise business equipment valuation procedures by: (1) using Assessors' Handbook Section 581, Equipment Index and Percent Good Factors, as intended; (2) assessing all pollution control devices or facilities financed by state bonds; (3) properly assessing personal property in apartments; and (4) discontinuing the use of minimum valuation factors in assessing computers.................................................................44
RECOMMENDATION 15:  Use the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. .................................................................48

RECOMMENDATION 16:  Revise vessel assessment procedures by: (1) annually reassessing vessels at market value, and (2) including sales tax as a component of market value when appraising vessels........49
RESULTS OF THE 2001 SURVEY

Assessment Roll Changes

We recommended that the assessor revise the Notice of Proposed Escape Assessment to include the heading required by section 531.8. We found that the assessor is still not including the required section 531.8 heading in his notice. The assessor has not implemented this recommendation.

Change in Ownership

We recommended that the assessor use the BOE-prescribed Change of Ownership Statement (COS) (Form BOE-502-AH). The assessor indicated in his response to the recommendation in the prior report that he was using the BOE-prescribed COS form and that the BOE had been given an obsolete form in error. We confirmed that the assessor is using the correct BOE-prescribed COS.

New Construction

We recommended that the assessor document the approach to value used in the appraisal of new construction. Our review of accounts containing new construction showed them to be well documented. We found that the assessor has fully implemented this recommendation.

We also recommended that the assessor obtain building permits from the El Dorado County's Environmental Management Department. The assessor has implemented this recommendation.

Supplemental Assessments

We recommended that the assessor issue only one supplemental assessment for each reappraisable event in June. We also recommended that the assessor issue supplemental assessments for fixtures. The assessor has implemented both recommendations.

California Land Conservation Act Property

We recommended that the assessor deduct expenses from gross revenue when capitalizing the income from California Land Conservation Act (CLCA) properties and that he compile a comprehensive database to aid in the appraisal of CLCA properties. We also recommended that the assessor include documentation in the appraisal records supporting the income, expenses, and capitalization rates used in the valuation of CLCA properties. The assessor has implemented all three of our recommendations.
Possessory Interests

We recommended that the assessor include copies of leases and other pertinent information in all possessory interest files. The assessor has not implemented this recommendation. Since this is not a statutory requirement, we are not repeating this recommendation.

Tenant Improvements

We recommended that the assessor improve coordination of leasehold improvement assessments between the real property and business property sections and that he review classification practices for leasehold improvements assessed on the unsecured roll. The assessor has complied with both recommendations.

Mineral Properties

We recommended that the assessor recognize the proper appraisal unit for valuing mineral properties. Our review indicates that the assessor has implemented this recommendation.

Audit Program

We recommended that the assessor bring his mandatory audit program current. While the assessor has made significant progress, he is still behind in his mandatory audits.

We also recommended that the assessor seek waivers of the statute of limitations in all situations where mandatory audits will not be completed on time. The assessor still does not routinely seek such waivers.

Additionally, we recommended that the assessor discontinue netting value differences discovered during an audit. The assessor has fully implemented this recommendation and follows statutory requirements when enrolling escape assessments and processing refunds after an audit.

Business Property Statement Processing

We recommended that the assessor not accept property statements that fail to comply with statutory requirements. We found that the assessor still accepts property statements where the original property statement was either missing or not signed. The assessor has not implemented our recommendation.

Business Equipment Valuation

We recommended that the assessor use the BOE's equipment index factors as recommended in Assessors' Handbook Section 581, Equipment Index and Percent Good Factors (AH 581). Since the last survey, the BOE has revised AH 581 to use average factors for each category of business property. Therefore, this recommendation is no longer applicable.
We recommended that the assessor discontinue the practice of limiting equipment valuation factors to an arbitrary minimum level. The assessor has not implemented this recommendation and it is repeated.

We also recommended that the assessor discontinue using a minimum valuation factor in assessing computers. We found that the assessor has partially adopted our recommendation by using the BOE's recommended factors for mid-range ($25,000.01 to $500,000) and mainframe computers ($500,000.01 and up). However, the assessor is still using a minimum valuation factor of 10 percent for personal computers ($25,000 or less).

**Aircraft**

We recommended that the assessor use the *Aircraft Blue Book Price Digest* as the primary guide for valuing general aircraft. We found that the assessor continues to use the computerized software produced by the *Vref Aircraft Value Service* to value general aircraft. The assessor has not implemented this recommendation.

**Vessels**

We recommended that the assessor require owners of vessels costing $100,000 or more to annually file Form BOE-576-D, *Vessel Property Statement*. The assessor has implemented this recommendation.

We also recommended that the assessor require documented vessel owners to file an annual affidavit before granting the 4 percent assessment. We found that the assessor now grants the 4 percent assessment only to documented vessel owners who have filed Form BOE-576-E, *Affidavit for 4 Percent Assessment of Certain Vessels*. The assessor has implemented this recommendation.

**Manufactured Homes**

We recommended that the assessor improve documentation of manufactured home assessments. We found that the documentation now includes a spreadsheet detailing the method used to determine manufactured home assessments.
OVERVIEW OF EL DORADO COUNTY AND THE ASSESSOR'S OFFICE

El Dorado County is a general law county, established by the California Legislature in 1850 as one of the original 27 counties. The county lies on the western slope of the Sierra Nevada, bordered on the north by Placer County, on the east by the State of Nevada, on the south by Amador and Alpine counties, and on the west by Sacramento County.

The county encompasses 1,805 square miles, or 1,155,200 acres, and has two incorporated cities, Placerville and South Lake Tahoe. Historically, mining, logging, agriculture, and ranching dominated El Dorado County's economy. In recent years, as these industries have declined and the local economy has diversified, tourism has become an increasingly important industry. Other industry groups include manufacturing, professional service occupations, home-based businesses, and high-tech firms.

Placerville is the county seat. Governed by a five-member board of supervisors, El Dorado County has a population of more than 163,000 people, about 6 percent of whom reside in the city of Placerville.

Staffing

The assessor's office is currently authorized 42 full-time positions. However, at the time of our fieldwork, the assessor's office was not fully staffed. The assessor does not use contract appraisers. The assistant assessor directs four appraisal teams (three real property and one business property), the mapping, information technology, and the appraisal support units.

The three real property teams are organized by geographical area: north county, south county, and South Lake Tahoe. The three teams include two supervisors, one branch manager, twelve appraisers, and nine assessment technicians. Four of the real property staff (two appraisers and two assessment technicians) report to the assessor's branch office in South Lake Tahoe; the remaining staff are assigned to the main office in Placerville.

The business property team consists of a supervising auditor-appraiser, two auditor-appraisers, and two assessment technicians. The auditor-appraisers process business, aircraft, and agricultural property statements and perform audits. In order to allow the auditor-appraisers to concentrate on mandatory audits, the valuation of all vessels has been assumed by the assistant assessor. All business property staff are assigned to the main office.

The assessor's staffing has remained stable over the last several years. Thirty-six of the assessor's positions are funded by General Fund revenue. In addition, the assessor has added a total of six positions through the State-County Property Tax Administration Program (PTAP) funding: one senior auditor-appraiser and five assessment technicians.
Budget

The assessor's budget and staffing levels for recent years, including both General Fund and PTAP funding, is shown in the following table:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>GROSS BUDGET</th>
<th>INCREASE</th>
<th>PERMANENT STAFF</th>
<th>PTAP FUNDS RECEIVED</th>
<th>PTAP STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>$3,263,847</td>
<td>.8%</td>
<td>36</td>
<td>$302,795</td>
<td>6</td>
</tr>
<tr>
<td>2002-03</td>
<td>$3,239,146</td>
<td>4.9%</td>
<td>36</td>
<td>$302,795</td>
<td>6</td>
</tr>
<tr>
<td>2001-02</td>
<td>$3,087,178</td>
<td>1.5%</td>
<td>36</td>
<td>$302,795</td>
<td>6</td>
</tr>
<tr>
<td>2000-01</td>
<td>$3,041,923</td>
<td>12.7%</td>
<td>36</td>
<td>$302,795</td>
<td>6</td>
</tr>
<tr>
<td>1999-00</td>
<td>$2,698,504</td>
<td></td>
<td>36</td>
<td>$302,795</td>
<td>6</td>
</tr>
</tbody>
</table>

Assessment Volume

The assessor produced a local assessment roll for 2003-04 consisting of 123,609 assessments (114,618 on the secured roll and 8,991 on the unsecured roll). This assessment roll had a gross value of $17,493,490,932. The following table illustrates the growth in assessed values during the past five years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>$17,493,490,932</td>
<td>11.9%</td>
</tr>
<tr>
<td>2002-03</td>
<td>$15,634,366,987</td>
<td>10.5%</td>
</tr>
<tr>
<td>2001-02</td>
<td>$14,144,869,822</td>
<td>9.7%</td>
</tr>
<tr>
<td>2000-01</td>
<td>$12,891,081,707</td>
<td>7.2%</td>
</tr>
<tr>
<td>1999-00</td>
<td>$12,026,344,146</td>
<td></td>
</tr>
</tbody>
</table>

The assessor's 2003-04 real property workload consisted of approximately 9,700 changes in ownership and 4,000 assessments of new construction. The roll also included approximately 3,300 manufactured homes, 1,600 taxable possessory interests, 400 California Land Conservation Act parcels, and 14,000 decline-in-value assessments. The assessor also completed a business property workload that included processing approximately 5,600 business property statements, (both secured and unsecured); performing about 50 audits (20 mandatory and 30 nonmandatory); and assessing approximately 2,700 vessels and 300 aircraft.
ADMINISTRATION

This portion of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the State-County Property Tax Administration Program, appraiser certification, exemptions, low-value property exemptions, the disaster relief program, and assessment forms. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares for and presents assessment appeals.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001, and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

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

The El Dorado County Assessor has participated in the PTAP program since the 1997-98 fiscal year. The assessor's contract calls for him to maintain the 1995-96 funding level of $2,165,430 and 36 total staff positions. For the fiscal year 2003-04, the State and county agreed to PTAP funding of $302,795. This level of funding will continue each year until the grant agreement expires in fiscal year 2006-07.

The assessor used PTAP funds to reduce backlogs of new construction building permits, changes in ownership, supplemental assessments, assessment appeals, and mandatory and nonmandatory audits. Funds have also been used for staffing and new information technology hardware, software, and related staff training. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax assessment system.

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2 The PTAP funding has been suspended for two years, beginning with the 2005-06 California Budget.
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 certificate issued by the BOE. The assessor's office has a total of 22 positions that require an appraiser's certificate.

Based on information obtained from the BOE Training Unit and the assessor's records, we confirmed that the assessor and his staff possess the required certificates. In addition, all of the appraisers who are qualified to hold an advanced appraiser's certificate have one. The assessor does not employ contract appraisers.

Exemptions

In the El Dorado County Assessor's Office, all exemptions except the homeowners' exemption are processed by a half-time assessment technician. This staff member is guided in the processing duties by written procedures, Assessors' Handbook Section 267, Welfare, Church, and Religious Exemptions, and documents received in various exemption workshops attended.
The following table summarizes welfare exemptions granted on the local roll for the last five years:

<table>
<thead>
<tr>
<th>ASSESSMENT ROLL</th>
<th>NUMBER OF EXEMPTIONS</th>
<th>EXEMPT ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>133</td>
<td>$197,816,762</td>
</tr>
<tr>
<td>2002-03</td>
<td>138</td>
<td>$192,023,364</td>
</tr>
<tr>
<td>2001-02</td>
<td>115</td>
<td>$168,513,060</td>
</tr>
<tr>
<td>2000-01</td>
<td>118</td>
<td>$152,872,875</td>
</tr>
<tr>
<td>1999-00</td>
<td>103</td>
<td>$95,962,293</td>
</tr>
</tbody>
</table>

We reviewed various welfare exemption claims on file at the assessor's office, concentrating on claims that contained the following findings:

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

Specific property types that we reviewed included:

- Low-income housing and hospitals (partial exemptions);
- Reasonably necessary staff housing, including parsonages; and
- Religious schools.

The assessor maintains very well documented welfare exemption claim records. There is a permanent file for every organization. The assessment technician uses a welfare exemption claim checklist to ensure that all documentation and verification requirements have been met before processing the exemption.

The assessor has a sound program for administering the welfare exemption. The only deficiency we noted is that the assessor has not completed timely audits of two exempt hospitals. This issue is discussed in the Audit Program section of this report.

**Church and Religious Exemptions**

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

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

The assessor solely administers the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. However, the religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

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

<table>
<thead>
<tr>
<th>ASSESSMENT ROLL</th>
<th>NUMBER OF RELIGIOUS EXEMPTIONS</th>
<th>EXEMPT ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>92</td>
<td>$56,976,879</td>
</tr>
<tr>
<td>2002-03</td>
<td>92</td>
<td>$52,726,156</td>
</tr>
<tr>
<td>2001-02</td>
<td>93</td>
<td>$48,764,077</td>
</tr>
<tr>
<td>2000-01</td>
<td>97</td>
<td>$45,560,291</td>
</tr>
<tr>
<td>1999-00</td>
<td>90</td>
<td>$31,230,612</td>
</tr>
</tbody>
</table>

Our review of the assessor's religious exemption program showed that the assessor is very careful to adhere to statutory requirements regarding filing. When claimants fail to return the annual termination notice, the assessor promptly contacts the claimant by telephone to obtain the necessary documentation. If this fails, an appraiser will field inspect the property to verify continued eligibility for the religious exemption. The assessor maintains a very effective religious exemption program.
The following table represents the number of church exemptions and assessed values for the past five years:

<table>
<thead>
<tr>
<th>ASSESSMENT ROLL</th>
<th>NUMBER OF CHURCH EXEMPTIONS</th>
<th>EXEMPT ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>9</td>
<td>$1,047,955</td>
</tr>
<tr>
<td>2002-03</td>
<td>7</td>
<td>$923,660</td>
</tr>
<tr>
<td>2001-02</td>
<td>5</td>
<td>$543,134</td>
</tr>
<tr>
<td>2000-01</td>
<td>5</td>
<td>$601,298</td>
</tr>
<tr>
<td>1999-00</td>
<td>4</td>
<td>$253,214</td>
</tr>
</tbody>
</table>

We found that the assessor is careful to allow the church exemption only for worship and related uses. The assessor's program for administering the church exemption is also very sound.

**Low-Value Property Exemption**

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

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property with a total base year value or full value of more than $5,000, or more than $50,000 in the case of certain possessory interests. A board of supervisors must adopt a low-value property exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

The El Dorado County Board of Supervisors adopted Resolution No. 31-94, incorporating the provisions of section 155.20, commencing with the 1994 assessment roll. This resolution allows for the exemption of all real property and all personal property with full values so low that, if not exempt, the total taxes would amount to less than the cost of assessing and collecting them. While the actual ordinance does not specify any dollar amounts, the assessor's practice is to exempt personal property of $2,000 or less and pleasure vessels of $5,000 or less. The assessor received a legal opinion from his county counsel that states his practice was permissible under section 155.20 and the county's resolution. The ordinance has not been amended since it was adopted on February 8, 1994.

Low-valued accounts can be assigned a special code that causes a business property statement to be sent when, in the opinion of staff, more current information is needed to determine continuing eligibility for the exemption. The number of exempted properties increases each year, as very few are removed from this category once assigned a low value. The assessor does maintain a cumulative count of the accounts and full values as each item is added to the low value category.
As of June 30, 2003, there were 15,310 low-value boats and 10,997 low-value personal property accounts.

**Disaster Relief**

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

To obtain relief under an ordinance, assessees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessees with an application for reassessment, or he or she may revalue the property on lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by $10,000 or more, the assessor shall then determine the percentage of value reductions and reduce the assessed values accordingly.

On April 1, 1986, the El Dorado County Board of Supervisors adopted an ordinance that allows the assessor to grant tax relief for damage incurred under section 170. We suggest that the assessor notify the board of supervisors that some of the provisions in the ordinance, such as the $5,000 value threshold and some of the filing deadlines, need to be updated to reflect changes that went into effect January 1, 2002. In addition, we suggest that the assessor update his policies and procedures manual as well as his website, as both indicate a property must sustain damage of at least $5,000 to qualify for tax relief, rather than the current minimum of $10,000.

After 1986, the board of supervisors adopted additional disaster relief ordinances to allow the assessor to provide tax relief for properties damaged by specific events, including the Cleveland fire in 1992 and the flooding and mudslides that occurred in the winter of 1997-98. As the ordinance adopted in 1986 did not have an expiration date and covered all forms of calamity and disaster denoted in section 170, these later ordinances are redundant.

To obtain relief under a disaster relief ordinance, the assessees must timely file a written application with the assessor requesting reassessment of the property. To qualify for relief, the property must suffer, through no fault of the assessees, a misfortune or calamity in which the amount of damage exceeds $10,000.

We found two areas needing improvement in the assessor's administration of disaster relief.
**RECOMMENDATION 1:** Revise disaster relief procedures by: (1) granting disaster relief only upon the filing of a timely application, and (2) calculating disaster relief in accordance with section 170.

**Grant disaster relief only upon the filing of a timely application.**

The assessor has been granting disaster relief without having first obtained a written application from the property owner. Based on interviews with the staff, it is an unwritten policy to grant disaster relief without requiring an application.

Section 170(a) provides that the county ordinance may contain a general authority for the assessor to initiate an assessment without an application. But the El Dorado County ordinance does not contain this provision. Section 170(d) provides that if no application is made and the assessor determines that within the preceding 12 months a property has suffered damage caused by misfortune or calamity that may qualify the property owner for relief under an adopted ordinance, the assessor shall provide the last known owner of the property with an application for reassessment. The owner must then file the completed application within 60 days of the date the assessor mailed the form, but in no case more than 12 months after the event that caused the damage.

An application for disaster relief submitted by the property owner is usually a valuable tool for the appraiser, as it typically provides the date of the calamity or disaster, an estimated date of completion for repairs might be completed, and an estimate of the cost to repair the damage.

**Calculate disaster relief in accordance with section 170.**

We found several instances where the assessor deducted the amount of the damage estimate rather than the appropriate percentage from the factored base year value of the improvements. We also found several instances of the assessor establishing the value of the improvements in damaged condition at the estimated market value of the damaged improvements.

Section 170(b) provides that upon receiving a proper application, the assessor shall appraise the property and determine separately the full cash value of land, improvements, and personalty immediately before and after the damage or destruction. This subsection also provides that the assessor shall separately determine the percentage reductions in value of land, improvements and personalty due to the damage or destruction, and reduce the values on the assessment roll by those percentages.

By adjusting the taxable value of the damaged property by the damage estimate rather than the percent of damage or enrolling the market value of the damaged improvement rather than the appropriate percentage, the assessor has incorrectly valued the property and is not following statutory provisions.
Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation. For the 2003 lien date the BOE prescribed 77 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE prescribed forms they will use in the following year.

The assessor uses a variety of assessment forms, most of which are BOE-prescribed prototypes. He also uses several rearranged BOE prototype forms and several locally developed forms. We found two problems with the assessor's forms.

RECOMMENDATION 2: Ensure that (1) correct assessment forms are always used and (2) final prints of forms are always submitted as required by Rule 171.

Always use correct assessment forms.

The assessor uses two unapproved rearranged BOE-prescribed forms, and four forms that are outdated versions of BOE-prescribed forms.

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. BOE-prescribed forms are updated on an annual basis, and a checklist of current forms is sent to assessors. The assessor may rearrange BOE-prescribed forms, subject to BOE approval, but may not add or delete any part of the form. Moreover, the assessor should use only current versions of BOE-prescribed forms. Outdated forms contain incorrect and possibly misleading information.

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

4 Also Revenue and Taxation Code sections 480(b), 480.2(b), 480.4 and California Code of Regulations (property tax rules) sections 101 and 171.
Always submit final prints of forms as required by Rule 171.

For the 2003 lien date, the assessor did not submit the final prints (versions) of the forms that he intended to use for the specific lien date. Rule 171 requires the assessor to annually submit to the BOE a printed copy of each property statement for approval no later than February 10th.

By not submitting the final prints of the property statements and in-lieu tax forms, the assessor is not in full compliance with regulations.

**Assessment Roll Changes**

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

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

We reviewed a number of unsecured roll corrections and escape assessments processed for fiscal years 2002-03 and 2003-04, and a number of secured roll corrections and escape assessments processed for fiscal year 2002-03. We found that roll corrections are made within the authorized period of time. However, we did note some areas where the assessor's procedures for roll corrections do not meet statutory requirements.

**RECOMMENDATION 3:** Improve the assessment roll changes by: (1) providing taxpayers with the *Notice of Proposed Escape Assessment* as required by section 531.8, (2) sending a *Notice of Enrollment of Escape Assessment* as required by section 534, and (3) notifying the auditor-controller when interest should be added to an escape assessment.

Provide taxpayers with the *Notice of Proposed Escape Assessment* as required by section 531.8.

This is a repeat of a recommendation made in our most recent survey. We found that the assessor does not provide taxpayers with the required section 531.8 *Notice of Proposed Escape Assessment*. To notify taxpayers of escape assessments, the assessor sends a letter stating the correction has been made to the assessed value of their property, advising the taxpayer to contact the office if there are questions, and informing the taxpayer of their appeal rights. This letter is not the notice of proposed escape assessment required by section 531.8. It lacks the required heading and is mailed to the taxpayer at the same time the assessor notifies the auditor to enroll the escape assessment.
Section 531.8 provides that an escape assessment cannot be enrolled until 10 days after the assessor has mailed or otherwise delivered to the assessee a notice of proposed escape assessment. That notice must contain: (1) the amount of any proposed escape assessment and (2) the telephone number of the assessor's office. Additionally, the notice must prominently display on its face the following heading: "NOTICE OF PROPOSED ESCAPE ASSESSMENT."

Send a Notice of Enrollment of Escape Assessment as required by section 534.

The assessor does not properly notify taxpayers of the enrollment of an escape assessment. To notify taxpayers of escape assessment enrollments, the assessor sends the letter referenced above. This letter does not satisfy the requirements of section 534.

Section 534 mandates that an escape assessment notice include all of the following:

- The date the notice was mailed;
- Information regarding the assessee's right to an informal review and the right to appeal the assessment;
- The time frame for filing the appeal; and
- A description of the requirements, procedures, and deadlines, with respect to the application for the reduction of an assessment pursuant to section 1605.

In addition, the notice given by the assessor shall be on a form approved by the BOE.

In Letter To Assessors 2001/043, dated August 2, 2001, the BOE notified county assessors of this statutory requirement and attached copies of the prescribed forms BOE-66-A/B, Notice Of Enrollment Of Escape Assessment, as prototype forms that satisfy the requirements of section 534. Assessors may revise the forms, but they must contain all the required information and must be approved by the BOE.

The assessor's letter does not satisfy the requirements of section 534 and has not been approved by the BOE.

Notify the auditor-controller when interest should be added to an escape assessment.

When enrolling roll corrections and escape assessments, the assessor does not enroll the required penalty and does not notify the auditor-controller to charge applicable interest. Although the assessor has procedures in place to identify those roll corrections to the auditor-controller, the assessor processes most roll corrections and escape assessments under sections 4831 and 4831.5, which include no penalty or interest.

We found escape assessments for homeowners' exemptions that had been incorrectly allowed because the claimant failed to notify the assessor that the property was no longer eligible for the exemption. When processing the cancellation of the exemption, the assessor did not add the
required section 504 penalty or notify the auditor-controller to add the mandatory interest as provided in section 506.

We also found many instances of roll corrections and escape assessments made as a result of audits or correction of inaccurate information furnished by assessees on property statements. In most instances, the assessor cited the incorrect code section 4831.5, rather than sections 531, 531.3, or 531.4. The assessor also did not instruct the auditor-controller to add the mandatory interest pursuant to section 506.

Certain types of escape assessments are subject to the interest imposed by section 506. Escapes requiring the addition of interest are: failure to file a required property statement (sections 531 and 441), incorrectly allowed exemptions (section 531.1), failure to report the cost of personal property where the assessor has required a statement (section 531.3), inaccurate reporting on the property statement or form (section 531.4), incorrectly allowed business inventory exemption (section 531.5), and incorrectly granted homeowners' property tax exemption (section 531.6).

Section 531.6 further provides that if the homeowners' exemption is incorrectly allowed because the claimant failed to notify the assessor that the property was no longer eligible for the exemption, the penalty provided in section 504 shall be added to the assessment. Moreover, section 506 also requires that the county add interest charges to the amount of escaped taxes.

The assessor's practice of not adding a penalty or instructing the auditor-controller to add mandatory interest results in incorrect assessments and lost tax revenue.

**Assessment Appeals**

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted Rules 301 through 326 to regulate the assessment appeal process.

El Dorado County Ordinance No. 4442 provides for the creation and defines the duties of the county's assessment appeals board. Prior to the adoption of this ordinance in 1997, the El Dorado County Board of Supervisors sat as the local board of equalization. Currently, there is one appeals board consisting of three members and two alternate members. The board of supervisors appoints members of the assessment appeals board.

Applications are received by the clerk of the assessment appeals board, reviewed and verified, and a copy is forwarded to the assessor's office. After reviewing the application, the assistant assessor assigns the appeal to the appropriate appraiser who contacts the applicant by telephone. If an applicant decides to withdraw his or her appeal or agrees to stipulated values, the assistant assessor drafts a response, and sends respective letters to the applicant for his or her signature. Upon receipt of a signed letter, the assessor forwards the letter to the assessment appeals board for approval. If no agreement can be reached, the deputy clerk of the board of supervisors schedules a hearing.
The assistant assessor and the clerk of the board both track the progress of assessment appeals to ensure that all appeals are resolved timely. No appeal in the last five years has gone unresolved for more than two years without a timely filed extension. On average 77 appeals were filed annually from 1998-99 through 2002-03.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeals Filed</td>
<td>83</td>
<td>80</td>
<td>75</td>
<td>76</td>
<td>71</td>
</tr>
<tr>
<td>Appeals Carried Over From Prior Year</td>
<td>59</td>
<td>16</td>
<td>9</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total Appeals Workload</strong></td>
<td>142</td>
<td>96</td>
<td>84</td>
<td>90</td>
<td>89</td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawn</td>
<td>28</td>
<td>17</td>
<td>34</td>
<td>50</td>
<td>59</td>
</tr>
<tr>
<td>Stipulation</td>
<td>27</td>
<td>12</td>
<td>25</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Appeals Increased</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Determination*</td>
<td>2</td>
<td>2</td>
<td>7</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Resolved</strong></td>
<td>60</td>
<td>37</td>
<td>68</td>
<td>81</td>
<td>75</td>
</tr>
<tr>
<td>To Be Carried Over**</td>
<td>82</td>
<td>59</td>
<td>16</td>
<td>9</td>
<td>14</td>
</tr>
</tbody>
</table>

* Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.
**"To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

Overall, the assessor's assessment appeal program is well administered. Thus, we found no problems with the assessor's assessment appeals program.
ASSESSMENT OF REAL PROPERTY

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

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

Under article XIII A of the California Constitution, the taxable value of most real property may not exceed its full cash value as of the later of (1) the 1975 lien date or (2) the property's most recent change in ownership or completion of new construction. This ceiling on taxable value establishes the property's "base year value," which is subject to an annual inflation adjustment not to exceed 2 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 change in ownership for property tax purposes. Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

Discovery and Document Processing

The assessor's primary means of discovering properties that have changed ownership is the review of deeds and other documents recorded with the county recorder. The recorder's office requires that Form BOE-502-AH, Preliminary Change of Ownership Report (PCOR), accompany documents that are submitted for recordation that transfer the ownership of real property. A $20 fee is added to the recording fee when a PCOR is not received. The assessor receives copies of all recorded documents and PCOR's daily from the recorder.

An assessment specialist analyzes the recorded documents to determine the percentage of ownership transferred and if they represent a reappraisable event. Documents representing a reappraisable event are combined with the property record and placed in files by map book. Appraisers pull their work from these files.

The number of documents received from the recorder shows a slight increase in four of the past five years. The percentage of recorded documents resulting in reappraisals, however, has
remained fairly constant. The following table summarizes transfer document statistics and the resulting appraisal workload:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>NUMBER OF DOCUMENTS</th>
<th>REAPPRAISALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>21,014</td>
<td>57%</td>
</tr>
<tr>
<td>2001</td>
<td>19,191</td>
<td>60%</td>
</tr>
<tr>
<td>2000</td>
<td>19,111</td>
<td>65%</td>
</tr>
<tr>
<td>1999</td>
<td>18,039</td>
<td>62%</td>
</tr>
<tr>
<td>1998</td>
<td>18,546</td>
<td>60%</td>
</tr>
</tbody>
</table>

We reviewed several properties recently valued by the assessor for changes in ownership. We found the assessor establishes the correct base year; properly applies the presumption in Rule 2 that the sale price reflects the full cash value of the property; uses reasonable appraisal techniques; and correctly enrolls supplemental assessments. However, we did find one area needing improvement.

**RECOMMENDATION 4:** Apply the penalty for failure to file the Change of Ownership Statement.

When there is no Preliminary Change of Ownership Report (PCOR), and no exclusion from a change in ownership is apparent, an assessment clerk mails Form BOE-502-AH, Change of Ownership Statement (COS), to the grantee. However, these Change of Ownership Statements are not tracked and hence, no second request for the information made, nor is the penalty provided for in section 482 for non-filing of the COS applied.

Section 480 provides that transferees shall file a change in ownership statement with the recorder or assessor in the county where the subject property is located. Section 482(a) further provides that if, upon written request from the assessor, a required party fails to file the statement within 45 days, a specific penalty shall be applied. The filing of this form is not an option for the assessor or transferees. The information contained in a properly completed COS assists the assessor in making an accurate assessment. The assessor's failure to apply the section 482(a) penalty conveys to the public that these statements and the application of the penalty are unimportant.

**Legal Entity Ownership Transfers (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, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of change in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.
To help assessors, the BOE's LEEP 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 specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, LEEP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

We reviewed a number of properties on the LEEP list for El Dorado County and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor is processing LEEP notices properly and, therefore, capturing LEEP changes in ownership.

**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 463.5 clarify the statutory provisions of sections 70 and 71, and 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 73 through 74.6 address these exclusions.

**Discovery**

Most new construction activity is discovered from building permits. The assessor receives permits monthly from three permit-issuing agencies: the County of El Dorado and the cities of South Lake Tahoe and Placerville. Upon receipt of the electronic computer file of permits issued, an appraiser aide culls permits determined to have no significant value impact. Data from the remaining permits are then entered into the computer system and a copy of the permit is forwarded to the appraisers.
The following table shows the volume of new construction enrolled in each of the last five years:

<table>
<thead>
<tr>
<th>ASSESSMENT ROLL</th>
<th>TOTAL NUMBER OF PERMITS RECEIVED</th>
<th>PERMITS RESULTING IN NEW CONSTRUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>9,132</td>
<td>1,560</td>
</tr>
<tr>
<td>2002-03</td>
<td>8,304</td>
<td>4,277</td>
</tr>
<tr>
<td>2001-02</td>
<td>7,194</td>
<td>4,245</td>
</tr>
<tr>
<td>2000-01</td>
<td>7,294</td>
<td>4,282</td>
</tr>
<tr>
<td>1999-00</td>
<td>7,340</td>
<td>4,219</td>
</tr>
</tbody>
</table>

The assessor sends self-reporting questionnaires to taxpayers, primarily for residential permits indicating additions or alterations. When returned, the appraisers use the information to appraise the new construction. A field inspection is performed only if inadequate or confusing information is received.

The assessor enrolls construction in progress on each lien date at its fair market value. This process continues until the construction is complete, at which time the new construction is assessed at its fair market value, as of the date of completion, a base year value is assigned, and supplemental assessments are generated. We found that the files for these properties typically contain adequate documentation of building permits and construction activity.

In our 2001 survey, we recommended that the assessor document his approach to value used in the appraisal of new construction. The assessor has implemented this recommendation. We reviewed a number of new construction files and found them to be well documented. We were able to determine how the final value estimate was derived, and whether the appraiser had relied on the sales, income, or cost approach as the best value indicator.

**Valuation**

The staff typically values new residential construction using the market approach. If the replacement cost is considered when valuing new construction that is attached to the home, the staff usually depreciates the project's estimated replacement cost using a percent good that corresponds to the effective age of the residence following completion of the work. New construction that is not attached to the residence is often valued based on full replacement cost.

New commercial construction is usually valued by the market or income approaches. The cost approach is sometimes utilized to confirm the validity of the values indicated by the other two approaches. New construction on industrial or agricultural property is ordinarily valued using the cost approach.
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 factored base year value 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 factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501, Basic Appraisal, January 2002, page 140.)

For the 2003 assessment year, the assessor enrolled approximately 14,300 parcels whose full cash value had declined below FBYV. About 13,000 of these assessments are timeshares located in South Lake Tahoe.

To discover property whose market value has declined below its FBYV, the assessor relies primarily on his appraisal staff's knowledge of current property values, and to a lesser degree upon taxpayers' requests for value reviews.

Each appraiser annually receives a list of properties located in his or her assigned area that were enrolled at less than FBYV for the prior year. The appraisers review the valuations of these properties and designate which values should be changed on the roll being prepared. They submit the lists, along with documentation supporting their value conclusions, to a supervising appraiser for review.

In the files of properties that have been enrolled at less than FBYV, there is often no evidence that annual value reviews have been performed. The staff does not typically make annual entries on the property's top sheet, and there is typically no documentation supporting the market value conclusion in the property file. Because maintaining appraisal data in the property file would assist an appraiser at a future date to explain the current valuation to the taxpayer, we suggest that the assessor increase appraisal documentation stored in the property files.

Supplemental Assessments

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

In our 2001 survey, we recommended that the assessor issue only one supplemental assessment for each reappraisable event that occurs in June. The assessor now has an automated system for calculating supplemental assessments that issues one supplemental assessment for events occurring in that month.
We also recommended that the assessor consistently issue supplemental assessments for fixtures, as there were instances where these assessments had not been made. During fieldwork for this survey, we found no instances of the assessor failing to issue a supplemental assessment for fixtures. However, we did discover that the assessor is not issuing supplemental assessments for leasehold structural improvements and have made a recommendation under that topic heading. We also found that the assessor is inconsistent in his application of supplemental assessments.

**RECOMMENDATION 5:** Enroll supplemental assessments for changes in ownership or new construction of qualifying possessory interests assessed on the unsecured roll.

The assessor properly enrolls supplemental assessments for changes in ownership or new construction of cabins on U.S. Forest Service land, which are possessory interests (PI's) assessed on the secured roll. However, he does not enroll supplemental assessments for changes in ownership of PI's in hangars at public airports at South Lake Tahoe and Placerville, which are assessed on the unsecured roll.

Section 75.14 provides that all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessments. In addition, Letter To Assessors 83/132 specifically states that PI's are subject to supplemental assessments. Although section 75.5 excludes month-to-month PI's under $50,000 in value from supplemental assessment, the airport hangars have stated terms of possession and would not qualify for exclusion under this section.

As stated in section 75, the Legislature instituted supplemental assessments to promote increased equity among taxpayers by enrolling and making adjustments to taxes resulting from changes in ownership and completion of new construction at the time they occur. The assessor's practice of not issuing supplemental assessments on all PI's results in inequitable taxation and a loss of revenue to the county.

**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 ("Williamson Act") 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, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of restricted value, current market value, or factored base year value, the restricted value is typically 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 BOE-approved guidance for the appraisal of these properties.

For the 2003-04 tax roll, El Dorado County had approximately 36,500 acres encumbered by CLCA contracts and 185 acres restricted under the Farmland Security Zone (FSZ). Nonrenewal acreage represented approximately 1,700 acres of the total restricted acreage. The total assessed value for CLCA land and living improvements for 2003-04 was approximately $36.7 million.

Most of the rural property in El Dorado County consists of rangeland, timber, and vineyards. The bulk of the agricultural revenue generated in El Dorado County is derived from timber, apples, and wine grapes.

Valuation of CLCA Property

Each appraiser in El Dorado County is responsible for the valuation of CLCA properties in his or her assigned geographical area. The appraisers manually calculate a restricted value each lien date using the updated capitalization rate. Rents are updated annually based on information reported on CLCA questionnaires, which are mailed periodically. Homesites are valued according to section 428.

The assessor implemented our prior recommendations to deduct expenses from gross revenue when capitalizing CLCA income, to compile a database of market income and expenses to use in CLCA valuation, and to document appraisal records supporting the CLCA valuation.

However, we did note other areas where the assessor is not in compliance with applicable statutes.

**RECOMMENDATION 6:** Revise California Land Conservation Act (CLCA) assessment procedures by: (1) assessing all taxable vines and nonliving improvements, (2) using an appropriate income stream when valuing restricted vineyards and orchards, (3) calculating restricted values for CLCA properties using the current interest component as required by section 423, and (4) appraising each CLCA property as an appraisal unit.

**Assess all taxable vines and nonliving improvements.**

The assessor valued 347 acres of vineyards in El Dorado County for 2003-04. We reviewed a number of CLCA and FSZ files and we found only one vineyard that had escaped assessment; however, there is strong evidence of a much larger escape assessment, including the following:

- Statement in the *El Dorado County Crop Report 2002*: "Reported wine grape acreage was over 2,000 acres. This is the largest amount of land utilized for wine grape production in El Dorado County since the early 1900's."
• A chart in the *El Dorado County Crop Report 2002* showing a dramatic increase in wine grape acreage beginning in 1996 and continuing through 2002.

• A listing in the *El Dorado County Crop Report 2002* showing wine grapes as the third highest revenue generating crop in the county at $4,700,000 for 2002.

• The assessor valued 67 percent of the orchard acreage reported in the *El Dorado County Crop Report 2002* and only 16 percent of the wine grape acreage reported.

Pursuant to section 401.3, the assessor shall assess all property subject to general property taxation on the lien date. Section 531 provides that if any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment.

The potential loss of revenue includes not only the taxable vines, trellis, and drip irrigation, but also the higher taxable vineyard land value. The escaped living and nonliving improvements may now be beyond the four-year statute of limitations for some years. Loss of revenue will continue every tax year into the future until the vines and nonliving improvements are assessed. Some of the vineyard acreage may not be restricted and would therefore be assessed at it's article XIII A value (lower of current market value or factored base year value), indicating an even greater loss of taxable value.

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

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

The AH 521 describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements is similar: (1) a period of development, when production (income stream) initiates and rises; (2) a period of maturity, when production remains relatively stable; and (3) a period of decline, when production drops as the improvements near the end of their economic lives.

By not recognizing the stage of production of a property, the assessor may be undervaluing vineyards and orchards in the development or maturity period.

**Calculate restricted values for CLCA properties using the current interest component as required by section 423.**

We found several instances where the assessor did not annually determine a new CLCA restricted value for the property. Instead, he enrolled the prior year's roll value.

Section 423(a) requires the assessor to determine a value estimate by capitalizing the annual income attributed to land and living improvements. Section 423(b) provides that the capitalization rate to be applied shall include components for the BOE-announced interest rate, risk, property taxes, and, where appropriate, for amortization of any investment in perennials.
If the imputed annual income remains the same, and the risk, property taxes, and amortization components of the capitalization rate are held constant, a fluctuation in the interest rate component will cause a difference in the appropriate taxable value for CLCA parcels. Unless the assessor has market evidence of offsetting changes to annual income or to components of the capitalization rate other than the interest component, his practice of enrolling the same value for two years in succession will result in inappropriate assessments.

**Appraise each CLCA property as an appraisal unit.**

The assessor enrolls CLCA land at the lowest of its restricted value, factored base year value, or current market value. However, he enrolls CLCA orchards and vineyards only at their factored base year value. He does not compare this value with the restricted section 423 value or with market value.

Section 423(d) provides that the restricted value shall not exceed the lesser of either the current market value or the factored base year value. This limitation applies to the restricted appraisal unit of the property, which typically consists of land and/or living improvements such as trees or vines. AH 521 provides that the comparison is made on the basis of the restricted value of the appraisal unit and not on the basis of the value of each restricted component, such as land or trees.

The assessor's practice of enrolling the factored base year value of trees and vines, without comparing this value to the restricted value or the current market value of the appraisal unit, could result in overassessments.

**Taxable Government-Owned Property**

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

For the 2003-04 assessment year, the assessor enrolled 106 taxable government-owned properties with a total assessed value of $18,681,360.

We found that the assessor's program for assessing taxable government-owned property needs improvement.

**RECOMMENDATION 7:** Revise taxable government-owned property assessment procedures by: (1) identifying and enrolling all taxable government-owned properties, and (2) establishing a base year value for all taxable government-owned properties.
Identify and enroll all taxable government-owned properties.

The assessor has not thoroughly reviewed government-owned real property in El Dorado County to identify taxable government-owned properties. We examined a list of government-owned properties having no assessed value, and compared the tax-rate areas of these parcels with the tax-rate areas where the various government agencies have jurisdiction. We discovered a number of properties that may be taxable but were exempted by the assessor. Based on the names of the owners from whom these government agencies acquired title, all of the parcels appear to have been taxable when acquired.

Failing to identify and enroll all taxable government-owned properties may result in escape assessments and lost tax revenues.

Establish a base year value for all taxable government-owned properties.

All of the taxable government-owned properties identified by the assessor for the 2003-04 roll are owned by a municipal utility district and were acquired prior to 1975. These parcels comprise a portion of this utility's hydroelectric operation. For fiscal year 1975-76, the assessor enrolled the 1967 assessed values multiplied by the appropriate BOE-announced rate (Phillips Factor) because this amount was lower than factored base year value. Since then, the assessor has annually enrolled each taxable government-owned property at the restricted value.

As stated in LTA 2000/037, the base year value for taxable government-owned property acquired before March 1, 1975 equals the value on the 1975-76 roll. Subsequently, for each lien date, the assessor is to enroll the lowest of the current market value, the factored base year value, or the restricted value.

The assessor's current policy of automatically enrolling the restricted value for taxable government-owned property has probably resulted in overassessments. The Phillips Factor for the 2003-04 roll is 5.9 times higher than the Phillips Factor applicable to the fiscal 1975-76 roll. In comparison, a market value established on lien date 1975 and adjusted by the BOE-announced inflation factors would have increased by a factor of only 1.7 as of lien date 2003. Therefore, if the assessor had established 1975 base year values for the utility district properties, it is highly likely that their factored base year values for fiscal 2003-04 would be lower than the Phillips Factor values for that year.

Timberland Production Zone Property

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the current market value of any compatible, nonexclusive uses of the property (section 435). Assuming that TPZ lands are not also under CLCA contract, the annual taxable value of TPZ lands is the lowest of (1) restricted value, (2) current market value, or (3) factored base year value.
The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed as all other real property.

El Dorado County has 814 TPZ parcels comprised of 149,837 acres. For the 2003-04 assessment year, the total assessed value of TPZ lands was $23,323,749. The following table illustrates TPZ assessed values for the past five years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>PARCELS</th>
<th>TPZ LAND VALUE</th>
<th>IMPROVEMENT VALUE</th>
<th>TOTAL ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>814</td>
<td>$19,763,049</td>
<td>$3,560,700</td>
<td>$23,323,749</td>
</tr>
<tr>
<td>2002-03</td>
<td>821</td>
<td>$20,054,371</td>
<td>$3,314,010</td>
<td>$23,368,381</td>
</tr>
<tr>
<td>2001-02</td>
<td>816</td>
<td>$19,682,409</td>
<td>$3,011,080</td>
<td>$22,693,489</td>
</tr>
<tr>
<td>2000-01</td>
<td>814</td>
<td>$18,839,319</td>
<td>$2,943,279</td>
<td>$21,782,598</td>
</tr>
<tr>
<td>1999-00</td>
<td>819</td>
<td>$19,417,252</td>
<td>$2,875,881</td>
<td>$22,293,133</td>
</tr>
</tbody>
</table>

Our review of randomly selected records showed that the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ land. The assessor developed a computer program that updates TPZ values annually based on the site class values provided by the BOE. There are no TPZ parcels in rezoning status pursuant to Government Code section 51120. All of the land zoned as TPZ is identified on the assessment roll with the notation "Timberland Production Zone" in conformance with section 433.

The assessor values homesites and improvements on TPZ lands at the lesser of their current market value or their factored base year value. He correctly issues supplemental assessments for homesites and improvements on TPZ land when there is a change in ownership.

Our review of TPZ lands in El Dorado County indicates that the assessor is in compliance with all applicable statutes.

**Possessory Interests**

A taxable possessory interest (PI) 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 2003-04 roll year, the assessor enrolled 1,627 PI's with a total assessed value of $70,556,625. A majority of these PI's are privately-owned cabins on U. S. Forest Service land in the Lake Tahoe area, valuation of which is the responsibility of one real property appraiser in the assessor's South Lake Tahoe office. PI's located on the western slope of the Sierras are valued primarily by another real property appraiser, with assistance provided by the assistant assessor.
In our 2001 survey report, we recommended that the assessor include copies of leases and other pertinent information in all PI appraisal records. We are not repeating this recommendation since this is not a statutory requirement. However, we noted three other aspects of the assessor's possessory interest practices that should be changed.

**RECOMMENDATION 8:** Improve possessory interest assessment procedures by:

1. Capitalizing net income to the lessor when valuing possessory interests by the income approach,
2. Periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and
3. Adding the present worth of unexpired contract rents to sales prices of possessory interests in the comparative sales approach to value.

**Capitalize net income to the lessor when valuing possessory interests by the income approach.**

We found that the assessor did not deduct lessor's operating expenses from the gross income before capitalizing the income stream into a value.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that in the direct method of the income approach, it is appropriate for the appraiser to estimate the value of the PI by discounting either the estimated economic rent less allowed expenses paid by the public owner, or that portion of the estimated future net operating income attributable to the PI. A public owner will incur some management expense with each PI. Some lease agreements require the lessor to pay for such items as building maintenance, utilities, janitorial service, or snow removal. By estimating the fair market value of PI's using gross income rather than net income to the lessor, the assessor is overassessing these interests.

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

We found that for lien dates subsequent to the establishment of the base year value, the assessor does not determine the market value of a PI with a stated term of possession. Instead, the factored base year value is enrolled until the contract term of possession expires or there is a change in ownership. We found numerous instances where the assessor initially enrolled a base year value for a PI based on his anticipated term of possession, then annually factored that value using the BOE-announced inflation factors to arrive at the value he enrolled for fiscal 2003-04.

Section 51 requires the assessor to assess real property, including PI's, at the lesser of the base year value (adjusted annually for inflation by no more than 2 percent) 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. In determining the current fair market value of a PI with a stated term of possession, Rule 21 provides that the stated term of possession must be used unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term.
Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of PI's with stated terms of possession to ensure that declines in value of PI's are consistently recognized. Failing to assess a PI using the stated term of possession may overstate its taxable value.

**Add the present worth of unexpired contract rents to sales prices of possessory interests in the comparative sales approach to value.**

The assessor enrolls the sale price of a privately owned cabin on U. S. Forest Service land as the total base year value for the cabin and the PI in the land, then allocates that value between land and improvements. He does not make an adjustment to sale price for unexpired contract rents assumed by the buyer of the property. He contends that buyers have been paying prices for these cabins that are equivalent to prices paid for similar cabins on fee land, and cites a study he conducted in 1993 as evidence. Because he believes the buyers are essentially paying fee value for the land on which the cabins are located, the assessor does not treat the land as a PI.

Rule 21(e)(1)(A) states that when using the comparative sales approach to value, the assessor must add the present worth of any unpaid future contract rents to the sale price of the property. The assessor's practice does not conform to this regulatory requirement.

**Leasehold Improvements**

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

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

When real property is reported on the business property statement (BPS), coordination between the real property and business property staff is important. Both an appraiser and an auditor-appraiser should examine the reported cost. The appraisers should determine the proper classification of the property to ensure appropriate assessment and avoid escapes and double assessments. The assessor must determine whether costs are for 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.

In our 2001 survey, we recommended that the assessor improve coordination of leasehold improvement assessments between the real property and business property sections and that he review classification practices for leasehold improvements. The assessor has complied with both recommendations.

However, we did note one area in which the assessor is not in compliance with applicable statutes.
RECOMMENDATION 9: Issue supplemental assessments for structural tenant improvements.

We found that the assessor does not issue supplemental assessments for structural tenant improvements. When structural tenant improvements are enrolled on the unsecured roll, the assessor's computer system does not automatically prepare supplemental assessments.

If tenant improvements qualify as real property structures, they are subject to supplemental assessment as provided in sections 75.11 and 75.12.

Timeshares

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable nonreal property items (considered nontaxable). Examples of nonreal property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as a maintenance fees.

There are 12 timeshare projects in El Dorado County. The assessor enrolled 24,351 individual timeshare interests with a total assessed value of $239,931,027 on the 2003-04 roll, and 12 underlying (developer) interests with a total assessed value of $113,675,462. Two real property appraisers in the South Lake Tahoe office enrolled all timeshare values on the 2003-04 roll.

The assessor maintains individual timeshare assessments in electronic files. These files are assigned a parcel number in map books 500 to 599. The assessor also maintains property files for each of the developments in order to track and value the developer's remaining interest.

Only a few timeshare projects in El Dorado County have timeshare interests remaining in the developer's inventory. To calculate the value of the developer's interest, the assessor first determines an average base year value for each timeshare unit by dividing the project's total cost for land and improvement values by the total number of units. Each year as timeshare units are sold, the assessor reduces the base year value of the developer's interest by the base year value of the total number of timeshare units to be sold.

We noted one area for improvement in the assessor's timeshare appraisals.

RECOMMENDATION 10: Assess personal property at market value in timeshare units held by the developer.

The assessor annually calculates the value of the real and personal property that comprises the timeshares remaining in the developer's inventory. The personal property (household furnishings) does not qualify as exempt inventory because the developer rents the timeshare units on a continuing basis until they are sold; therefore, the personal property is taxable. When
determining the value of the personal property remaining in the developer's inventory on a given lien date, the assessor first determines how many timeshare units sold out of his inventory during the prior year. He then multiplies the number of units sold by the original value per unit of the personal property and deducts this figure from the prior year's personal property assessment to arrive at the current year's assessment. This procedure is followed annually until all of the timeshares have been sold.

The appraiser responsible for annually revaluing the personal property in the developer's inventory of unsold timeshares indicated that inflation in the cost new of this property probably offsets the applicable depreciation factors. However, the full value factors published in the BOE's Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, illustrate the economic trend that, notwithstanding changes in replacement cost indices, depreciated replacement costs generally decline over the assigned service life of an asset. Using the same value per unit year after year for the personal property in the developer's inventory of unsold timeshares potentially results in overassessments.

**Water Company Property**

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

**Private Water Companies Regulated by the California Public Utilities Commission**

Private, for-profit water companies are subject to rate base/rate of return regulation by the California Public Utilities Commission (CPUC). In El Dorado County, the assessor is assessing three water companies regulated by the CPUC.

In brief, this form of regulation limits the amount a company may charge for the cost of service plus a fair return on the rate base, or invested capital. For this reason, the market value of a regulated water company should correlate closely with the historical cost less depreciation (HCLD) of the assets.

Because the market values of these properties are tied directly to regulated rates, current market value of the real property may be less than the factored base year value, making it necessary to periodically reappraise the company's property as of the lien date.

**RECOMMENDATION 11:** Assess all water company property at the lower of its factored base year value or its full cash value.

We found that the assessor does not annually determine the historical cost less depreciation (HCLD) of property owned by private regulated water companies. Instead, the assessor annually enrolls the company's real property at its factored base year value. The assessor does, however, value the water company's business property at its current market value.

Section 51(a) requires that real property shall be assessed on each lien date at the lower of its factored base year value or its full cash value as defined in section 110. As discussed earlier, the
market value of the assets of a regulated water company is likely to be closer to depreciated historical cost than to factored base year value. Thus, it is important to prepare both value indicators in order to properly estimate current market value as of the lien date.

The assessor's practice of enrolling the factored base year value may result in overassessment of real property owned by a regulated water company.

**Mineral Property**

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

El Dorado County has a small number of active mining properties. Currently, mineral properties are appraised by the appraisers assigned to the particular geographic area.

In our 2001 survey report, we recommended that the assessor recognize the proper appraisal unit for mineral properties. Our review of the appraisal records and discussions with the assessor's staff indicate that this change has been implemented. We found the current program to be well managed and in compliance with existing property tax law.
**ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

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

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

Annually, the assessor's business property staff processes over 5,600 property statements, audits about 50 accounts, and enrolls approximately 300 aircraft and 2,700 vessels.

**Audit Program**

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

In our 2001 survey report, we recommended that the assessor discontinue netting value differences discovered during an audit. Our review found the assessor has fully implemented this recommendation and follows statutory requirements when enrolling escape assessments and refunds after an audit.

**Nonmandatory Audits**

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

The assessor has completed 143 nonmandatory audits over the last four years. We found no problems with the assessor's nonmandatory audit program.

**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 that 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, the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

Mandatory Audits

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

The assessor's audit program does not comply with statutory and regulatory requirements.

RECOMMENDATION 12: Revise audit procedures by: (1) auditing the books and records of professions, trades, and businesses pursuant to section 469; and (2) obtaining a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

Audit the books and records of professions, trades, of businesses pursuant to section 469.

We found that the assessor is currently behind in audits of mandatory business property accounts. In addition, there are two exempt organizations that qualify for mandatory audit but have not been audited in many years. The assessor has a total of 142 mandatory audit accounts, resulting in an average annual workload of 36 audits per year.

Section 469 requires that audits be performed regularly for qualifying accounts. Moreover, the mandatory audit program verifies the reporting of the largest business property accounts and forestalls any potentially large assessment errors. The further removed the audit is from the year being audited, the more difficult it may be to obtain the necessary records.

By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

Obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

The assessor does not request waivers of the statute of limitations from taxpayers when his staff anticipates an audit will not be completed in a timely manner.

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 532.1. This waiver protects the taxpayer if there was an overassessment and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered.

**Business Property Statement Processing**

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 property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

For the 2002-03 roll, a total of 8,642 business property statements (including vessels and aircraft) were processed in El Dorado County. This resulted in assessments totaling more than $617 million and more than $6 million in personal property taxes. The following table summarizes this activity:

<table>
<thead>
<tr>
<th>TYPE</th>
<th>NO.</th>
<th>SEC.</th>
<th>UNSEC.</th>
<th>AMOUNT</th>
<th>SECURED</th>
<th>UNSECURED</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>5,276</td>
<td>1,333</td>
<td>3,943</td>
<td>$556,064,405</td>
<td>$200,296,560</td>
<td>$355,767,845</td>
</tr>
<tr>
<td>Agricultural</td>
<td>227</td>
<td>152</td>
<td>75</td>
<td>$5,672,507</td>
<td>$3,321,234</td>
<td>$2,351,273</td>
</tr>
<tr>
<td>Aircraft</td>
<td>318</td>
<td>318</td>
<td></td>
<td>$14,039,546</td>
<td>$14,039,546</td>
<td></td>
</tr>
<tr>
<td>Apartments</td>
<td>127</td>
<td>105</td>
<td>22</td>
<td>$1,345,647</td>
<td>$1,066,979</td>
<td>$278,668</td>
</tr>
<tr>
<td>Vessels</td>
<td>2,694</td>
<td>2,694</td>
<td></td>
<td>$40,240,279</td>
<td></td>
<td>$40,240,279</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,642</strong></td>
<td><strong>1,590</strong></td>
<td><strong>7,052</strong></td>
<td><strong>$617,362,384</strong></td>
<td><strong>$204,684,773</strong></td>
<td><strong>$412,677,611</strong></td>
</tr>
</tbody>
</table>

We noted one deficiency in the assessor's program for processing business property statements.

**RECOMMENDATION 13:** Accept property statement filings only on BOE-prescribed forms.

We found several instances where the assessee either failed to return the original property statement sent by the assessor or returned it unsigned. In the former cases, the assessee returned a substitute filing that was not the BOE-prescribed form.

Property statements that are not BOE-prescribed forms are acceptable only when submitted as attachments to the original property statement sent by the assessor, which must be signed and returned. Section 441.5 states in relevant part: "In lieu of completing the property statement as printed by the assessor pursuant to section 452, the information required of the taxpayer may be furnished to the assessor as attachments to the property statement provided that the attachments shall be in a format as specified by the assessor and: (a) one copy of the property statement, as printed by the assessor, is signed by the taxpayer and carries appropriate reference to the data attached."
Accepting unsigned original property statements or forms that are not the BOE-prescribed version does not satisfy the requirements of section 441.5.

**Business Equipment Valuation**

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent-good factors. A value indicator is obtained by multiplying a property's historical (acquisition) 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 Index and Percent Good Factors* (AH 581).

We found several weaknesses in the assessor's treatment of business property valuation.

**RECOMMENDATION 14:** Revise business equipment valuation procedures by: (1) using Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; (2) assessing all pollution control devices or facilities financed by state bonds; (3) properly assessing personal property in apartments; and (4) discontinuing the use of minimum valuation factors in assessing computers.

**Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.**

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment, e.g., pagers, facsimile equipment and photocopiers, that CAA recommends should not be trended. The percent good factors also parallel the AH 581 factors with the exception that the CAA factors provide a minimum percent good factor for older equipment.

Because the assessor uses the CAA tables, he employs unsupported minimum percent good factors for older equipment.

Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner.\(^5\) The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good factor. The assessor has no supporting evidence for using such minimum factors; hence the manner is not supportable as required by section 401.16. Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA is not supported by a study.

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\(^5\) AB 2714, Ch. 299, Stats. 2002, adding section 401.16 to the Revenue and Taxation Code.
Assess all pollution control devices or facilities financed by state bonds.

Our Letter To County Assessors Only (CAO) 2002/004, dated May 9, 2002, notified the county assessor that the California Pollution Control Financing Authority (CPCFA) issued a pollution control bond for more than $1 million for the acquisition of pollution control equipment by one industrial business entity located in El Dorado County. This bond has not been investigated and the assessor has not assessed the equipment. The assessor's staff are not aware of the notifications from BOE, nor does the assessor have a written procedure concerning these notifications. There is no copy of the CAO letter in the business property files for the affected entity, and no acknowledgment or mention of the equipment in the audits completed for this account.

Division 27, Chapter 1 of the Health and Safety Code (commencing with section 44500) authorizes the CPCFA to either acquire or finance the acquisition of devices or facilities necessary to mitigate air and water pollution caused by private industrial operations.

If the CPCFA acquires the device or facility and leases it to a private company, then section 201.5 provides that a possessory interest in this type of equipment or facility owned by the CPCFA, whether in real or personal property, is taxable. When the private company acquires the device or facility with financial help by the CPCFA, the equipment or facility is taxable to the company.

To help identify such equipment or facility, the BOE's Assessment Policy and Standards Division furnishes all assessors with a yearly Listing of Companies Entering Into Contract With the Pollution Control Financing Authority. The CAO lists the pollution control financing bonds issued during the previous year, with project location by county, the name of the lessee, and the amount of each bond.

The effect of the assessor's practice is that taxable property has escaped assessment and some tax revenue may be lost upon the expiration of the statute of limitations.

Properly assess personal property in apartments.

We found a number of cases where the assessor used a fixed amount per living unit to value apartment personal property instead of relying on costs reported in property statements.

Landlord-owned personal property in apartment complexes used in the course of a business is taxable. Such items do not qualify as household effects and personal furnishings under section 224 or Rule 134. This taxable property includes, but is not limited to, refrigerators, freestanding electrical stoves, exercise equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, draperies, and common area furniture.

Information supplied on Form BOE-576-R, Apartment House Property Statement, should be the starting point for the assessment of apartment personal property. Because the historical information on the property statement will reflect variations in the age, quality, and quantity of personal property from one apartment property to the next, using this information to develop a
current value estimate will be more accurate and equitable than using a fixed amount per apartment unit.

**Discontinue using a minimum valuation factor in assessing computers.**

In our 2001 survey report, we recommended that the assessor assess computers using the BOE's recommended factors. The assessor partly adopted our recommendation by using the BOE's recommended factors for mid-range ($25,000.01 to $500,000) and mainframe computers ($500,000.01 and up). However, the assessor is still using a minimum valuation factor of 10 percent for personal computers ($25,000 or less).

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In AH 581, Table 6: Computer Valuation Factors, the BOE provides valuation factors for use when valuing computer equipment.

As in most of the valuation factors in the AH 581, there is no minimum percent good intended for valuing computers. The assessor's practice may lead to overassessment of older computers.

**Leased Equipment**

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

Assessees are required to report all leased property (taxable property in their possession but belonging to others) on their annual property statement. Assessees are required to provide the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address.

The 15 leased equipment files we reviewed contained the required information on the annual property statements. Several of the files showed that the assessor has adequate procedures for tracking and cross-checking leased equipment.

**Aircraft**

**General Aircraft**

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

The following table illustrates the number of aircraft assessed in El Dorado County for the last five years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>NUMBER OF AIRCRAFT</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>318</td>
<td>$14,039,546</td>
</tr>
<tr>
<td>2002-03</td>
<td>306</td>
<td>$13,752,988</td>
</tr>
<tr>
<td>2001-02</td>
<td>339</td>
<td>$14,120,102</td>
</tr>
<tr>
<td>2000-01</td>
<td>329</td>
<td>$12,299,087</td>
</tr>
<tr>
<td>1999-00</td>
<td>349</td>
<td>$12,342,117</td>
</tr>
</tbody>
</table>

We found the assessor discovers aircraft from listings obtained from the airport managers, reporting on Form BOE-577-B, county referrals, and occasionally conducts a field canvass of airports in the county.

The assessor's general aircraft valuations comply with statutory requirements. We noted no problems with this program.

**Historical Aircraft**

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

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

For the 2003-04 assessment roll, the assessor enrolled 70 historical aircraft with a total valuation of $2,458,950.
In our 2001 survey report, we recommended that the assessor use the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft. The assessor has not implemented our recommendation and it is therefore repeated.

**RECOMMENDATION 15:** Use the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft.

Since the 1998 lien date, the assessor has used the computerized software produced by the *Vref Aircraft Value Reference* to value general aircraft.

Section 5364 requires county assessors to determine the market value of aircraft in accordance with standards and guides prescribed by the BOE. Letter To Assessors 97/03 clearly establishes the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft. The *Vref Aircraft Value Reference* is only an alternate resource for aircraft and is not listed as a primary guide. By only using the alternate guide as the primary guide, the assessor is not following the provisions of section 5364.

**Vessels**

The assessor's business property staff assessed more than 2,600 vessels on the 2003-04 assessment roll with a total assessed value of $40.2 million. The primary discovery sources are Department of Motor Vehicle reports, marina lists, referrals from other counties, and information provided by the vessel owners themselves.

Valuation techniques include using reported purchase prices or value estimates developed from the *National Automobile Dealers Association Marine Appraisal Guide* (NADA).

The following table illustrates vessels assessed in El Dorado County for the last five years:

<table>
<thead>
<tr>
<th>ASSESSMENT ROLL</th>
<th>NUMBER OF VESSELS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>2,694</td>
<td>$40,240,279</td>
</tr>
<tr>
<td>2002-03</td>
<td>2,349</td>
<td>$34,059,642</td>
</tr>
<tr>
<td>2001-02</td>
<td>2,271</td>
<td>$31,332,849</td>
</tr>
<tr>
<td>2000-01</td>
<td>4,483</td>
<td>$36,923,275</td>
</tr>
<tr>
<td>1999-00</td>
<td>4,608</td>
<td>$36,530,395</td>
</tr>
</tbody>
</table>

In our 2001 assessment practices survey, we recommended that the assessor require owners of vessels costing $100,000 or more to annually file an annual Form BOE-576-D, *Vessel Property Statement*, and require documented vessel owners to file an annual affidavit before granting the 4 percent assessment. Subsequently, the assessor implemented the first part of our recommendation and now sends an annual Form BOE-576-D to owners of vessels costing $100,000 or more. We also found that the assessor does not grant the 4 percent assessment

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6The low-value property exemption for boats increased from $2,000 to $5,000 effective with the 2001 lien date.
unless documented vessel owners file Form BOE-576-E, Affidavit for 4 Percent Assessment of Certain Vessels. Therefore, neither is this recommendation repeated in our survey report.

The assessor should address two deficiencies in his program for assessing pleasure vessels. The low-value property exemption for boats increased from $2,000 to $5,000 effective with the 2001 lien date

RECOMMENDATION 16: Revise vessel assessment procedures by: (1) annually reassessing vessels at market value, and (2) including sales tax as a component of market value when appraising vessels.

Annually reassess vessels at market value.

The assessor annually applies a fixed depreciation adjustment to all vessel assessments. The practice of using a fixed depreciation adjustment simplifies the assessment process for the auditor-appraiser responsible for valuing boats/vessels. While it simplifies the assessment process, using a fixed depreciation adjustment for each boat may or may not reflect market value. Absent a study or research supporting the across-the-board depreciation rate, the assessor's practice is not an appropriate substitute for an actual market value appraisal.

One way to establish a more equitable market-oriented depreciation rate is to select sample vessels from "new" and "used" groups of five or more classes of vessels. Although the assessor has categorized vessels into seven groups (sailboat, runabout, raft, cruiser, pontoon/houseboat, ski boat, and personal watercraft) he has no market study to back up his boat factor tables. Trends in the market values for each of these groups should be calculated by comparing samples of values for each group found in published valuation guides for the current year and previous year. The trend factor could then be applied to all boats within each group annually. Adopting this approach would significantly increase the accuracy of the assessor's boat assessments.

Include sales tax as a component of market value when appraising vessels.

The assessor values vessels by referring to the NADA. Because this boat guide is intended for use on a nationwide basis, it does not include the sales and use tax in the values it lists. Although we found that the assessor selects the proper values listed in the NADA, he fails to add a sales tax component.

Sales tax is a recognized component of market value and should be added to the values listed in the NADA when determining market values (Xerox Corp. v. Orange County (1977) 66 Cal.App.3d 746). Since sales tax has not been included in the vessel appraisals, vessels are underassessed in El Dorado County.

Manufactured Homes

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

Manufactured homes comprise a relatively small part of the assessor’s workload. There are 1,308 manufactured homes in El Dorado County located in 68 manufactured home parks with a total roll value of $39,694,377. In El Dorado County, appraisers are assigned to work geographical areas and appraise all types of properties within their area, including manufactured homes. The assessor’s office is notified of manufactured home sales by Department of Housing and Community Development (HCD) reports, building permits, dealer reports of sale, and annual park owner reports.

In general, the assessor has a well-administered manufactured home program. Discovery procedures are good and new construction is assessed properly.

In our 2001 survey, we recommended that the assessor improve documentation of manufactured home assessments. Currently, we found that documentation kept by each appraiser now includes a spreadsheet detailing the method used to determine manufactured home assessments.
APPENDICES

A. County Property Tax Division Survey Group

El Dorado County Assessment Practices Survey

Chief, County Property Tax Division
Mickie Stuckey

Survey Program Director:
Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:
Peter Gaffney Supervising Property Appraiser

Survey Team Leader:
Dale Peterson Senior Specialist Property Auditor-Appraiser

Survey Team:
Jim McCarthy Senior Petroleum and Mining Appraisal Engineer
Glenn Danley Senior Specialist Property Appraiser
Lloyd Allred Associate Property Auditor-Appraiser
Manny Garcia Associate Property Auditor-Appraiser
Mike Shannon Associate Property Auditor-Appraiser
Zella Cunningham Associate Property Appraiser
Wes Hill Associate Property Appraiser
Marilyn Jones Tax Technician II
B. Assessment Sampling Program

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

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

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

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

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

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

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

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

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

8 The nine value strata are $1 to $99,999; $100,000 to $199,999; $200,000 to $499,999; $500,000 to $999,999; $1,000,000 to $1,999,999; $2,000,000 to $19,999,999; $20,000,000 to $99,999,999; $100,000,000 to $249,999,999; and $250,000,000 and over.
Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

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

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

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

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

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

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

Government Code

15640. Survey by board of county assessment procedures.

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

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

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

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

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

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.
15642. **Research by board employees.**

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

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

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

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

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

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

15644. **Recommendations by board.**

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

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

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

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

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

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

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

The El Dorado County Assessor's response begins on the next page. The BOE has no comments on the response.
Dear Ms. Stuckey:

Pursuant to §15645 of the California Government Code, I have prepared a response to the recommendations in the 2005 State Board of Equalization Assessment Practice Survey.

I want to thank Mr. Peter Gaffney and the entire survey team for the courtesy and professionalism displayed during the course of the survey.

More importantly, I want to thank my staff. I believe the results of this survey reflect their hard work, dedication to public service and professionalism.

This survey contains some valuable and constructive recommendations that we will move expeditiously to implement. I was pleased to see recognition for many of the positive achievements and accomplishments of our office. In reviewing the recommendations, I, like my predecessor, noted that most are minor technical matters that have little impact on the majority of our primary duties and functions.

I do wish to take this opportunity to express my concern over the recent suspension of the Property Tax Administration Program (PTAP). Here in El Dorado County, the PTAP funds 16% of our staff and part of the computer system programming support. Clearly, a lack of these resources will have a significant detrimental impact on our accuracy, production and general operations.

The California Constitution requires an ad valorem property tax system that is viable and sound. It is imperative that reasonable funding be made available to Assessor’s offices from the State in order that they meet compliance requirements, and for the sample and survey program to have meaningful purpose.

Sincerely,

Tim Holcomb
El Dorado County Assessor
Assessor Response to August 2005 Survey Recommendations

**Recommendation 1:**
Revise disaster relief procedures by (1) granting a disaster relief only upon the filing of a timely application; and (2) proving disaster relief in accordance with §170.

Response - We concur with the recommendation. The disaster relief program has already been revised and is now in full compliance with the requirements of §170.

**Recommendation 2:**
Ensure that (1) correct assessment forms are always used and (2) final prints of forms are always submitted as required by rule 171.

Response - We concur with the recommendations and are revising our forms procedures to ensure compliance.

**Recommendation 3:**
Improve the assessment roll changes by (1) providing taxpayers with the notice of proposed escape assessment as required by §531.8, (2) sending a notice of enrollment of escape assessment as required by §534, and (3) notifying the Auditor/Controller when penalties or interest should be added to an escape assessment.

Response - We concur with the recommendations. This repeat recommendation was scheduled to be corrected with the automation of the unsecured roll correction program. Unfortunately, the implementation of that program is being delayed by additional programming necessary to the implementation. We anticipate full compliance upon programming completion.

**Recommendation 4:**
Apply the penalty for failure to file the Change of Ownership Statement.

Response - No comment

**Recommendation 5:**
Enroll supplemental assessments for changes in ownership or new construction of qualifying possessory interests assessed on the unsecured roll.

Response - We concur with the recommendations and will develop procedures to insure compliance.

**Recommendation 6:**
Revise CLCA assessment procedures by (1) assessing all taxable vines and nonliving improvements; (2) using an appropriate income stream when valuing restricted vineyards and orchards; (3) calculating restricted values for CLCA properties using the current interest rate component as required by §423; and (4) appraising each CLCA property and as appraisal unit.
Response - We concur with the recommendations and will revise our appraisal procedures. GIS resources are now being developed and applied to assist in the discovery, inventoring and assessment of all assessable living improvements.

Recommendation 7:
Revise taxable government owned property assessment procedures by: (1) identifying and enrolling all taxable government owned properties; and (2) establishing a base year value for all taxable government owned properties.

Response - We respectfully disagree with the recommendations. Current procedures are adequate to insure compliance, as was noted in the last survey.

Recommendation 8: Improve possessory interest assessment procedures by (1) capitalizing net income to the lessor when valuing possessory interests by the income approach; (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; and (3) adding the present worth of unexpired contract rents to sales prices of possessory interests in the comparative sales approach to value.

Response - (1) We concur with the recommendation. Procedures will be established to adjust income to the lessor before capitalization. (2) We disagree with the recommendation. Periodic reviews do occur because of the appeal process and:(3) We disagree with the recommendation. Based upon a review of an analysis we provided, the 2001 survey crew removed this recommendation. The same analysis with updated data was again provided the 2003 survey team. Since no rebuttal has been provided, we do not understand how the 2003 survey team could come to a different conclusion from the 2001 survey team.

Recommendation 9:
Issue Supplemental Assessments for structural Leasehold Improvements

Response - We concur with the recommendations and will implement changes as time and resources permit.

Recommendation 10:
Assess personal property at market value in timeshare units held by the developer.

Response - No comment

Recommendation 11:
Assess all water companies at the lower of its factored base year value or its full cash value.

Response - We concur with the recommendation.

Recommendation 12:
Revise audit procedures by (1) auditing the books and records of professionals, trades and businesses pursuant to §469 and (2) obtaining a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

Response - We concur with the recommendations and will implement changes as time and resources permit

Recommendation 13:
Accept property statement filings only on BOE prescribed forms.

Response - In pursuit of fair and effective administration and assessment, the Assessor will continue to accept non BOE approved forms where the submitted forms provide the Assessor with the substantive information necessary to discharge his assessment responsibilities
**Recommendation 14:**
Revise business equipment valuation procedures by: (1) using Assessors Handbook Section 581 Equipment Index and Percent Good Factors, as intended; (2) assessing all pollution control devices or facilities financed by state bonds; (3) properly assessing personal property in apartments; (4) discontinuing the use of minimum valuation factors in assessing computers.

**Response** - (1) The Assessor will continue to use and support the equipment valuation recommendations provided by the California Assessor's Association. (2) We will implement procedures to insure compliance (3) The Assessor developed market evidence in support of this minimum percent good and will continue this practice, which we believe complies with §401.16(b).

**Recommendation 15:**
Use the Aircraft Bluebook price digest as the primary guide for valuing aircraft.

**Response** - No comment

**Recommendation 16:**
Revise vessel assessment procedures by (1) annually reassessing vessels at market value and (2) including sales tax as a component of value when appraising vessels.

**Response** - No comment