July 25, 2012

TO COUNTY ASSESSORS:

SIERRA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Sierra 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 Laura Marshall, Sierra 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 Sierra County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE’s County-Assessed Properties Division from July through August 2010. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Marshall and her staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure
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INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

We have noted several positive elements in the Sierra County Assessor's program. The assessor has managed to implement a paperless system in her office and should be commended for this effort. In addition, the assessor is proactive in the discovery of properties experiencing a decline in value.

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

In our review of the assessor's administration programs, we noted the assessor is satisfactorily handling staffing, workload, appraiser certification, and assessment appeals. However, we also noted the staff property and activities, and exemptions programs are in need of improvement.

In the area of real property assessment, we noted the need for improvement in the areas of change in ownership, new construction, declines in value, California Land Conservation Act (CLCA) property, Timberland Production Zone (TPZ) property, and taxable possessory interests.

The assessor has effective programs for business equipment valuation, assessing manufactured homes, and the discovery and valuation of aircraft. We found improvement is needed in conducting audits, processing business property statements, and assessing vessels.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

We found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Sierra County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Sierra County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling.

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

RECOMMENDATION 1: Amend the written procedures for the assessment of staff-owned property. .................................................................9

RECOMMENDATION 2: Improve the exemptions program by: (1) performing field inspections on properties for which an exemption claim is filed, and (2) not applying late-filing penalties when BOE-267-SNT is not timely filed..............................................15
RECOMMENDATION 3: Improve the change in ownership program by correctly implementing the penalty abatement process in accordance with section 483.

RECOMMENDATION 4: Correctly process supplemental assessments due to changes in ownership.

RECOMMENDATION 5: When using the cost approach, use local cost multipliers only when supported by a recent and valid study.

RECOMMENDATION 6: Value construction in progress at its fair market value for each lien date until completion per section 71.

RECOMMENDATION 7: Enroll all qualifying decline-in-value assessments.

RECOMMENDATION 8: Improve the valuation of CLCA properties by: (1) valuing homesites on CLCA land in conformance with AH 521, (2) correctly determining supplemental assessments for unrestricted portions of CLCA land, (3) deducting appropriate expenses from gross income when capitalizing the restricted income of CLCA properties, (4) establishing the appropriate FBYV of FSZ properties pursuant to section 423.4, and (5) correctly classifying all property under CLCA contract as either restricted or unrestricted property.

RECOMMENDATION 9: Improve the valuation of TPZ properties by: (1) assessing land zoned TPZ according to section 435, and (2) periodically reviewing TPZ properties for compatible uses.

RECOMMENDATION 10: Improve the taxable possessory interest program by: (1) properly calculating supplemental assessments for taxable possessory interests, (2) deducting allowed expenses from gross income when valuing possessory interests by the income approach, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (4) not assessing a taxable possessory interest to a public user of public lands.

RECOMMENDATION 11: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

RECOMMENDATION 12: Accept only properly signed business property statements.

RECOMMENDATION 13: Use a market derived procedure to value vessels.
OVERVIEW OF SIERRA COUNTY

Sierra County is located in the northern section of the Sierra Nevada, northeast of Sacramento. Downieville is the county seat, and Loyalton is its only incorporated city. Sierra County encompasses an area of 959 square miles. It is bordered by the counties of Lassen and Plumas to the north, Yuba to the west, Nevada to the south, and the State of Nevada to the east.

Sierra County was formed from parts of Yuba County in 1852. Sierra is a Spanish term for saw tooth mountains; the county was so named because of its rugged terrain, which ranges in elevation from 2,200 feet to 8,900 feet. The western region of the county has deep canyons and abundant forests, while the eastern region of the county possesses the largest valley in the Sierra Nevada range, the Sierra Valley. Approximately 70 percent of the county lands are within the Plumas, Tahoe, and Toiyabe National Forests. The eastern region is used primarily for cattle grazing.

Sierra County’s history is tied to the California gold rush. At the height of the discovery of gold and subsequent gold rush, some 16,000 miners settled within the county between 1848 and 1860. As of 2009, Sierra County had a population of 3,174, which is a decline of about 11 percent since 2000.
The following table displays information pertinent to the 2010-11 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$238,649,852</td>
</tr>
<tr>
<td>Improvements</td>
<td>$247,980,807</td>
</tr>
<tr>
<td>Fixtures &amp; Personal Property</td>
<td>$13,579,716</td>
</tr>
<tr>
<td>Total Secured</td>
<td>$500,210,375</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$11,075,798</td>
</tr>
<tr>
<td>Improvements</td>
<td>$3,536,472</td>
</tr>
<tr>
<td>Fixtures &amp; Personal Property</td>
<td>$18,991,225</td>
</tr>
<tr>
<td>Total Unsecured</td>
<td>$33,603,495</td>
</tr>
<tr>
<td>Exemptions³</td>
<td>($6,735,346)</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>$527,078,524</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$527,079,000</td>
<td>-4.7%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2009-10</td>
<td>$552,892,000</td>
<td>1.3%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>2008-09</td>
<td>$545,918,000</td>
<td>4.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>$521,565,000</td>
<td>6.0%</td>
<td>9.6%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$492,006,000</td>
<td>10.0%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

³ The Homeowners' Exemption value is not included in the exemption value noted in this table.
⁴ State Board of Equalization Annual Report, Table 7.
ADMINISTRATION

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

Budget and Staffing

The table below shows the change in budget levels over recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$419,651</td>
<td>24.3%</td>
<td>4.7</td>
</tr>
<tr>
<td>2009-10</td>
<td>$337,618</td>
<td>-15.0%</td>
<td>3.7</td>
</tr>
<tr>
<td>2008-09</td>
<td>$397,059</td>
<td>-17.4%</td>
<td>3.7</td>
</tr>
<tr>
<td>2007-08</td>
<td>$480,715</td>
<td>-0.3%</td>
<td>4.7</td>
</tr>
<tr>
<td>2006-07</td>
<td>$482,306</td>
<td>11.1%</td>
<td>4.7</td>
</tr>
</tbody>
</table>

As shown above, the assessor's budget has decreased three out of the last five years, with the most recent year showing an increase. In the preceding table, the total assessed value has increased four out the last five years, with the most recent year showing a decrease. The 2010-11 gross budget is approximately 13 percent less than the 2006-07 gross budget.

At the time of our survey, the assessor's actual staff included the assessor, 2 real property appraisers, 1 full-time support staff, and 1 part-time support staff.

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.
The assessor's workload has fluctuated over recent years reflecting volatile market conditions. The number of assessable changes in ownership and new construction assessments have generally been decreasing. These decreases have been replaced by significant workload increases in the decline-in-value assessments. The number of assessment appeals filed in recent years has been fluctuating, with the most recent year showing a decrease.

These trends are shown in the following table:

<table>
<thead>
<tr>
<th>WORKLOAD DESCRIPTION</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in Ownership</td>
<td>178</td>
<td>231</td>
<td>208</td>
<td>300</td>
</tr>
<tr>
<td>New Construction</td>
<td>58</td>
<td>72</td>
<td>69</td>
<td>68</td>
</tr>
<tr>
<td>Declines In Value</td>
<td>561</td>
<td>151</td>
<td>141</td>
<td>85</td>
</tr>
<tr>
<td>Assessment Appeals</td>
<td>11</td>
<td>24</td>
<td>5</td>
<td>29</td>
</tr>
</tbody>
</table>

**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. At the time of our survey, there were two certified appraisers on staff, including the assessor; one holds an advanced appraiser's certificate. We found that the assessor and her staff possess the required appraiser's certificates. The assessor does not have a certified auditor-appraiser on staff and, as a result, audits are contracted through the California Counties Cooperative Audit Services Exchange (CCCASE) program. The assessor does not use any other contract appraisers.

The assessor oversees the training and certification program for appraisers, and continuously tracks individual appraisal education utilizing BOE annual reports. Sierra County does not offer any financial incentive to obtain an advanced certificate; however, appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible, because it is required for promotion.

The assessor requires appraisers to be current or have a surplus in their continuing education hours. According to the BOE's report on training hours for Sierra County, no appraisers were deficient as of June 30, 2010.

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

**Staff Property and Activities**

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

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5 California Counties Cooperative Audit Services Exchange (CCCASE) is an inter-county cooperative audit program where audits may be exchanged with and/or performed by other participating counties.
The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, *Statement of Economic Interests* (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

Form 700 is a state form on which state and local government officials and employees publicly disclose their personal assets and income that may be materially affected by their official acts. They also must disqualify themselves from participating in the decision-making process affecting their personal economic interests. For this purpose, Form 700 requests information regarding employee ownership in any real property within their employer agency's jurisdiction in which they, their spouse or registered domestic partner, or dependent children had a direct, indirect, or beneficial interest of $2,000 or more during the reporting period, other than a residence used exclusively as a personal residence or an interest in real property held through a blind trust. In Sierra County, the assessor and two of her staff are required to file, and they all properly filed Form 700 for 2010.

In addition to Form 700, the assessor also requires two additional forms. The assessor's *Conflict of Interest* memorandum is required to be filed by both the assessor and her staff. This form serves to notify county personnel of the meaning of section 1365, which addresses conflicts of interest for assessors and their staff. This form also sets forth certain activities deemed to constitute a conflict of interest, including involvement in outside appraisals of property within the county, involvement in the transfer of property within the county, and participation in the purchase of any property within the county that is part of a tax sale, public administrator's sale, or an executor's sale. On the second form, *Statement of Financial Interest*, staff lists the name and address of corporations in which they have an interest, and is required for appraisers only. We found the assessor and her staff signed and submitted all the required forms.

We reviewed all submitted forms relating to financial or economic interests and conflict of interest, as well as property files and assessments for property owned by the assessor and her staff. Additionally, we reviewed the assessor's oral policies and written procedures addressing the assessment and reporting of staff-owned property, incompatible activities, and conflict of interest. Based upon our review, we have the following recommendation.

**RECOMMENDATION 1:** Amend the written procedures for the assessment of staff-owned property.

We found the assessor's written procedures do not fully address the assessment of real and personal property in which staff in the assessor's office holds an interest. We found one instance where certain business equipment was assessed by the spouse of the owner of the business property. While our review found no problems with the assessed value enrolled for the equipment, this practice is in direct contradiction with office policies related to conflicts of interest. The assessor's office written conflict of interest policy states that any employee having a "financial interest" in real or personal property, or in a business, shall disqualify himself/herself from performing official assessment duties in any way related to the property or business.
While the appraiser reported the spouse's business on the locally filed *Statement of Financial Interest* as a separate account and claimed not to be a part of the business, this action is considered to be a conflict of interest. An appraiser, or any other staff in the assessor's office, should not in any way be involved in the assessment of property owned by a spouse or family member.

An expansion or amendment of the written procedures addressing the assessment of not only staff-owned property, but property owned by a spouse, a family member, or a dependent child is recommended. Additionally, we recommend an expansion of the filing requirements for conflict of interest and financial interest statements to all staff in the assessor's office. This is deemed particularly important for smaller assessor operations where staff is involved in a wide variety of office functions. We believe further development of and adherence to these procedures would help avoid any appearance of impropriety.

**Assessment Appeals**

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

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

In Sierra County, the five members of the board of supervisors sit as the local board of equalization for assessment appeals. There are no hearing officers. The regular filing period for assessment appeals is July 2 through September 15 for the assessment year in question. Assessment appeal applications are received by the clerk and reviewed for timely filing and completeness before a date-stamped copy of the application is forwarded to the assessor.

The assessor reviews the copy of the appeal application and then contacts the applicant by letter. Pursuant to the board of supervisor's local Assessment Appeal Rule 2004, a meeting between the assessor and the applicant must take place prior to the hearing in an effort to resolve as many issues as possible before going to the hearing. The assessor and applicant do not need to come to an agreement, they simply must meet and discuss the issues prior to the hearing. Otherwise, the board will reschedule the hearing so that a meeting between the parties can be held. If at the next
hearing a meeting has still not been held between the parties, the board will deny the applicant's appeal due to failure to provide requested information.

After the discussion with the assessor, if the applicant decides to withdraw the appeal, the applicant submits a withdrawal letter to the clerk, who contacts the assessor for concurrence. Once the assessor agrees, the clerk officially withdraws the appeal.

If the discussion results in an agreement to lower the assessed value, the assessor drafts a letter to the applicant outlining the agreement with an enclosed stipulation form for the applicant to sign and return to the assessor. Upon receipt of the completed stipulation form, the assessor signs and forwards it to the clerk for processing. The appeal is then scheduled for hearing by the clerk.

No appeal has gone unresolved for more than two years and no extensions have been necessary in recent years.

The following table summarizes the assessment appeals workload in recent 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>11</td>
<td>24</td>
<td>5</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>Appeals Carried Over From Prior Year</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Appeals Workload</td>
<td>11</td>
<td>24</td>
<td>5</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stipulation-Withdrawal</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Stipulation-Revised Value</td>
<td>1</td>
<td>6</td>
<td>0</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>0</td>
<td>0</td>
<td>0</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>0</td>
<td>18</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Resolved</td>
<td>1</td>
<td>24</td>
<td>5</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>To Be Carried Over**</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

As noted in the table above, the assessor resolves appeals timely, minimizing the number of appeals that are carried over from the prior year and allowing the assessor to keep current on outstanding appeals. The majority of the assessment appeals in Sierra County are resolved by stipulation. This is largely due to the assessor being proactive in meeting with the applicant in an effort to resolve disagreements or misunderstandings between the parties prior to going to hearing. All appeals are handled by either the assessor or the appraiser, and the assessor attends all hearings.
Section 1624.01 requires all new members of assessment appeals boards complete a training course. The Sierra County Board of Supervisors has not completed this training and, while this is not a requirement for members of boards of equalization who are also members of the board of supervisors, we encourage those members to take the training course as described in section 1624.02 in order to augment their understanding of assessment and assessment appeals processes.

There were no assessment appeals hearings scheduled during our review period. However, we reviewed several appeal applications and files, and found them to be concise and well documented. We found the clerk and the assessor communicate effectively with each other, working together as a team to efficiently manage the appeals program. The assessor's assessment appeals program is properly administered and complies with statutory requirements.

We have no recommendations for this program.

**Exemptions**

For the exemptions portion of the survey, we reviewed religious, welfare, and disabled veterans' exemptions, as well as one cemetery exemption. No church exemption claims have been filed in Sierra County in recent years.

The exemptions program is administered by two assessment technicians, with the assessor providing direction for the more difficult issues. One assessment technician is responsible for exemptions on the secured roll, while the other assumes the duties for the unsecured roll. In addition to having attended an exemptions workshop sponsored by the California Assessors' Association, the assessor's staff relies on internal procedures, the Revenue and Taxation Code, and resources on the BOE website for guidance in their administration of the exemptions program.

We found that claims in Sierra County are date-stamped, thoroughly reviewed, and the assessor ensures the inclusion of necessary documents, such as valid Organizational Clearance Certificates (OCCs), when applicable.

**Church and Religious Exemptions**

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).
County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The assessor processed 14 religious exemption claims for the 2010-11 roll year. As noted previously, there have been no church exemption claims filed in Sierra County in recent years.

The following table summarizes religious exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>RELIGIOUS EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>14</td>
<td>$1,794,191</td>
</tr>
<tr>
<td>2009-10</td>
<td>14</td>
<td>$1,780,532</td>
</tr>
<tr>
<td>2008-09</td>
<td>14</td>
<td>$1,740,739</td>
</tr>
<tr>
<td>2007-08</td>
<td>14</td>
<td>$1,742,687</td>
</tr>
<tr>
<td>2006-07</td>
<td>14</td>
<td>$1,709,184</td>
</tr>
</tbody>
</table>

Welfare Exemption

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

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

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.
The assessor processed 16 welfare exemption claims for the 2010-11 roll year. The following table summarizes welfare exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>WELFARE EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>16</td>
<td>$4,109,140</td>
</tr>
<tr>
<td>2009-10</td>
<td>15</td>
<td>$3,621,018</td>
</tr>
<tr>
<td>2008-09</td>
<td>10</td>
<td>$2,272,508</td>
</tr>
<tr>
<td>2007-08</td>
<td>9</td>
<td>$2,438,145</td>
</tr>
<tr>
<td>2006-07</td>
<td>10</td>
<td>$1,755,407</td>
</tr>
</tbody>
</table>

Disabled Veterans' Exemption

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

The disabled veterans' exemption at the $100,000 basis requires a one-time filing, while the low-income exemption at the $150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The following table summarizes disabled veterans' exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DISABLED VETERANS' EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>6</td>
<td>$546,481</td>
</tr>
<tr>
<td>2009-10</td>
<td>6</td>
<td>$535,876</td>
</tr>
<tr>
<td>2008-09</td>
<td>7</td>
<td>$689,043</td>
</tr>
<tr>
<td>2007-08</td>
<td>7</td>
<td>$600,391</td>
</tr>
<tr>
<td>2006-07</td>
<td>8</td>
<td>$635,934</td>
</tr>
</tbody>
</table>

The disabled veterans' exemptions program is effectively administered by the assessor. We found no issues in this area.

Summary of all Exemption Programs

In Sierra County, exemptions are generally well administered. The staff is readily available for taxpayer inquiries and exemptions are processed in a prompt manner. Exemption claim forms and associated documents are carefully filed and easily accessed.
Although the assessor maintains an effective exemptions program overall, we did find areas in need of improvement.

**RECOMMENDATION 2:** Improve the exemptions program by: (1) performing field inspections on properties for which an exemption claim is filed, and (2) not applying late-filing penalties when BOE-267-SNT is not timely filed.

**Perform field inspections on properties for which an exemption claim is filed.**

We found the assessor does not perform field inspections on exemption claims filed in Sierra County.

Section 254.5(b)(1) provides that the assessor shall review all claims for the welfare exemption to ascertain whether the property on which the exemption is claimed meets the requirements of section 214 and review all claims for the veterans' organization exemption to ascertain whether the property on which the exemption is claimed meets the requirements of section 215.1. In addition, section 254.5(b)(1)(B) provides that in connection with reviewing the welfare and disabled veterans' exemption claims, the assessor shall consider, among other matters, whether the property on which the exemption is claimed is used for the actual operation of an exempt activity and does not exceed an amount of property reasonably necessary to the accomplishment of the exempt purpose. This requirement can only effectively be accomplished by an actual onsite physical inspection.

Although there is no statutory requirement to perform field inspections on all properties filing an exemption claim, a field inspection is an important part of a well-administered exemptions program. It provides a formal review of the property and a basis for the exemption. It also documents the use of the property, which can be especially vital in the case of a claimant wishing to challenge the amount of exemption granted. Finally, it is the only method by which exemptions may be fairly administered. Therefore, the assessor should perform field inspections on all new claims filed and periodically perform field inspections on existing claims.

**Do not apply late-filing penalties when BOE-267-SNT is not timely filed.**

The assessor applies late-filing penalties for properties receiving the religious exemption if the claimant returns BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, after February 15. The religious exemption, once filed, remains in effect until terminated or until the property is no longer eligible. Pursuant to section 257.1, the assessor mails an annual notice, BOE-267-SNT, to claimants of the religious exemption in order to ascertain continued eligibility for the exemption. The failure of the claimant to return the form may prompt a site visit from the assessor to ensure continued eligibility; it does not, however, provide a basis for assessing penalties. Significantly, the religious exemption is not named in section 254 as requiring an annual affidavit.

Assessing penalties for the claimant's failure to return the annual notification timely is contrary to statute.
ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:
- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts and taxable possessory interests.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 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 the definition of change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor maintains staff procedures for processing changes in ownership. Currently, the change in ownership division consists of two assessment technicians, with supervision from the assessor.

The following table shows the total number of reappraisable events processed in recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>REAPPRAISABLE EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>178</td>
</tr>
<tr>
<td>2008-09</td>
<td>231</td>
</tr>
<tr>
<td>2007-08</td>
<td>208</td>
</tr>
<tr>
<td>2006-07</td>
<td>300</td>
</tr>
<tr>
<td>2005-06</td>
<td>357</td>
</tr>
</tbody>
</table>

The assessor's primary method of discovering properties that have changed ownership is by reviewing deeds and other documents recorded at the county recorder's office. The recorder's office requires BOE-502-A, Preliminary Change of Ownership Report (PCOR), to accompany
documents submitted for recordation transferring ownership of real property. If a transfer document is received without a PCOR, the recorder's office will apply a $20 charge to the recording fee. The county has a resolution requiring the assessor's parcel number to be noted on all recorded documents involving real property.

Recorded documents are sent electronically from the recorder's office to the assessor's office through a shared computer system. Approximately every two weeks, the assessor exports all of the daily documents from the recorder, sorts through the list of recorded documents and "flags" those document types that have been predetermined to require a review for possible changes in ownership. The assessor then inputs the document type, date recorded, document number, and parcel number from each document into the computer, along with any necessary notes before forwarding each document to the appropriate assessment technician for processing. In an effort to transition to a paperless environment, as many documents as possible are processed on the computer system.

The original PCORs received at the time of recording are picked up on an almost daily basis at the recorder's office and given to the appropriate assessment technician for processing. The assessment technician batches the PCORs by the day in which they are submitted and date stamped at the recorder's office. Each batch is processed by the assessment technician before being circulated around the office for all staff members to review. Once the PCORs are returned to the assessment technician, the recorded documents associated with the PCORs from that day are then processed and input into the computer system.

For each recorded document reviewed, the assessment technician must determine if a change in ownership has taken place, what percentage of ownership has transferred, and what percentage of ownership is reappraisable. If any additional correspondence is needed, the assessment technician is responsible for sending the appropriate letter and/or form to the property owner. The assessment technician also verifies the current ownership in the computer system and checks the assessor's parcel number printed on each document by running out the legal description.

After the information in the computer system is verified by the assessor, the hard copies of the PCORs are scanned and then filed in the appropriate binder to be kept for record keeping purposes. The reappraisable events keyed into the computer system are electronically sent to the appraiser's work queue for valuation.

Other methods used by the assessor to discover potential changes in ownership are information from taxpayers, attorneys, or family members, as well as reviewing local newspapers and postings at the local post office.

We examined several recorded documents and found, overall, the assessor conducts a proper and thorough review for assessable events.

Penalties

When a recorded document is received without a PCOR or the PCOR is incomplete, the assessment technician mails BOE-502-AH, Change in Ownership Statement (COS), to the property owner. The property owner is given 45 days to respond to this request. The assessment
technician monitors the COS request in the computer system on a daily basis. If the COS is not returned within 45 days, the assessment technician sends a second request with another COS, giving the property owner an additional 15 days to respond before penalties are applicable. The county has adopted an ordinance pursuant to section 483(b) allowing the assessor to automatically abate penalties.

During the time of our survey, the assessor's practice of allowing the property owner more than 45 days to file a completed COS as requested by the assessor was not in compliance with section 482(a). However, since that time, Senate Bill 507 (Stats. 2011, ch. 708) was enacted and, effective January 1, 2012, amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties will be applicable. As of January 1, 2012, the assessor's current practice will be in compliance with statute. Therefore, we will not be making a recommendation on this issue; however, we found one other area in need of improvement when processing penalties.

RECOMMENDATION 3: Improve the change in ownership program by correctly implementing the penalty abatement process in accordance with section 483.

Once the property owner has failed to file a requested COS within the time frame allowed by the assessor, the assessor sends the property owner a PENALTY NOTICE AND PENALTY ABATEMENT REQUEST form, along with a COS, to inform the property owner a penalty is being applied to the property due to failure to file the COS. This form instructs the property owner that a penalty is in effect, but if they complete the Penalty Abatement Request at the bottom of the form, complete the COS, and return both forms along with any other additional information as requested, the assessor may abate the penalty. Part of completing the abatement request is to include a statement that the failure to file the COS was due to reasonable cause and not willful neglect. However, Sierra County has a resolution in place that gives the assessor the authority to automatically abate the penalties as provided for in section 483(b) and (c).

Section 483(b) states that the penalty provided for in section 482(a) shall be abated if the assessee files the change in ownership statement with the assessor no later than 60 days after the date on which the assessee was notified of the penalty. The assessee is not required to include a written application for abatement of the penalty or state that the failure to file was due to reasonable cause and not willful neglect in order to have the penalty abated. Under the terms of section 483(b), the assessor may not decide on a case-by-case basis to abate penalties. The assessor must automatically abate the penalties as long as the property owner returns the completed COS within 60 days of the notice of penalty.

The assessor's current practice of requiring the property owner to complete a penalty abatement request in order to have penalties abated when the property owner fails to file a COS timely is not in accordance with section 483(b) and may cause the property owner to pay penalties they are not required to pay.
Transfer Lists

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than an undivided interest, within the county, which have occurred within the preceding two-year period. Section 408.1(e) states the provisions of section 408.1(a) shall not apply to any county with a population under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of 2,365 in Sierra County in 1970, the assessor is not required to maintain a transfer list. However, the assessor does have a transfer list available to the public for a fee, located at the front counter. The list is updated monthly and contains two years of preceding transfers. It is divided into geographical areas and includes the names of the transferor and transferee (if available), the assessor's parcel number, the situs address of the property (if available), the date of transfer/recording, the document number, and the documentary transfer tax (if available).

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 45 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, Statement of Change in Control and Ownership of Legal Entities. Section 482(b) provides for application of penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 45 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

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6 Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.
In Sierra County, the assessor's main source of discovery for changes in control or ownership of legal entities is by reviewing the monthly LEOP reports from the BOE. The assessor also discovers potential changes in control or ownership of legal entities from change in ownership statements received and staff's personal knowledge. If the assessor discovers that a potential change in control or ownership of a legal entity may have taken place, the assessor sends out a cover letter and COS requesting further information from the legal entity involved.

The assessor processes very few transfers of legal entities and, subsequently, does not have written policies or procedures in place for processing legal entity changes. Currently, the monthly LEOP reports are reviewed by the assessor in order to determine if any changes in control or ownership have occurred within Sierra County. Parcels located within the county are identified and reviewed. The assessor also performs a name search to ensure all of the entity's real property is reassessed. If the transaction results in an assessable event, the assessor performs the valuation.

The assessor reviews the Entities Indicating A Change in Control or Change in Ownership report to determine if the assessor should apply penalties for late-filings of the BOE-100-B. The assessor also reviews the BOE annual Historical Non-Response List to determine if the assessor should apply penalties for an entity's failure to respond to a request to file a BOE-100-B.

We reviewed several files involved in changes in control or ownership of a legal entity and found the assessor's LEOP program to be well administered.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first $1 million of other real property between parents and children. Certain transfers from grandparents to their grandchildren are also excluded.

To enforce the $1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. Even if an assessor opts not to report quarterly to the BOE, however, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their $1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding exclusions are available to the public at the assessor's office and on their website.
The following table represents section 63.1 claims filed in Sierra County in recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>CLAIMS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>58</td>
</tr>
<tr>
<td>2008-09</td>
<td>42</td>
</tr>
<tr>
<td>2007-08</td>
<td>47</td>
</tr>
<tr>
<td>2006-07</td>
<td>58</td>
</tr>
<tr>
<td>2005-06</td>
<td>49</td>
</tr>
</tbody>
</table>

The assessor is very proactive in notifying interested parties of a possible exclusion when a PCOR indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren). While processing the transfer, the assessment technician sends the interested parties a claim form along with a cover letter requesting the information. Once the section 63.1 claim form is received, the assessment technician or the assessor determines if the exclusion is accepted or denied. If the property owner fails to respond within 45 days of the first request, the assessment technician will then send a second notice giving the property owner additional time. The assessment technician tracks the progress of the requested information through the computer system. After 60 days from the second notice, if the property owner has still not responded or filed a completed claim form for exclusion, the assessment technician will then change the status of the document in the computer system in order for the document to show on the appraiser's workload to reassess. Pursuant to Ordinance No. 1009, if the taxpayer later provides the completed form for exclusion once the property has been reassessed, the assessor may still grant the exclusion, but may charge the taxpayer a $175 fee, since the form was not filed timely.

The assessor does not submit optional quarterly reports to the BOE, which list approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. The assessor relies on the property owner to report accurately all prior transfers in all counties where they own property, as well as on the staff's knowledge of taxpayers owning multiple properties within Sierra County, in an effort to track properties exceeding the $1,000,000 limit. If property exceeding the limit is found within Sierra County, the assessor determines which property to be reassessed and notifies the appraiser. While it is not required, we suggest that the assessor submit quarterly reports to the BOE in an effort to efficiently and accurately track section 63.1 claims that exceed the $1,000,000 limit, not only for the assessor's benefit, but also to benefit other assessors.

Pursuant to section 63.1(i), the assessor keeps all processed and unprocessed claim forms filed in a separate file cabinet within a secured area that is not accessible to the public. All processed claims are scanned into the computer system before being filed.

After reviewing several files, we found the assessor properly reviews and processes section 63.1 claims.
Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Sierra County does not have an ordinance in place to accept base year value transfers from other counties. Applications and information regarding exclusions from reassessment are available to the public at the assessor's office.

If a PCOR indicates a transfer may involve a base year exclusion, the assessment technician sends interested parties a claim form. However, there have been no section 69.5 claims in recent years for the assessor to process and they currently do not have any procedures in place to process these claims. In addition, since the assessor has not received or approved a section 69.5 claim in recent years, the assessor has not had reason to submit quarterly reports to the BOE as required by section 69.5(b)(7).

Section 69.5(b)(7) provides in order to prevent duplication of claims under this section, county assessors shall report quarterly to the BOE a list of approved section 69.5 base year value transfers. While the assessor is only required to submit quarterly reports for approved claims and Sierra County has not had any approved claims in recent years to report, we suggest the assessor still notify the BOE, even when the number of claims is zero. This report is a compilation of information provided by the assessors throughout the state and by not reporting, it is unclear to the BOE and other counties as to whether Sierra County had any claims or if they were simply not reporting. Over the last five years, the assessor only submitted one quarterly report to the BOE, at which time she reported zero claims.

Valuation

Once a change in ownership has been determined to be an assessable event, the information is put into the computer system and sent to the appraiser's work queue for valuation. Assessable transfers are reviewed to confirm the listed sale price accurately reflects market value. The appraiser confirms this by using the comparable sales approach and cost approach to determine value for residential and commercial properties. The sale price is not automatically enrolled if the appraiser determines the reported sale price is outside of the market value range. Value conclusions are documented on the appraisal record and any supporting data is included in the property record located within the computer system.
The appraiser maintains residential and commercial electronic sales data files. Data is automatically updated as the appraiser processes the sale and the information is input into the computer system. A field inspection is performed on every property to be reassessed unless the property has been recently inspected and the appraiser is confident no changes have occurred.

We reviewed a number of transfers, including residential and commercial sales, as well as partial interest transfers. In general, we found the assessor is following proper procedures for valuation and has an efficient valuation program in place when reappraising due to changes in ownership. However, we did find one area in need of improvement.

**RECOMMENDATION 4:** Correctly process supplemental assessments due to changes in ownership.

We found several files where the assessor issued supplemental assessments with incorrect dates of event. In some instances, the assessor did not use the date of the recorded change in ownership as the date of event.

Section 50 requires the assessor to enter a base year value on the roll for real property upon a change in ownership based on the property's fair market value as of the date of the change in ownership pursuant to section 110.1. Section 75.10 provides whenever a change in ownership occurs, the assessor shall appraise the property changing ownership at its full cash value on the date the change in ownership occurs. Section 75.31(a) requires the assessor to notify the property owner whenever a new base year value has been determined, causing a supplemental assessment, and section 75.31(a)(3) states the notice shall include the date of the change in ownership.

By not issuing the supplemental assessment as of the date of the change in ownership, the assessor is not following statutory requirements.

**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.


There are several statutory exclusions from what constitutes new construction; sections 70(c) and (d), and sections 73 through 74.7 address these exclusions.
The following table shows the permit workload for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>PERMITS RECEIVED</th>
<th>NEW ASSESSMENTS FROM PERMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>130</td>
<td>58</td>
</tr>
<tr>
<td>2008-09</td>
<td>142</td>
<td>72</td>
</tr>
<tr>
<td>2007-08</td>
<td>142</td>
<td>69</td>
</tr>
<tr>
<td>2006-07</td>
<td>141</td>
<td>68</td>
</tr>
<tr>
<td>2005-06</td>
<td>192</td>
<td>121</td>
</tr>
</tbody>
</table>

The assessor has few written procedures for processing new construction. Most new construction activity is discovered from building permits. Ordinance 571 requires the assessor's parcel number to be included on all permits. The Sierra County Building Department issues building permits for new construction, including wells and septic systems. The Sierra County Environmental Health Department conducts the final inspection for wells or septic systems and sends a hard copy of the signed-off permit to the building department. The building department provides a hard copy of the signed-off permits to the assessor.

The Sierra County Transportation and Public Works Department issues all permits for private roadways, known as encroachments, connected to paved or unpaved county maintained roads. They provide the assessor a copy of each encroachment permit as it is signed-off. The assessor is proactive in tracking and assessing encroachments.

The following table shows new encroachments placed on the roll by the assessor in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NEW ENCROACHMENTS PLACED ON ROLL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>15</td>
</tr>
<tr>
<td>2008</td>
<td>25</td>
</tr>
<tr>
<td>2007</td>
<td>28</td>
</tr>
<tr>
<td>2006</td>
<td>20</td>
</tr>
</tbody>
</table>

Other methods used to discover new construction include newspaper articles, business property statements, reports from taxpayers, and field canvassing.

Valuation

The appraiser and assessor review all permits before the permits are scanned into the imaging system. If it is determined the permit is for assessable construction, it is entered and tracked through completion on a spreadsheet. Permits for non-assessable events, such as minor remodeling, repairs, or maintenance, are electronically noted in the subject file and not assessed. Diagrams are prepared based on plans and revised as needed after field inspections are performed. Questionnaires are mailed to property owners for new residences, completed new
construction, and miscellaneous new construction. Field inspections are conducted for all new construction, with the exception of wells and septic systems. When new construction is completed, a base year value and completion date are noted on the property record and supplemental assessments are issued. Well bores and well casings are properly assessed to the land. All other types of new construction are assessed to improvements.

We reviewed a number of properties with construction in progress and recently completed new construction activity and found the records to be well organized, definitive, and descriptive. However, we found one area of concern.

**RECOMMENDATION 5:** When using the cost approach, use local cost multipliers only when supported by a recent and valid study.

The assessor uses local cost multipliers derived from an in-house formula to apply to construction costs obtained from residential and commercial cost guides published by Marshall & Swift when valuing properties for new construction or changes in ownership. The assessor’s formula and derived cost multipliers are built into a software program used for the cost approach. However, the assessor has not performed a recent study or analysis to support these local cost multipliers being used in the valuation process.

It is understandable that in some areas published cost guides may not provide a good value indication. This situation is evident when significant adjustments are needed to accommodate for diverse characteristics specific to the various locales within Sierra County, which include rural areas, mountainous terrain with varied elevations and slopes, along with often extreme weather conditions in the colder months. However, a study would be needed to determine what these adjustments should be if published cost guides were in fact inadequate. Without a recent and valid study to support the assessor’s local cost multipliers, it is impossible to determine the reliability of the cost multipliers being used.

By using unsupported local cost multipliers when performing the cost approach rather than using cost multipliers from a published cost guide, the assessor may be enrolling incorrect assessments.

**Construction in Progress**

For each lien date the assessor reviews all construction in progress. If there has been progress in construction, the assessor assigns the latest costs available to the completed portion of the new construction. We found one area where improvement is needed in relation to construction in progress.

**RECOMMENDATION 6:** Value construction in progress at its fair market value for each lien date until completion per section 71.

We found the assessor does not estimate the fair market value of construction in progress as of the lien date. Specifically, if there was no progress in the construction project since the preceding lien date, the assessor allows the value previously added for construction in progress to increase by application of the annual inflation factor.
Pursuant to section 71, the assessor shall determine the new base year value for the portion of any taxable real property having been newly constructed. New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value.

The assessor's failure to consistently assess construction in progress at fair market value on the lien date is contrary to statutory provisions and may result in inaccurate assessments.

**Declines in Value**

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

Over the past few years the local real estate market in Sierra County has weakened and the number of properties with market values lower than their factored base year values has increased dramatically. One appraiser in the office is responsible for all decline-in-value reviews and assessments.

The following table shows the number of decline-in-value assessments for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>561</td>
</tr>
<tr>
<td>2008-09</td>
<td>151</td>
</tr>
<tr>
<td>2007-08</td>
<td>141</td>
</tr>
<tr>
<td>2006-07</td>
<td>85</td>
</tr>
<tr>
<td>2005-06</td>
<td>77</td>
</tr>
</tbody>
</table>

The assessor is proactive in the discovery of properties in the county that may be experiencing a potential decline in value. The assessor reviews all sales and new construction activity occurring within a specified time-frame for possible declines in value. Although the assessor has forms available both online and in her office for taxpayers to request a review of their property values, only about 3 percent of the properties reviewed for potential declines in value were due to requests from property owners.

For the decline-in-value program, the assessor has divided the county into two distinct areas, the East Side and the West Side. Using the comparative sales approach, the appraiser responsible for conducting all of the decline-in-value property reviews establishes the current market value of the land. The market value of the improvements is established by applying a current and local cost multiplier to the most current cost estimate, which is derived from cost factors from the residential and commercial cost guides published by Marshall & Swift. The land and
improvement value is compared to the FBYV and the lower of the two is enrolled as the assessed value. All of the comparisons are maintained on a spreadsheet.

The assessor has made an effort to identify and provide relief to as many owners of property in Sierra County as possible. However, we believe the method used to determine current market value is flawed. While the current cost multiplier is from Marshall & Swift published cost guides, the local cost multiplier is derived from an unsupported in-house formula. This is the same problem we discovered in our review of the assessor's new construction assessment program, where we made the recommendation that the assessor use local cost multipliers only when supported by a recent and valid study. As in her valuation of new construction, the assessor is using unsupported local cost multipliers to arrive at an indicator of market value. For further discussion on this issue, refer to the recommendation noted in the New Construction section of this report.

Property owners are notified of a decline-in-value assessment on the annual Notification of Amount of Assessment, which has the specific notation "This Is A Value Reduction" printed on it, as well as the proposed decline-in-value assessment and the current FBYV. For those properties where the assessor is partially or fully restoring the FBYV, the notice correctly shows the FBYV and informs taxpayers of their appeal rights and an explanation of the stipulation procedure.

During our review of the assessor's decline-in-value assessment program, we noted one area in need of improvement.

**RECOMMENDATION 7:** Enroll all qualifying decline-in-value assessments.

In our review of the spreadsheet compiled by the appraiser of the 1,641 properties reviewed for potential declines in value, we found a number of properties with an indicated market value lower than the FBYV that were not assessed at the lower market value. The reason given by the appraiser for not enrolling the lower market value was the indicated market value was within 5 percent of the FBYV.

Section 51(a)(1) and (2) provide that for each lien date after the lien date in which the base year value is determined pursuant to section 110.1, the taxable value of real property shall be the lesser of its FBYV or its full cash value, as defined in section 110. Therefore, if the assessor determines, as of the lien date, a property's market value is less than its FBYV, the assessor should enroll the market value as the assessed value, since it is the lower of the two values.

The assessor's practice of not enrolling market value when it is lower than the FBYV is contrary to statute and results in overassessments to some taxpayers.

**California Land Conservation Act Property**

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.
Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based on agricultural income-producing ability (including income derived from compatible uses, such as hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

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

Most of the rural property in Sierra County is used for livestock grazing. The top crops by value in 2009 were cattle, pasture, timber, forage, and alfalfa hay. The county produced approximately $5.5 million in gross production value of agricultural commodities in 2009, which was a substantial decrease from the $16 million in gross production value reported for 2007. This decrease was primarily due to an $8.5 million reduction in timber harvest production.

For the 2010-11 assessment roll year, Sierra County had 163 parcels encumbered by CLCA contracts, totaling approximately 34,800 acres with a total assessed value for land and improvements of $23,673,472. Sierra County also had 36 parcels subject to Farmland Security Zone (FSZ) contracts, which is a more restrictive contract providing greater valuation benefits to landowners than CLCA contracts. FSZ contracts encompass approximately 5,700 acres with a total assessed value for land and improvements of $3,922,905. There are no open-space or scenic easements under restricted value within the county.

Sierra County has not adopted section 423.3, which allows for CLCA property to be enrolled at a percentage of the base year value. There are no CLCA or FSZ contracts in non-renewal status or contracts having undergone cancellation in recent years.

The assessor's office has one appraiser responsible for the valuation of CLCA properties. CLCA questionnaires are mailed annually for properties in the program and the appraiser reviews the information received. The appraiser uses the information from the questionnaires, as well as information from crop reports and other counties, to determine the restricted values of all CLCA properties for the lien date. The data the appraiser gathers is input into the computer system, which calculates the restricted values and the factored base year values (FBYV) for the CLCA properties. The computer program does not calculate the fair market value for the comparison process, nor does it automatically determine the lesser of the values to be enrolled. Each year the appraiser must make the determination as to whether the market value is higher or lower than the restricted value or the FBYV.

Income and expenses are derived from a market analysis performed by the appraiser, which utilizes data from the Sierra County Agriculture Production Report, questionnaires from property owners, and information from other counties.

In developing the capitalization rate used for CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE, and includes components for risk and
property taxes. The assessor uses the appropriate tax rate based on the specific location of the property.

We reviewed several CLCA assessments and found the assessor has an efficient and well organized program in place to value these properties. However, we found some areas where further improvement is needed.

**RECOMMENDATION 8:** Improve the valuation of CLCA properties by: (1) valuing homesites on CLCA land in conformance with AH 521, (2) correctly determining supplemental assessments for unrestricted portions of CLCA land, (3) deducting appropriate expenses from gross income when capitalizing the restricted income of CLCA properties, (4) establishing the appropriate FBYV of FSZ properties pursuant to section 423.4, and (5) correctly classifying all property under CLCA contract as either restricted or unrestricted property.

**Value homesites on CLCA land in conformance with AH 521.**

The assessor establishes the value of a homesite created on land under CLCA contract at its current market value on the date construction of the residence is completed rather than reallocating the existing FBYV of the land between the newly created homesite and the restricted land. The assessor determines the current market value of the area to be designated as homesite and adds the new homesite value to the total value of the property. We also found instances where the assessor allocated value for a homesite for structures other than residences.

When a homesite is developed on a restricted property and the acreage is redistributed between the restricted land and the homesite due to new construction of a residence, a special base year problem is created with respect to the newly created homesite. In accordance with AH 521, any new construction is assessable and should receive a new base year value, but the value of the underlying land is not reassessable and the homesite should retain the same base year as the restricted land. A portion of the existing FBYV of the restricted land should be allocated to the newly created homesite.

According to AH 521, when a restricted property contains residential improvements, the assessor should determine if the improvement qualifies as a residence, estimate a reasonable site size for the qualifying residence, and then determine the base year value of the qualifying site. To qualify as a residence, the structure should be built for and capable of being used as a permanent home. Section 428 precludes the valuation of the residence or its site as restricted property and, therefore, any residential site located on a restricted property is to be valued according to the FBYV or current market value under article XIII A. A reasonable size for the site would include an area large enough to encompass the dwelling and any related improvements, such as garages, sheds, landscaped areas, utility sources, and driveways when they service only the residential improvements. A barn or other agricultural structure located on restricted property and not associated with the residence does not qualify as a residence and, therefore, should not be allocated a homesite value.
By valuing the homesite at its market value at the time of the change in use and adding that value to the overall value, in addition to the existing land value, the assessor is both double-assessing the homesite and improperly determining the homesite value. Also, by allocating a value to a homesite for structures other than residences, the assessor may overassess these properties, since the land incorrectly allocated to a homesite would normally be valued as part of the restricted land, with an assessed value that is typically lower than the assessed value for a homesite.

**Correctly determine supplemental assessments for unrestricted portions of CLCA land.**

We found the assessor does not separate restricted and unrestricted land values when calculating supplemental assessments for homesites. This has resulted in supplemental assessments on the restricted land when there is a change in ownership.

Section 75.14 provides that a supplemental assessment shall not be made for any property not subject to the assessment limitations of article XIII A. Since section 52(a) excludes CLCA property from assessment under article XIII A, the assessor has no authority to issue supplemental assessments for any restricted CLCA property.

Including the restricted land values in the supplemental assessment calculations results in incorrect supplemental assessments.

**Deduct appropriate expenses from gross income when capitalizing the restricted income of CLCA properties.**

When determining the net income to be capitalized for grazing properties, the assessor estimates the gross income attributable to the property based on cash rent data and then makes a deduction for expenses to arrive at the net income. While in general this method is correct, we found the assessor deducts approximately 38 percent from the gross income for management and miscellaneous expenses.

According to AH 521, a gross income derived from cash rents will generally require fewer adjustments and expense deductions. Further, if the property owner's reported actual expenses are too high or too low, the assessor should use economic expenses. AH 521 provides guidance for deducting management and insurance expenses, suggesting a charge of 2 to 3 percent when using cash rent analysis or 3 to 5 percent when using share rent analysis. By overestimating the expenses to be deducted from the gross income, the assessor is understating the net income to be capitalized and also understating the value of the restricted property.

**Establish the appropriate FBYV of FSZ properties pursuant to section 423.4.**

When valuing FSZ properties, pursuant to section 423.4, the assessor compares 65 percent of the section 423 value to 65 percent of the FBYV, enrolling the lower of the two values. However, when calculating 65 percent of the FBYV, the assessor incorrectly applies this reduction to the homesite value. The assessor starts with the total FBYV of the property, and then multiplies that value by 65 percent without first deducting the allocated homesite value. The assessor then deducts the full homesite FBYV from the 65 percent reduced FBYV, which causes the remaining FBYV to be much lower than it should be if the homesite value had been correctly deducted.
from the FBYV before applying the 65 percent reduction. As a result, the remaining 65 percent reduced FBYV is much lower than it should be when compared to its section 423 value.

Section 428 provides that the restricted value provisions of section 423 shall not apply to residences or residential sites (homesites) of a reasonable size. Since residences and homesites are not restricted property, they are valued as a separate appraisal unit pursuant to article XIII A of the California Constitution (Proposition 13). It is incorrect to include the homesite value when applying the 65 percent reduction to the FBYV, since the homesite is not subject to restriction.

By including the homesite value in the total FBYV that is to be reduced by 65 percent before deducting the homesite value, the assessor is understating the remaining FBYV that is being compared to the section 423 value. Once the homesite value is finally deducted from this 65 percent reduced FBYV, the resulting FBYV is understated and the comparison to the section 423 value is flawed. We did not find, however, any instance where this practice resulted in an incorrect assessment.

Correctly classify all property under CLCA contract as either restricted or unrestricted property.

We found the assessor is classifying certain types of land, such as wells, ponds, and roadways, as miscellaneous land separate from the restricted land and unrestricted homesite values. This miscellaneous land category is allocated a portion of the total FBYV, but is not included in the comparison process as restricted land when determining the taxable value.

When valuing CLCA properties, the assessor should determine whether the miscellaneous land is restricted or unrestricted. Not all land in the assessor's miscellaneous land category should be valued as unrestricted under the provisions of article XIII A.

By valuing such land as unrestricted when it may be part of the restricted land valuation, the assessor may make an incorrect value comparison when arriving at the taxable value.

**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 lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435).

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 similar to all other real property.

As of the 2010 lien date, there were 291 parcels zoned TPZ in Sierra County, totaling 80,628 acres. This is about 12 percent of the total acreage in the county. The total assessed value of these TPZ lands is $13,139,348, or approximately 2.5 percent of the total local roll value.
Our review of appraisal records indicates the assessor and her staff have properly identified property zoned TPZ in compliance with section 433. Timberland site values, structures, other improvements, and compatible uses are noted and values are enrolled in conformance with article XIII A. Applicable supplemental assessments are issued.

We noted two areas for improvement in the assessment of TPZ properties.

**RECOMMENDATION 9:** Improve the valuation of TPZ properties by:
(1) assessing land zoned TPZ according to section 435, and (2) periodically reviewing TPZ properties for compatible uses.

**Assess land zoned TPZ according to section 435.**

We noted two examples where the assessor has rebutted the presumption that TPZ zoning is an enforceable restriction. In these instances, the assessor has valued property zoned TPZ as if zoning restrictions do not apply. We disagree with the assessor's assumption that TPZ restrictions can be rebutted when the property no longer meets the criteria for TPZ zoning.

The assessor takes the position that section 402.1 gives her the authority to rebut the TPZ zoning restrictions. Section 402.1 states that the assessor shall consider enforceable restrictions when valuing land. Grounds for rebutting the presumption would include conclusive evidence of the future removal or modification of the restriction. The county planning department has the authority to change zoning. Without the county planning department changing the zoning and, therefore, the enforceable restrictions, the assessor does not have the authority to consider any change in zoning restrictions for valuation purposes.

It has long been the position of the BOE legal staff that the assessor has no authority to assess TPZ property based on its value other than as timberland and there is no legal authority for valuing a TPZ parcel according to noncompatible or nonpermitted use. The assessor's current practices are not in compliance with applicable statutes. Failure to properly assess TPZ property will lead to improper assessments. The assessor should value TPZ parcels in accordance with zoning restrictions.

**Periodically review TPZ properties for compatible uses.**

We found the assessor's TPZ property files are well documented and properly identify existing compatible uses. However, the assessor is not proactive in the discovery of new or changing compatible uses for TPZ properties.

It is the responsibility of the assessor to identify and assess all taxable property. Typically, property owners enter into access agreements for mining, grazing, cell tower sites, hunting, camping, fishing, or other activities. Without periodically reviewing all TPZ properties, there is potential for uses of this type to escape assessment. As the agreement terms are altered, changed, or expire, the assessable value of these uses should be adjusted. Changes in previously enrolled compatible uses may occur without the assessor's knowledge, causing inaccurate assessments. Sending an annual or periodic questionnaire to the owners of TPZ properties in Sierra County
could assist the assessor in tracking all compatible uses. The assessor should be proactive in the
discovery of compatible uses for TPZ properties to ensure accurate assessments.

**Taxable Possessory Interests**

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

The assessor enrolled 1,395 taxable possessory interests on the 2010-11 assessment roll; the total
assessed value of these properties was more than $35 million. Taxable possessory interests are
assessed on both the secured and unsecured rolls.

The following table lists the distribution of these assessments:

<table>
<thead>
<tr>
<th>TYPES OF TAXABLE POSSESSORY INTERESTS</th>
<th>NUMBER OF ASSESSMENTS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Forest Service Cabins</td>
<td>120</td>
<td>$6,833,576</td>
</tr>
<tr>
<td>Unpatented Mining Claims</td>
<td>1,150</td>
<td>$9,844,914</td>
</tr>
<tr>
<td>Grazing Leases</td>
<td>23</td>
<td>$396,448</td>
</tr>
<tr>
<td>Campground Concessions</td>
<td>37</td>
<td>$239,418</td>
</tr>
<tr>
<td>Cable Television</td>
<td>3</td>
<td>$385,507</td>
</tr>
<tr>
<td>Hydro Plants</td>
<td>4</td>
<td>$13,905,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>58</td>
<td>$3,755,179</td>
</tr>
<tr>
<td>Total</td>
<td>1,395</td>
<td>$35,360,042</td>
</tr>
</tbody>
</table>

One real property appraiser is responsible for the discovery and assessment of all taxable
possessory interests in the county. The appraiser annually contacts all public agencies with
property on which existing taxable possessory interests are located, and requests updated lists of
tenants and lease terms. The assessor does not use BOE-502-P, *Possessory Interests Annual
Usage Report*, when contacting public agencies for information. Requests for information are
sent out on county letterhead as a request for information under the U.S. Freedom of Information
Act (FOIA). Another method of discovery used by the assessor is building permits issued by the
Sierra County Building Department, the City of Loyalton, California Department of
Transportation, and the California Public Utilities Commission.

For taxable possessory interests with stated terms of possession, the assessor obtains a copy of
the contract or special use permit. All of the documents are scanned into the computer system
under the appropriate account number. A base year value is established and supplemental
assessments are issued for all newly created taxable possessory interests. There are no
fairgrounds in the county; Sierra County shares the fairgrounds in Quincy with Plumas County.
We reviewed the assessment of several taxable possessory interests and found several areas in need of improvement.

**RECOMMENDATION 10:** Improve the taxable possessory interest program by:
(1) properly calculating supplemental assessments for taxable possessory interests, (2) deducting allowed expenses from gross income when valuing possessory interests by the income approach, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (4) not assessing a taxable possessory interest to a public user of public lands.

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

We reviewed a number of taxable possessory interest appraisals created due to a change in ownership. We found the assessor correctly enrolled a base year value and issued a supplemental assessment. However, the assessor is improperly offsetting the new base year value against the existing roll value when calculating the amount of the supplemental assessment.

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

According to Assessors’ Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll when one taxable possessory interest is terminated during an assessment year and a second (but distinct) taxable possessory interest is created involving the same land and improvements during the same assessment year.

The assessor’s failure to properly issue supplemental assessments is contrary to statute and results in a loss of revenue.

**Deduct allowed expenses from gross income when valuing possessory interests by the income approach.**

When valuing taxable possessory interests by the income approach, the assessor typically capitalizes the actual contract rent without making any deductions from the gross rent for management and other operating expenses incurred by the public lessor.

AH 510 provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Rule 21(e)(3)(C) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return" (as defined in subsection (c) of Rule 8) attributable to the taxable possessory interest. A public owner will incur at least some management expense with each possessory interest. Lease agreements may require the public owner to pay for insurance, maintenance, or utilities.
By not recognizing the allowable expenses and subtracting them from the gross income to be capitalized, the assessor may be overstating the value of the taxable possessory interests.

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

We found that the assessor does not review taxable possessory interests with a stated term of possession for subsequent declines in value. Instead, the assessor enrolls the factored base year value until the contract term of possession expires or there is a change in ownership.

Rule 21(d)(1) provides that the stated term of possession shall be deemed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have reached a mutual understanding or agreement that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as the remaining period of possession as of the date specified in the lease, agreement, or permit, including any options to renew or extend the specified period of possession. Therefore, the stated term of possession declines each year, and may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual agreement or understanding as to a longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on the lien date based on the remaining term of the contract, compare this value with the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to re appraisal all properties each year, the assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

**Do not assess a taxable possessory interest to a public user of public lands.**

In our review of taxable possessory interests in Sierra County, we found the assessor was assessing a taxable possessory interest to a local government entity that was leasing USFS land.

Typically, property owned by local government agencies located within their jurisdiction is exempt from property taxes. Property owned outside of those boundaries may be taxable under article XIII, section 11 of the California Constitution, which provides that lands, water rights, and any other interests in lands owned by a local government that are located outside its boundaries are taxable if they were taxable when acquired by the local government. Therefore, only real property owned by local government agencies may be subject to property taxation.

Possession of a possessory interest is typically encumbered by a contractual agreement for a specific period of time; therefore, the possessor of a possessory interest has a leasehold interest in the real estate, and not fee ownership of the real property. In addition, AH 510 defines a taxable possessory interest as the taxable interest held by a private possessor in publicly owned real property.

The assessor is incorrectly applying a taxable value to property that should be tax exempt.
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.

Sierra County has no assessable petroleum or high temperature geothermal properties. Mineral rights values for the 2010-11 roll year were approximately $11.8 million. Most of this value is attributable to unpatented mining claims.

Unpatented mining claims represent an interest in mineral rights on federal land. Claims are filed with the Department of Interior's Bureau of Land Management (BLM) and recorded in the county. The assessor has collected a massive history of sales of unpatented mining claims and does extensive analysis related to the market price of these claims. This study analyzes recent sale prices and annual assessment work notices to determine the sales value component of the possessory interest. The assessor uses a ten-year anticipated term of possession to calculate the present worth of future maintenance payments to be added to the sale price to determine the fair market value of a claim. These procedures follow the guidelines of Rule 21.

Some of the more notable mines in Sierra County, The Original Sixteen to One and the Ruby Mine, are not actively producing. No current mineral right values are enrolled for these mines; however, equipment and improvement values are enrolled. The assessor closely watches these mines, as they are in the process of trying to raise capital for restarting operations.

We have no recommendations for the assessor's mineral property program.
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.

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

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

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

The last audits were completed during the 2006-07 roll year.
RECOMMENDATION 11: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

As noted above, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete two audits annually. Historically, in Sierra County, all audits were completed in the same year every four years. Despite the recent change to section 469, we found that no audits were completed for the 2009-10 assessment roll.

An effective audit program verifies the reporting of the largest business property accounts and helps to prevent any potentially large errors or escape assessments. Section 469 provides the assessor shall annually conduct a significant number of audits. For Sierra County, the significant number of audits has been determined to be two audits per year. The recent changes to section 469 now allows assessors greater flexibility in choosing business property accounts to audit and allows for a more varied range of values to audit.

It should be emphasized that errors and escapes not discovered and rectified during the audit process can represent a permanent loss of revenue to the county and special tax districts. This is a significant deficiency in the assessor's business property program. By failing to get audits completed timely, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to escape assessment.

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.

The audits reviewed were well documented and supported by an audit narrative and cost summaries. We found the audit results were communicated to the taxpayer properly and the roll corrections were applied to reflect the audit findings.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of $100,000 or more to annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.
The following table displays the assessor's workload of secured and unsecured BPSs and assessments for the 2010-11 assessment roll:

<table>
<thead>
<tr>
<th>TYPE OF PROPERTY STATEMENTS</th>
<th>TOTAL</th>
<th>SECURED VALUE</th>
<th>UNSECURED VALUE</th>
<th>TOTAL ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>280</td>
<td>$9,237,493</td>
<td>$3,844,093</td>
<td>$13,081,586</td>
</tr>
<tr>
<td>Agricultural</td>
<td>81</td>
<td>$2,308,244</td>
<td>$119,999</td>
<td>$2,428,243</td>
</tr>
<tr>
<td>Apartments</td>
<td>52</td>
<td>$136,144</td>
<td>$4,280</td>
<td>$140,424</td>
</tr>
<tr>
<td>Direct Billing</td>
<td>50</td>
<td>$67,028</td>
<td>$124,017</td>
<td>$191,045</td>
</tr>
<tr>
<td>Financial</td>
<td>1</td>
<td>$78,786</td>
<td>$0</td>
<td>$78,786</td>
</tr>
<tr>
<td>Leased Equipment</td>
<td>60</td>
<td>$0</td>
<td>$339,034</td>
<td>$339,034</td>
</tr>
<tr>
<td>Service Stations</td>
<td>6</td>
<td>$95,298</td>
<td>$176,895</td>
<td>$272,193</td>
</tr>
<tr>
<td>Other</td>
<td>144</td>
<td>$1,523,231</td>
<td>$14,803,566</td>
<td>$16,326,797</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>674</td>
<td><strong>$13,446,224</strong></td>
<td><strong>$19,411,884</strong></td>
<td><strong>$32,858,108</strong></td>
</tr>
</tbody>
</table>

**Discovery**

The assessor utilizes various tools for discovering taxable business property. Taxpayer self-reporting and periodic field canvassing are significant means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing fictitious business name filings, real property appraiser referrals, city and county business licenses, and local newspapers. We found the assessor employs acceptable methods for discovering business personal property.

**General Statement Processing**

An assessment technician performs all of the BPS processing functions. The assessment technician date-stamps the BPSs as they are received and forwards them to the assessor for valuation review and preparation of new assessments. Once the assessor has completed her review of the BPSs, the assessment technician inputs any changes to the database, such as the owner's name, Doing Business As (DBA), situs address, mailing address, and valuation adjustments. The assessment technician checks for full disclosure of property based on the taxpayer's prior property statement asset listing.

We reviewed a sampling of several BPSs to verify the use of Board-prescribed forms, processing by noncertified staff, taxpayer interactions, completeness of the BPSs, authorized signatures, application of penalties, coordination with the real property division, and record storage and retention. All statements sampled evidenced the proper usage of Board-prescribed forms and proper application of a penalty for late and non-filed statements as required by section 463. All statements are scanned electronically and a hard copy is filed in a storage room until purged after the required holding period. We found one area in need of improvement when processing BPSs.
RECOMMENDATION 12: Accept only properly signed business property statements.

Our review found several property statements that were not signed by a qualified person and the required assessees's written authorization was not on file with the assessor. Additionally, one statement lacked a signature.

According to Rule 172, property statements and mineral production report forms prescribed by the BOE and filed with the assessor or the BOE shall be signed by the assessees, a partner, a duly appointed fiduciary, or an agent. When signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessees's written authorization allowing the agent or employee to sign the statement on behalf of the assessees must be filed with the assessor. A property statement or a mineral production report that is unsigned does not constitute a valid filing. The penalty imposed by section 463 for failure to file shall be applicable to unsigned property statements.

Filing Procedures

Under section 441.5, in lieu of completing the property statement, information required of the taxpayer may be furnished to the assessor as attachments to the property statement provided that the attachments are in a format as specified by the assessor, and a copy of the actual property statement is signed by the taxpayer and carries appropriate reference to the data attached. In Sierra County, the assessor does not allow taxpayers to submit attachments in lieu of completing BPSs.

Direct Billing

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

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

In Sierra County, there were 50 direct billing accounts on the 2010-11 assessment roll. The assessor places accounts on direct billing if the assessed value is low and the account has a history of asset stability. A property statement is mailed once every four years for direct billing accounts.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.
Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors’ Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

We reviewed a variety of entries for business equipment reported on the BPSs for businesses, such as banks and financial institutions, service stations, grocery stores, propane companies, and construction and agricultural businesses.

The assessor has a coding system to identify and designate the use of specific valuation tables for business property equipment reported on the BPS. These factor tables are developed for use in mass appraisal and are used for converting original cost to estimates of reproduction cost or replacement cost new.

**Application of Board-Recommended Index Factors**

The assessor has some written business equipment valuation procedures. However, the assessor utilizes the Assessors’ Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), as a guide. The assessor has adopted the price indices and percent good factors recommended in AH 581 and in tables developed by the California Assessors’ Association (CAA). The CAA price indices parallel the indices published in AH 581, with the exception of specific types of equipment (such as pagers, facsimile equipment, high tech medical equipment, and photocopiers) that the CAA recommends should not be trended.

**Mobile Construction and Agricultural Equipment Valuation Factors**

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

We have no recommendations for the assessor's program for valuing business equipment.

**Manufactured Homes**

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

The assessor enrolled 34 manufactured homes for the 2010-11 assessment roll, with a total assessed value of $270,635. Of the 34 manufactured homes enrolled, 19 are located in
2 mobilehome parks, while the remaining 15 manufactured homes are located outside a mobilehome park on land owned in fee.

The appraisal of all manufactured homes situated in the county is the responsibility of one appraiser. The appraiser discovers taxable manufactured homes in the county from dealer reports of sale, contact from previous or current owner(s), building permits, and field inspections.

Manufactured homes situated outside a park are assessed to the parcel on which they are situated; manufactured homes in the mobilehome parks are designated with an assessor's parcel number to identify the lot on which the manufactured home is situated. All manufactured homes are also assigned an unsecured account starting with the prefix "45" to identify them as being personal property, unless they are associated with a business. Those homes not affixed to a permanent foundation are correctly assessed as personal property on the secured roll. Depending on how they are attached, manufactured home accessories, such as decking, awnings, and skirting, are classified as either personal property or real property and assessed accordingly.

Once a manufactured home is permanently affixed to an approved foundation, the home is considered an improvement and enrolled as real property. The assessor verifies that each home is affixed to an approved foundation in accordance with section 18551 of the Health and Safety Code and requires proof that the notice of affixation, HCD Form 433A, Notice of Manufactured Home (Mobilehome) or Commercial Coach, Installation on a Foundation System, has been recorded, and that HCD Form 433B, Notice to Assessor, has been provided to the assessor. Once assessed as real property, manufactured homes are treated as any other structural improvement subject to article XIII A.

In accordance with section 5803(b), the assessor relies on the National Automobile Dealers Association, Manufactured Housing Cost Guide (NADA), to value all manufactured homes in the county not affixed to a permanent foundation. All accessories, such as decking, awnings, and skirting, are included and documented in the cost estimate. Overall condition and age are also considered in the cost analysis. Supplemental assessments are correctly processed for manufactured homes, as well as for accessories. Once a base year and base year value are established, for each subsequent lien date the assessor determines the market value of the manufactured home using the cost factors from NADA, compares it to the factored base year value, and the lesser of the two is enrolled as the assessed value.

We reviewed a number of manufactured home assessments, including transfers. We found the assessor's manufactured home program to be well administered.

**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. 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 2010-11 assessment roll included two general aircraft, with a total assessed value of $51,900. Sources of aircraft discovery used by the assessor include information from the individual aircraft owners and referrals by assessors of other counties. Since the assessor does not have an auditor-appraiser on staff, aircraft located in Sierra County are valued by the chief appraiser in Plumas County, who is a certified property appraiser. An aircraft property statement is mailed each year to the known owner of each aircraft in the county requesting information to be filed. The form requests the owner to report the year, make, model, and tail number of the aircraft, as well as installed avionics, engine air hours since last major overhaul, date of last overhaul, overall condition, air worthiness status, cost information, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the completed aircraft property statement, a copy is forwarded to the chief appraiser at the Plumas County Assessor's Office. The chief appraiser uses the *Bluebook* to calculate a market value indicator. Adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul are properly incorporated into the calculation to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

We reviewed both general aircraft records for valuation methodology, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found the assessor's procedures conform to statutory provisions and guidelines set forth in Assessors' Handbook 577, *Assessment of General Aircraft (AH 577)*.

### Historical Aircraft

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

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

In Sierra County, there is one historical aircraft. The assesse has not filed for the historical aircraft exemption.
**Vessels**

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, and field canvassing.

For the 2010-11 assessment roll, the assessor enrolled 297 vessels, with a total assessed value of $1,043,813. The assessor has an effective discovery program for vessels, utilizing DMV reports, referrals from other counties, and field canvassing.

The following table shows the assessor's vessel data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>NUMBER OF VESSELS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>297</td>
<td>$1,043,813</td>
</tr>
<tr>
<td>2009-10</td>
<td>271</td>
<td>$1,048,969</td>
</tr>
<tr>
<td>2008-09</td>
<td>254</td>
<td>$901,872</td>
</tr>
<tr>
<td>2007-08</td>
<td>227</td>
<td>$729,029</td>
</tr>
<tr>
<td>2006-07</td>
<td>214</td>
<td>$735,273</td>
</tr>
</tbody>
</table>

The assessor sends BOE-576-D *Vessel Property Statement* (576-D), to the owner of any newly discovered vessel in the county. The statement is sent annually until the assessee returns a properly executed statement. If an assessee does not return the 576-D in a timely manner, a 10 percent penalty is added as required by section 463.

The assessor exempts vessels that have a value of $400 or less per section 228. The assessor has one vessel with a cost greater than $100,000 and the assessee files an annual return as required by section 441. The assessor is aware of 36 vessels that are inventory and are not assessed per section 129.

Vessels are initially appraised using the applicable National Automobile Dealers Association, *Marine Appraisal Guide* (NADA). Subsequently, all vessels are reappraised, using NADA, on the same quadrennial cycle, with the next reappraisal scheduled for the 2011-12 assessment roll. Assessments between reappraisals are based on the prior year's roll value less 4 percent depreciation.

Our review of the assessor's vessel records indicates the assessor appraises vessels and complies with most applicable rules and laws related to vessels; however, we did find one area needing improvement.

**RECOMMENDATION 13:** Use a market derived procedure to value vessels.

Between periodic appraisals of vessels using NADA, the assessor applies a fixed depreciation adjustment of 4 percent to the prior year's assessed value. While the practice of using a fixed depreciation adjustment simplifies the assessment process, it may or may not reflect market
value. There is no current market study or research supporting the depreciation factor used by the assessor.

According to Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), the use of valuation factors should be supported by a recognized sampling method. To utilize sampling of current market evidence, assessors must develop and use recognized methods that will be accepted with confidence by the BOE and property owners.

The assessor may also use the recently developed vessel valuation factors provided by the BOE. To promote uniformity of vessel assessments among counties within California, the BOE developed market derived depreciation tables available for use by assessors since the 2009 lien date. These depreciation factors were developed with the assistance of many county assessors to be used in the mass appraisal of vessels when determining a value for property taxation purposes.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Sierra County

Chief
Dean Kinnee

Survey Program Director:
Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:
Sally Boeck Supervising Property Appraiser

Survey Team Leader:
Ron Louie Senior Specialist Property Appraiser

Survey Team:
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Patricia Lumsden Senior Specialist Property Appraiser
Bryan Bagood Associate Property Appraiser
Bob Marr Associate Property Appraiser
Jay Price Associate Property Appraiser
Brian Salmon Associate Property Appraiser
Paula Montez Associate Property Auditor-Appraiser
B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

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

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

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

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

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

15641. Audit of records; appraisal data not public.

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

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.
The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

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

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

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

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

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

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

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

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
(3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
(3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

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

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


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

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

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

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

1. Uniformity of treatment for all classes of property.

2. Discovering and assessing newly constructed property.

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


5. Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
(6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.

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

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

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

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

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

Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our comments follow the assessor's response.
April 19, 2012

Dean R. Kinnee, Chief
County-Assessed Properties Division
California State Board of Equalization
P.O. Box 942879
Sacramento, CA 95279-0064

Dear Mr. Kinnee,

In accordance with Section 15645 of the Government Code, please include my response to the recommendations set forth in the 2009/10 Sierra County Assessment Practices Survey.

Sally Boeck, Ronald Louie and the remainder of the SBE staff were professional, courteous, and always cognizant of our staff time necessary to aid them in the performance of their duties. I appreciate their assistance towards improving the quality of our overall assessment program.

Most importantly, I would like to thank my staff for their hard work, professionalism and dedication to serving the property owners and citizens of Sierra County.

Sincerely,

Laura Marshall
Sierra County Assessor
Recommendation #1
Amend the written procedures for the assessment of staff-owned property.
Response:
We agree, and will amend our procedures.

Recommendation #2
Improve the exemptions program by: (1) performing field inspections on properties for which an exemption claim is filed, and (2) not applying late-filing penalties when BOE-267-SNT is not timely filed.
Response:
We agree with both recommendations, and have amended our procedures.

Recommendation #3
Improve the change in ownership program by correctly implementing the penalty abatement process in accordance with section 483.
Response:
While our office has been properly abating section 483 penalties, we agree a wording change to the abatement form is required.

Recommendation #4
Correctly process supplemental assessments due to changes in ownership.
Response:
Of the supplemental assessments cited, only one resulted in an incorrect proration. The one instance was a clerical entry error; therefore, we respectfully disagree with this recommendation, as we feel it is was being done correctly.

Recommendation #5
When using the cost approach, use local cost multipliers only when supported by a recent and valid study.
Response:
We completely disagree with this recommendation. The use of our locally-derived multipliers allows us to accurately adjust values for the various communities in the county, in the same manner that other counties are able to do using their own local methodologies. We maintain an on-going, annual study that is continuously updated with
market sale data, which allows us to update the multipliers on, at least, an annual basis. We feel the survey team did not understand the dynamics of Sierra County or our existing study. Additionally, the comparison of our local multipliers to Marshall & Swift multipliers indicates that, whereas, to use Marshall & Swift multipliers would have resulted in increased values across the county in a declining market; our locally-derived multipliers accurately reflected the decline and are supported by the comparable sales approach. We believe that using any other methodology would, in fact, result in the enrollment of incorrect assessments.

**Recommendation #6**

Value construction in progress at its fair market value for each lien date until completion per section 71.

Response:

We respectfully disagree. We have a handful of parcels that pulled building permits and started construction, only to cease construction activities for many years. We base year some of the projects, where appropriate; however, due to changing construction costs from year to year, annual reappraisal would result in the same project being reassessed over multiple years at different rates, when no construction has occurred between lien dates. Additionally, we do look at any open permits for each lien date, and make value adjustments when appropriate and warranted.

**Recommendation #7**

Enroll all qualifying decline-in-value assessments.

Response:

Beginning in 2009, and extending through the 2010 lien date, the decline-in-value program experienced a change in procedure. We have subsequently amended this procedure to match the requirements outlined by statute.

**Recommendation #8**

Improve the valuation of CLCA properties by: (1) valuing homesites on CLCA land in conformance with AH 521, (2) correctly determine supplemental assessments for unrestricted portions of CLCA land, (3) deducting appropriate expenses from gross income capitalizing the restricted income of CLCA properties, (4) establish the appropriate FBYV of FSZ properties pursuant to section 423.4, and (5) correctly classifying all property under CLCA contract as either restricted or unrestricted property.

Response:

As to (1): We agree and this has been implemented.

As to (2): We agree and this has been implemented.
As to (3): We agree, and will be working with neighboring Plumas County to implement a common methodology to determine the appropriate expenses.

As to (4): We agree. The one property the survey team identified has been corrected. The other properties were, and continue to be, valued correctly.

As to (5): We agree, and have made the appropriate changes.

Recommendation #9

Improve the valuation of TPZ properties by: (1) assessing land zoned TPZ according to section 435, and (2) periodically reviewing TPZ properties for compatible uses.

Response:

As to (1): We value nearly all property under timberland production zone (TPZ) in accordance with section 435. The two exceptions are parcels that fail to meet the minimum acreage requirement under this zoning. Small substandard parcels zoned TPZ sold for well over $100,000, not based upon their timber and/or timber production capabilities, but rather for their rural residential amenities. We have been unable to identify any enforceable restriction that TPZ imposes on their use. As noted in the October, 2007, Sierra County survey, we are closely following the revised county TPZ Ordinance and subsequent lawsuit.

As to (2): We agree, and are currently working on a compatible use form, which we will begin using for the 2013 lien date.

Recommendation #10

Improve the taxable possessory interest program by: (1) property calculating supplemental assessments for taxable possessory interests, (2) deducting allowed expenses from gross income when valuing possessory interests by the income approach, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (4) not assessing a taxable possessory interest to a public user of public lands.

Response:

As to (1): We respectfully disagree with the survey team's interpretation of "creation" and "renewal" of taxable possessory interests. We feel that a failure to offset the new base year value against the current roll value will result in double taxation.

As to (2): Of the three accounts identified, one account is a summer home tract property, which we value utilizing the cost approach and comparable sales approach; one property is used for a water storage tank for a recreational religious camp, which we value utilizing the cost approach; and the final property is an outfitter/guide, for which the United States Forest Service bases their rent on gross income. As such, it would not be appropriate to deduct expenses from any of those accounts. Where appropriate for an income approach, we do deduct allowable expenses.
As to (3): We respectfully disagree. There is historical evidence of on-going permitting by the United States Forest Service of property use, which provides clear and convincing evidence of a longer-than-anticipated term of possession. Additionally, historical evidence suggests that persons would not purchase taxable possessory interest properties, with only a few years remaining of the stated term of possession, without a general degree of confidence that the permit would be renewed at the end of the stated term.

As to (4): We agree. This property has been sold and, as such, has resolved the issue at hand.

Recommendation #11

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

Response:

We agree. We are currently in the process of two audits, and will continue annually, as funding remains available.

Recommendation #12

Accept only properly signed business property statements.

Response:

We agree. The handful of property statements that were cited will be reviewed to ensure we capture the correct agent authorization and signatures.

Recommendation #13

Use a market derived procedure to value vessels.

Response:

We agree. For the 2012 lien date we compiled a study, using NADA, to establish a reasonable depreciation factor for our vessels. The study for 2012 supports the factor we have historically been applying.
BOE's Comments to Assessor's Response

Pursuant to Section 15645 the BOE has elected to comments to the assessor's response to recommendation 5.

Recommendation 5:
When using the cost approach, use local cost multipliers only when supported by a recent and valid study.

Assessor's Response:
We completely disagree with this recommendation. The use of our locally-derived multipliers allows us to accurately adjust values for the various communities in the county, in the same manner that other counties are able to do using their own local methodologies. We maintain an on-going, annual study that is continuously updated with market data, which allows us to update the multipliers on, at least, an annual basis. We feel the survey team did not understand the dynamics of Sierra County or our existing study. Additionally, the comparison of our local multipliers to Marshall & Swift multipliers indicates that, whereas, to use Marshall & Swift multipliers would have resulted in increased values across the county in a declining market; our locally-derived multipliers accurately reflected the decline and are supported by the comparable sales approach. We believe that using any other methodology would, in fact, result in the enrollment of incorrect assessments.

BOE's Comments:
The assessor's study is based on resales of existing single family homes. Because there are very few recent land sales, the assessor imputes land values to extract the improvement values. The resulting improvement values are compared to the Marshall & Swift costs to arrive at a multiplier.

The typical method of deriving a cost multiplier is by comparing actual local costs to that of a cost guide. However, the assessor does not use this method because there is little or no new construction in the area from which to gather adequate data for a valid study. The assessor's use of an imputed land value drives the result of the study. The assessor's imputed land values are not based on sales of land as there are few recent sales. In other words, because the improvement values are determined by the residual method that relies on imputed land values rather than land sales, the study is biased from the start.

Because the assessor currently does not have adequate new construction data or land sales, the cost approach does not appear to be a reliable method for valuing properties. The assessor's use of resales to derive a local-multiplier, suggests there is adequate sales data to use the comparative sales approach to value single family homes in Sierra County. In summary, we find that the study is biased, and therefore the cost approach is not a reliable indicator of value for this area at this time.