SONOMA COUNTY
ASSESSMENT PRACTICES SURVEY

JULY 2000

CALIFORNIA STATE BOARD OF EQUALIZATION

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July 31, 2000

TO COUNTY ASSESSORS:

SONOMA COUNTY
ASSESSMENT PRACTICES SURVEY

Here is the Sonoma County Assessment Practices Survey Report. The Board completed this survey in fulfillment of sections 15640-15646 of the Government Code. These code sections provide that the State Board of Equalization (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 assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, the county assessor's response, and the County Property Tax Division's (CPTD) comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, the State Legislature; and the county’s Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey of the Sonoma County Assessor’s Office was conducted by CPTD between July and September 1998. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable James J. Gallagher, Sonoma County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

We invite your comments, for we feel that these surveys can only be helpful in a mutually cooperative atmosphere. For further information regarding California’s property tax system, please refer to the Board’s Web site at www.boe.ca.gov.

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
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INTRODUCTION

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

The assessment practices survey program is one of the major State efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) is required to periodically review (survey) every county assessor’s office and publish a report on the survey findings. This report reflects the Board’s findings in its periodic survey of the Sonoma County Assessor’s Office.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and to the Sonoma County Grand Jury and Assessment Appeals Board. The response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The assessor elected to file his initial response prior to publication; the response is included in this report following the appendices.

Management audit reports typically emphasize problem areas, with little said about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports also contain information required by law (see Scope of Survey) 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 SURVEY

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 performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the Board’s survey team.

In addition, section 75.60\(^1\) requires the Board to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards defined by regulation, that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Sonoma County Assessor’s Office included reviews of the assessor’s records, interviews with the assessor and his staff, and contact with other public agencies in Sonoma County with information relevant to the property tax assessment program.

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

\(^1\) All statutory references are to the Revenue and Taxation Code unless otherwise indicated.
EXECUTIVE SUMMARY

- This report not only presents recommendations for improvement but also attempts to take note of and commend the assessor for those program elements that are particularly effective and efficient. It also highlights areas of improvement since our last assessment practices survey, and acknowledges the implementation of previous recommendations.

- We do repeat recommendations from our previous survey. These recommendations stress (1) use of a capitalization premise appropriate to the shape of the income stream when valuing vineyards and orchards, (2) proper treatment of repairs following a disaster or calamity, and (3) issuing supplemental assessments for improvements assessed on the unsecured roll.

- Administrative changes involving training are recommended. Statutory requirements for continuing education and certification need to be met.

- Additional recommended administrative changes involve roll changes. Statutory requirements need to be followed when processing roll corrections. Also, procedures for processing roll changes need to be revised to reflect current statutory provisions.

- While acknowledging that the assessor implemented our recommendation involving the source of information on the transfer list, we believe the change in ownership program could use further improvement. We discuss the importance of ensuring that appraisal files contain sufficient documentation to support market value conclusions.

- The assessor implemented our previous recommendations for revising the new construction program by obtaining building permits from all issuing agencies and gathering and considering historical cost data. For new construction, we recommend that the assessor discontinue the practice of discarding permits below $5,000 without review.

- While acknowledging that the assessor has an extensive program for identifying, recognizing, and monitoring properties that have experienced a decline in value, we recommend increasing documentation supporting those value conclusions.

- While acknowledging that the assessor implemented our previous recommendation to revise his policy on calculating capitalization rates, we again recommend that the assessor appraise taxable possessory interests using a reasonably anticipated term of possession.

- We again recommend that the assessor apply the proper inflation factor to the base year values of all leasehold improvements, regardless of the assessment roll on which they appear.

- We also recommend improvement to the leasehold improvement assessment program by investigating costs reported by the taxpayers and ensuring coordination between the real and personal property divisions.
• With regard to business property valuation, we stress the need to use price index and percent good factors applicable to the category of equipment being appraised, and to discontinue the practice of limiting valuation factors to an arbitrary minimum.

• Additional recommendations concern the proper classification of manufactured homes, verification of displays for historical aircraft, the annual valuation of boats at market value, and bringing the mandatory audit program to a current status.

• Despite the problems noted above, we found that most properties and property types are assessed correctly.

• As defined in Property Tax Rule 371, we found no significant assessment problems. Accordingly, pursuant to section 75.60, Sonoma County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Ensure that the appraisal staff completes the annual training as required by section 671. ............................................................. 10

RECOMMENDATION 2: Revise the reference guide comments on filing an appeal to accurately reflect the filing periods set forth in statutory provisions. ................................................................. 12

RECOMMENDATION 3: Obtain periodic reports from local fire protection agencies to discover property that has been damaged or destroyed. ............... 13

RECOMMENDATION 4: Improve disaster relief claim processing by revising the policies and procedures manual to accurately reflect statutory provisions for disaster relief application filing deadlines, date stamping all applications, and retaining postmarked envelopes in order to document that applications are filed timely. .............................. 14

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RECOMMENDATION 9: Limit assessment roll corrections to only those years permitted by statute. ................................................................. 17

RECOMMENDATION 10: Comply with Property Tax Rule 1045 by mailing the Annual Report of Boarded Racehorses, Form BOE-571-J1, no later than December 15. ................................................................. 19

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OVERVIEW OF THE SONOMA COUNTY ASSESSOR’S OFFICE

Staffing

The Sonoma County Assessor has 74 employees. The real property staff consists of three supervising appraisers, 22 appraisers, and one appraiser aide. The personal property staff consists of one supervising auditor-appraiser and eight auditor-appraisers. The assessment standards division includes the chief of assessment standards and three appraiser analysts. The assessment support services staff includes one supervising services manager, two supervising assessment clerks, nine assessment process specialists, and 17 assessment clerks. Six technicians are responsible for drafting maps.

Budget and Workload

Since the 1994-1995 roll year, the total assessed value of county-assessed property on the regular 601 roll in Sonoma County has increased as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Value</th>
<th>Increase</th>
<th>Statewide Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>94-95</td>
<td>26,694,373,000</td>
<td>4.8</td>
<td>1.3</td>
</tr>
<tr>
<td>95-96</td>
<td>27,328,443,000</td>
<td>2.4</td>
<td>.7</td>
</tr>
<tr>
<td>96-97</td>
<td>27,848,181,000</td>
<td>1.9</td>
<td>1.3</td>
</tr>
<tr>
<td>97-98</td>
<td>28,910,293,000</td>
<td>3.8</td>
<td>2.8</td>
</tr>
</tbody>
</table>

For the fiscal year 1996-97, the Sonoma County assessor prepared an assessment roll containing 182,843 assessments on an approved budget of $4,604,198. This budget funded 66 full time positions.

The Sonoma County Assessor's real property workload for the 1996-97 assessment year included 7,625 changes in base year value resulting from new construction and 18,240 reviews for properties for which the market value declined below the factored base year value. The assessor assessed approximately 2,400 properties restricted by California Land Conservation Act contracts and 220 taxable government-owned properties. The real property section also performed many other tasks, such as evaluating properties affected by misfortune or calamity.

For the 1996-97 assessment year, the assessor's business property section processed approximately 23,000 business property assessments, including 484 general aircraft and 11,112 vessel assessments. In addition, the business property section completed 195 mandatory audits.

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2 Table source: State Board of Equalization Annual Reports, Table 7.
The following analysis utilizes the BOE's *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessor's Offices, 1996-97*, dated June 1998. This report is a compilation by the Board of Equalization's Policy, Planning, and Standards Division, of data originating from an annual questionnaire sent to all assessors.

**ROLL UNITS**

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Number of Assessments in County</th>
<th>Enrolled Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>129,225</td>
<td>$27,703,602,000</td>
</tr>
<tr>
<td>Rural</td>
<td>10,738</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11,733</td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>5,105</td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>2,114</td>
<td></td>
</tr>
<tr>
<td>Total Secured Roll</td>
<td>158,915</td>
<td>$27,703,602,000</td>
</tr>
<tr>
<td>Total Unsecured Roll (personal property except manufactured homes)</td>
<td>23,928</td>
<td>1,147,342,000</td>
</tr>
<tr>
<td>Total Roll</td>
<td>182,843</td>
<td>$28,850,944,000</td>
</tr>
</tbody>
</table>
ADMINISTRATION

Training

The Revenue and Taxation Code contains specific annual training requirements that must be met for a person to perform the duties of an appraiser for property tax purposes, for a California assessor. Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser certificate issued by the BOE. Section 671 requires that all appraisers complete 24 hours of BOE approved training each year in order to retain a valid appraiser certificate. Holders of an advanced appraiser certificate must complete 12 hours of training each year. To qualify for an advanced appraiser certificate, an appraiser must have a minimum of six BOE courses with at least two courses classified as advanced.

RECOMMENDATION 1: Ensure that the appraisal staff completes the annual training as required by section 671.

The Sonoma County Assessor’s staff includes eight auditor-appraisers and 25 real property appraisers. The assessor and appraisal staff possess either appraiser or advanced appraiser certificates issued by the BOE. Of this staff, five auditor-appraisers and 15 real property appraisers hold advanced appraiser certificates.

Our review of the training records disclosed that five auditor-appraisers and 15 real property appraisers did not have the required training hours. Nineteen of the 20 staff appraisers deficient in training hours hold an advanced appraiser certificate. The deficits range from one to 50 hours.

We recommend the assessor ensure that the appraisal staff meet the mandatory continuing education requirements of section 671.

Assessment Appeals

Section 16 of article XIII of the California Constitution provides for the establishment of local boards of equalization and authorizes the Legislature to establish the composition of local boards of equalization. Sections 1601 through 1645.5 describe the assessment appeal process. Government Code section 15606 (c) directs the BOE to prescribe rules and regulations to govern local boards of equalization; the BOE adopted Property Tax Rules 301 through 326 to regulate assessment appeals.

Sonoma County has one assessment appeals board consisting of three members appointed by the board of supervisors.

Assessment Appeals Workload

A detail of assessment appeals for Sonoma County is provided in the following tables.
Number of Assessment Appeals

<table>
<thead>
<tr>
<th>Year</th>
<th>Appeals Filed</th>
<th>Withdrawals</th>
<th>Stipulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>96/97</td>
<td>2,832</td>
<td>1,247</td>
<td>834</td>
</tr>
<tr>
<td>97/98</td>
<td>1,159</td>
<td>216</td>
<td>211</td>
</tr>
</tbody>
</table>

Assessment Appeals By Property Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Urban</th>
<th>Commercial</th>
<th>Business</th>
<th>Misc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>96/97</td>
<td>526</td>
<td>1,765</td>
<td>362</td>
<td>124</td>
<td>55</td>
</tr>
<tr>
<td>97/98</td>
<td>180</td>
<td>548</td>
<td>242</td>
<td>101</td>
<td>88</td>
</tr>
</tbody>
</table>

Most of the assessment appeals in recent years have been based on claims that market value has declined below factored base year value. Despite variations in the number of appeals filed annually, the assessor and appeals board have done an admirable job of handling these appeals in a timely manner. With certain exceptions, if the appeals board fails to hear evidence and make a final determination of value within two years of the timely filing of an appeal, the taxpayer’s opinion of market value becomes the value on which taxes are levied for the tax year covered by the application. Only two appeals have defaulted in this manner during the last 15 years, and both involved unusual circumstances.

Assessment Appeals Filing Periods

To be considered valid, an assessment appeal application must be filed with the clerk of the board during the appropriate filing period. Filing periods are established by statute and vary according to the type of assessment under appeal.

Section 1603 provides that appeal applications for the regular period must be filed between July 2 and September 15. Exceptions to the regular filing period are contained in section 1603, subdivisions (b)(3) and (c). Section 1605 provides for a separate filing period for assessments made outside the regular assessment period (e.g., supplemental assessments, escape assessments, and roll corrections). Section 1605, subdivision (b) states, in part, “[T]he application shall be filed with the clerk no later than 60 days after the date on which the assessees was notified. . .” Section 1605 extends the 60-day filing period only for supplemental assessments if the applicant and assessor stipulate to a reduction. Section 620.5 allows an appeal application to be filed as late as November 15 for real property acquired between the lien date and the beginning of the fiscal year, when the new owner did not receive the notification of assessment.
RECOMMENDATION 2: Revise the reference guide comments on filing an appeal to accurately reflect the filing periods set forth in statutory provisions.

The Sonoma County Assessor has a computerized reference guide designed to provide taxpayers with information concerning the assessment and appeals process. It contains a section devoted to assessment appeals written in a question and answer format. The response to the question “How to file an appeal?” states, in part “[R]egular applications must be filed or postmarked no later than September 15 (except in the case of properties acquired after March 1 but before July 1—where the deadline is November 15). . . .”

As presently stated, the assessor’s response may lead a taxpayer to believe that the mere fact the property was acquired between the lien date (which is January 1, not March 1) and July 1, allows him or her to delay filing an application until November 15. In addition to the acquisition dates, section 620.5 also requires that the new owner not receive the notification of assessment. The current response does not accurately reflect appeals filing periods as specified in the statutes. We recommend that the assessor revise the comments addressing appeals application filing periods in the reference guide and include other exceptions, as provided in section 1603 and 620.5, in the response.

State-County Property Tax Administration Program

Section 95.31 provides that, upon recommendation of the county assessor, and by resolution of the county board of supervisors, any eligible county may elect to participate in the State-County Property Tax Administration Program. A county may apply for a loan to enhance its property tax administration system, reduce appraisal backlog resulting from new construction and changes in ownership, and maximize value enrollment capabilities. Many California counties participate in the program. The county under contract does not necessarily repay the loan in cash. Under the terms of the contract the county may repay the loan by meeting performance measures that are enumerated in the contract. In theory, the completion of these measures would generate property tax revenues to schools, greater than or equal to, the loan amount.

In 1995, Sonoma County elected to participate in the State-County Property Tax Administration Program for fiscal years 1995-96 through 1999-2000. On February 14, 1996, the County of Sonoma and the Department of Finance entered into an agreement for the State-County Property Tax Administration Program.

Under the terms of the agreement, the Department of Finance (DOF) agreed to loan $1,035,049 for each of the fiscal years 1995-96, 1996-97, and 1997-98. In exchange, Sonoma County agreed to use funds received from the DOF to enhance its property tax administration program, and not to use the loan amount to supplant the assessor’s current funding level. Sonoma County also agreed to maintain staffing and funding levels equal to or exceeding those of the 1993-1994 fiscal year.
According to contract terms, Sonoma County must submit a report to the Department of Finance detailing the actual workload, number of reassessments completed, and the average increment of assessed value change associated with the objectives in the agreement. Specific reporting requirements are enumerated in the contract. The county's auditor-controller must verify this report.

Sonoma County met its contractual obligations of the State-County Administration Program agreement. The assessor properly reported to the Department of Finance, and the auditor-controller verified the report and certified that the performance measures specified in the contract had been met. The total added tax revenue resulting from enrolling backlogged assessable events for fiscal year 1996/97 was estimated to be in excess of $13,500,000.4

Disaster Relief

Section 170 allows a county board of supervisors to adopt an ordinance to provide property tax relief to assessees whose property has been damaged or destroyed, through no fault of their own, by misfortune or calamity. To be eligible for disaster relief, the property must suffer a loss in value of at least $5,000.

The Sonoma County Board of Supervisors adopted an ordinance in 1977, giving the assessor the authority to grant tax relief on properties damaged by misfortune or calamity. The ordinance provides an effective date of April 14, 1977, but does not specify a termination date. The Sonoma County Assessor administers tax relief for properties that have sustained damage in accordance with detailed procedures included in the assessor’s policy and procedures manual.

Discovery of Calamities

The Sonoma County Assessor discovers calamities through building permits issued for repairs, newspaper articles, taxpayer notification, and field investigation.

RECOMMENDATION 3: Obtain periodic reports from local fire protection agencies to discover property that has been damaged or destroyed.

Fire reports prepared by fire protection agencies are also valuable sources for discovering damaged or destroyed properties. Currently, the assessor does not receive these reports on a regular basis.

The assessor can benefit in several ways by reviewing fire reports. Review may result in the discovery of calamities that might otherwise go unnoticed. Damage estimates included in fire reports can aid in the screening of applications for tax relief for the $5,000 minimum damage requirement. Fire reports may contain information that can help the assessor’s staff determine whether an owner was guilty of any criminal act, which would preclude the granting of relief. Having the reports will also assist the assessor in complying with section 51(a)(2).

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4 Sonoma County 1996-97 Workload and Assessed Value Change Report, dated August 11, 1997
Expanding the number of sources used to discover disasters will help ensure that taxpayers suffering such losses will receive all relief available. We recommend that the assessor contact all fire departments in the county in an effort to regularly receive fire reports.

Filing Deadlines

Sections 170(a)(3) and 170(d) establish filing deadlines for disaster relief claims. Section 170(d) states that the property owner must file a disaster relief application within 30 days of notification by the assessor, but in no case more than six months after the damage occurred. Section 166, in subdivision (a), provides that whenever a taxpayer is required to file any statement, affidavit, or application by a specified date, the filing shall be deemed to have occurred timely if a properly addressed envelope, with sufficient prepaid postage, bears a post office cancellation mark on or before the specified date.

**RECOMMENDATION 4:** Improve disaster relief claim processing by revising the policies and procedures manual to accurately reflect statutory provisions for disaster relief application filing deadlines, date stamping all applications, and retaining postmarked envelopes in order to document that applications are filed timely.

The disaster relief claim section in the assessor’s policies and procedures manual states that “[R]eturned applications will be date-stamped when received by the Assessor’s Office . . . and this date will constitute the date of filing.”

In 1998, the Sonoma County Assessor received 183 claims for disaster relief due to damage caused by floods and mudslides. We reviewed the assessment records of 36 property owners that filed claims for disaster relief. We found that 19 contained applications that had not been date-stamped when received, and none included postmarked envelopes.

The only way to determine if a disaster relief application has been filed timely is to document the filing date. Since section 166 provides that the filing date for mailed claims is the postmark, it is important that the mailing envelopes be retained. Date-stamping these applications can serve as further documentation. All hand-delivered applications should be date-stamped, as this is the only means of establishing their filing dates.

We recommend the assessor revise the policies and procedures manual to state that the postmark, not the date an application is received by his office, represents the filing date, and that all applications for disaster relief be date-stamped when received and postmarked envelopes retained as proof of timely filing.

**Value in Damaged Condition until Repaired**

Subdivision (g) of section 170 requires that the taxable value of damaged property, until the property has been restored, repaired, or reconstructed, shall be the value of the property in its
damaged condition compounded annually by the inflation factor specified in subdivision (a) of section 51.

**RECOMMENDATION 5:** Comply with section 170 by revaluing properties damaged by misfortune or calamity as of the date of restoration.

In providing tax relief to owners of properties damaged by the February 1998 floods in Petaluma, the assessor’s staff departed from Revenue and Taxation Code requirements. All properties that qualified for reassessment due to these floods were valued based on the assumption that all repairs would be completed on July 1, 1998. The assessor did not consider the extent of the damage, or estimated start or completion dates on filed applications, with regard to repairs.

Properties damaged by disasters should be reassessed individually, based on the dates repairs are actually completed. We recommend that the assessor comply with section 170 when revaluing properties damaged by misfortune or calamity.

**Reconstruction v. New Construction**

Several statutes address the treatment of repaired or reconstructed real property after a calamity. Section 70(c) states, in part,

> where real property has been damaged or destroyed by misfortune or calamity, “newly constructed” and “new construction” does not mean any timely reconstruction of the real property, or portion thereof, where the property after reconstruction is substantially equivalent to the property prior to damage or destruction.

Thus, when real property has been damaged by misfortune or calamity, timely reconstruction is not deemed to be “new construction.”

Our prior survey found that the assessor considered timely reconstruction following disasters as the equivalent of new construction. We find the assessor continues to treat repairs to damaged properties as new construction, if an application for disaster relief is not filed or accepted.

**RECOMMENDATION 6:** Revise the policies and procedures manual to conform to section 70 and Property Tax Rule 463.

The calamity damage claim section of the assessor’s policies and procedures manual states, in part “[W]hen an approved calamity damage application does not exist, the prior base year value is not restored and the repair is considered new construction, resulting in a new base year and base year value.”

This advice does not conform to the section 70 or Property Tax Rule 463(f). Timely repairs made to such properties should not be treated as new construction simply due to the owner’s failure to
file an application for tax relief. We recommend the assessor revise his policies and procedures manual in conformity with the statute.

**Assessment Roll Change Procedures**

Sections 616 and 617 require the assessor to complete the local assessment roll on or before July 1 each year and deliver it to the county auditor upon completion. After delivering the roll to the auditor, the assessor cannot change any assessment unless approved by the board of supervisors and county counsel.

The Revenue and Taxation Code specifies the legal authority for assessment roll changes. Sections 531 through 538 describe changes authorized as a result of property previously escaping assessment. Sections 4831 through 4880 set forth provisions for corrections of assessment mistakes.

The Sonoma County Assessor processed approximately 11,000 roll changes during the 1997/1998 fiscal year. Of these roll changes, we reviewed 90 instances regarding real property and 30 instances regarding business property.

**Escape Assessments**

Escape assessments are assessments made after the assessor has delivered the assessment roll to the auditor. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penalty to the assessment roll.

**RECOMMENDATION 7:** Revise the assessment roll change procedures by citing the proper code section when enrolling escape assessments.

Section 533 specifies the caption to be entered on the roll for all escape assessments. If the escape assessment is entered on a roll which is not the roll for the assessment year in which the property escaped assessment, the entry shall be followed with the caption “Escaped assessment for year 19__ pursuant to Sections _____of the Revenue and Taxation Code.”

Our review of the assessor’s records indicates that incorrect Revenue and Taxation Code sections are often cited when making a change to the assessment roll. For example, one roll change for a missed change in ownership, due to an unrecorded date of death, incorrectly cited section 110.1. Section 110.1 defines “full cash value” under article XIII A of the California State Constitution. In other instances, section 60 was incorrectly cited as a reason to change the roll for missed changes in ownership. Section 60 defines change in ownership. Roll changes were processed for missed new construction, incorrectly citing sections 70 or 75. Section 70 defines new construction and section 75 explains the legislative intent to promote equity among taxpayers by creating supplemental assessments.

None of these sections cited by the assessor authorizes changes to the assessment roll. Roll changes for missed changes in ownership or new construction should cite section 531.2. Roll
changes for incorrect entries made to the roll that are not an error in judgment should cite section 4831. Errors in base year values, provided they are corrected within four years of the establishment of the base year value, should cite section 51.5.

In addition to incorrect citations for real property roll changes, the Sonoma County Assessor frequently cites only section 531 when making a roll change for escaped personal property, instead of citing the specific code section (i.e., 531.3, 531.4, or 531.5).

We recommend that the assessor cite the correct Revenue and Taxation Code section when making changes to the assessment roll.

**RECOMMENDATION 8:** Comply with statutory provisions by including the correct heading when notifying taxpayers of proposed escape assessments.

Section 531.8 requires the assessor to notify the taxpayer at least ten days before the escaped assessment is enrolled. Section 531.8 further provides that the notice shall prominently display on its face the following heading: “NOTICE OF PROPOSED ESCAPE ASSESSMENT.”

Prior to enrolling an escape assessment, the Sonoma County Assessor sends a notice of roll correction informing the taxpayer of the increase in taxable value for the fiscal year affected. The notice prominently displays the following heading: “NOTICE OF CORRECTION TO THE SECTION 601 ASSESSMENT ROLL.” While the Sonoma County Assessor’s heading is administratively convenient, in that it can be widely used for any correction in the 601 roll, it does not comply with section 531.8.

We recommend that the assessor revise the notices to taxpayers to include the proper heading required by section 531.8.

**Roll Corrections**

**RECOMMENDATION 9:** Limit assessment roll corrections to only those years permitted by statute.

Corrections differ from escaped assessments in that they arise from a detectable error and for which true facts can be determined. Errors may be in description, form, or clerical handling by either a county official or the assessee.5

Generally, the statute of limitations for roll corrections is four years after the making of the assessment being corrected. However, there are certain exceptions, as specified in section 4831. Subdivision (b) of Section 4831 states: “Any error or omission involving the exercise of a value judgment that arises solely from a failure to reflect a decline in the taxable value of real property . . . shall be corrected within one year after the making of the assessment that is being corrected.”

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5 Section 4831 through 4832.1.
This section requires the assessor to make corrections to the current roll value of a property that has experienced a decline in value below factored base year value within one year of the assessment being corrected. Except as noted above, at no time can the assessor correct a prior roll for a decline in value without a timely appeal. Even then, that appeal or stipulation must be heard and ruled upon by the local assessment appeals board.

Our review of the assessor’s records found several properties that had roll corrections resulting from declines in value. Many of those corrections were for prior years. Those corrections were not completed within the time specified in section 4831 or following the filing of an assessment appeal. We recommend that the assessor limit roll changes to those assessment rolls within the statute of limitations, as authorized by the Revenue and Taxation Code.

Assessor’s Guidelines for Roll Changes

The Sonoma County Assessor’s policies and procedures manual explains the necessary steps that need to be taken when making a roll change. It also provides proper Revenue and Taxation Code sections to cite when making changes to the roll.

Currently, the assessor’s policies and procedures manual states “[W]hen a reappraisable event was totally missed, the prior four roll years can be adjusted, regardless of when the property originally escaped taxation.” However, section 531.2 (b) allows escapes to be issued for an unrecorded change in ownership, as of the date of the change in ownership, and each subsequent year. Section 532 (b) provides that where property has escaped taxation, in whole or in part, or has been underassessed, following a change in ownership, the statute of limitations shall not commence until July 1 of the assessment year in which either a change in ownership statement or preliminary change in ownership report is filed with respect to the event giving rise to the escape assessment.

We encourage that the assessor update his policies and procedures manual to conform to the statute of limitations, as specified in the Revenue and Taxation Code.

Annual Racehorse Tax Returns

Article XIII of the California Constitution provides that all property, unless specifically exempted, is taxable. Several categories of animals have been exempted from taxation, as provided in the Revenue and Taxation Code. For example, pets are exempt under section 224, and animals held as business inventory are exempt under section 219. Property Tax Rule 133 provides that the inventory exemption extends to animals used for the management of livestock.

However, racehorses domiciled in California are subject to an annual tax in lieu of the ad valorem property tax. The provisions of this tax are contained in sections 5701 through 5790. Property Tax Rules 1045 and 1046 prescribe specific procedures and forms to be used in the administration of the annual racehorse tax.
The county assessor’s responsibility relating to the administration of the annual racehorse tax is the distribution of forms and retention of reports. Property Tax Rule 1045(a)(2) requires the assessor to furnish prescribed forms for reporting the in-lieu tax due and for reporting the names of persons whose racehorses are boarded with others. Rule 1045(a)(2) states, in part, “[T]he forms . . . shall be furnished by the assessor no later than December 15 prior to the calendar year in which the tax is due by mailing them to persons believed to be required to use them and by making them available at the assessor’s office to any person requesting them.”

**RECOMMENDATION 10:** Comply with Property Tax Rule 1045 by mailing the Annual Report of Boarded Racehorses, Form BOE-571-J1, no later than December 15.

The Annual Report of Boarded Racehorses, form BOE-571-J1, is an important tool for discovering racehorses domiciled in the county whose owners may not currently be receiving the Annual Racehorse Tax Return, form BOE-571-J. The Sonoma County Assessor mails the Annual Report of Boarded Racehorses to taxpayers during the second week of February of each year. While the form sent to taxpayers is the state prescribed form, the assessor does not comply with regulatory provisions regarding the date of mailing.

The assessor’s failure to furnish the forms by December 15 is significant in relation to the penalty provisions of sections 5763 and 5767 that apply to the tax on racehorses. Section 5763 states, in part, “[A] delinquent penalty of six percent shall attach at 5 p.m. on the day any tax imposed by this part becomes delinquent.” It further provides that an additional penalty of 1 percent attaches to the tax on the first day of the first calendar month after the tax becomes delinquent, and for each month thereafter, until the delinquent tax and penalties have been paid in full. Section 5767 provides that, if the statements are not filed by 5 p.m. on February 15, an additional 10 percent tax penalty shall be imposed by the tax collector.

Section 5782 requires the assessor to furnish the tax forms to the taxpayers. A discovery technique that occurs only one week before the delinquency date of the tax makes it impossible for taxpayers who are unaware of their liability to pay the tax timely.

We therefore recommend that the assessor mail the BOE-571-J1 statement form no later than December 15 prior to the calendar year in which the tax is due. Implementing this recommendation will place the assessor in compliance with Rule 1045.

**Exemptions**

**Religious and Church Exemption**

Article XIII, section 3(f) of the California Constitution exempts from property taxation, buildings, the land on which they are situated, and equipment used exclusively for religious worship. The California Constitution, in section 4 (b) of article XIII, authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes, owned by non-
profit entities. California Constitution article XIII, section 5, provides that the exemption granted under section 3(f) and section 4 (b) can be applied to buildings under construction and required land. Buildings used or under construction and intended to be used exclusively for religious worship, are eligible for exemption.

The church exemption, described in section 206, may be claimed on property that is owned, leased, or rented by a religious organization and used exclusively for religious worship services. The church exemption is available for buildings, the land on which they are situated, equipment used exclusively for religious worship, and the property owned by or leased to a church and used for church parking, as of 12:01 a.m., January 1 (lien date) annually. The religious exemption described in section 207 may be claimed on property owned by a religious organization and used exclusively for religious worship or for religious worship and preschool, nursery school, or parochial school activities.

Section 271 provides that property acquired on or after the lien date, either by an existing or newly formed qualified organization, may be eligible for exemption provided a qualifying use or preparation for a qualifying use (construction, painting, remodeling, etc.) commences immediately after acquisition, and the building is thereafter completed and used for exempt purposes and activities.

Processing Religious and Church Exemptions

The assessor classifies properties qualifying for the religious exemption as either “religious” or “church.” The assessor’s distinction between these two classifications is that “religious” properties are occupied by large, traditional, religious institutions, while “church” properties are used by smaller, lower-profile organizations.

Owners of “religious” properties are initially required to file an exemption application. After that first filing, owners only need to submit annual statements certifying that their property still qualifies for the exemption.

The assessor requires certain claimants to file church exemption applications annually, and conducts more frequent field inspections on these properties. Required exemption applications and annual re-certification forms are maintained for all properties; periodic interviews and field checks are conducted to confirm the status of lower-profile religious organizations.

Religious and Church Exemption Findings

Our review indicates that the assessor’s Religious and Church Exemption program is well organized, effectively run, and generally complies with the Revenue and Taxation Code.

Low-Value Exemption

Section 155.20 authorizes a county board of supervisors to exempt from property taxation all real property with a base year value and personal property with a full value so low that, if not exempt,
the total amount collected in taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine the level at which the costs of processing assessments and collecting taxes exceed the funds collected. Section 155.20 provides that the applicable base year value or full value to be exempted may not exceed $5,000, except for certain taxable possessory interests.

In 1983, the Sonoma County Board of Supervisors adopted a resolution that exempted from ad valorem taxation all real property with a base year value of $1,500 or less and all personal property with a full value of $1,500 or less. The resolution excluded real and personal property described in section 52. In 1988, the Board of supervisors elected to continue the low value exemption for succeeding fiscal years.

For the 1998-99 assessment roll, 4,896 secured properties and 6,454 unsecured properties were exempt from ad valorem taxation due to the low value resolution. The assessor appropriately exempts properties that are below the low value threshold established by the board, treating all classes of real and personal property equitably. However, there is a conflicting policy implemented by county counsel.

Billing Agreement for Special Assessments

In a memorandum dated April 16, 1997, the Sonoma County Counsel issued an opinion that allowed the county to collect special assessments on properties that would otherwise be tax-exempt under the low value exemption resolution. Counsel stated “[T]he city or district is authorized to impose charges on non-taxable property, it does not appear inappropriate for the county, by agreement with the city or district . . . to initially bill the charge through the tax system.” Counsel also concluded that the county may charge the districts for costs associated with the bills they issue, and its responsibilities can be limited to processing and mailing the bills, leaving the collection of delinquent accounts to the districts. The memorandum provided that the county is not obligated to collect charges for properties not subject to tax due to a low value exemption because the county would not ordinarily generate a tax bill for these parcels.

As a result of this memorandum, Sonoma County entered into billing agreements with some county departments and districts (city, zone, improvement, and school) for special assessments. The tax collector then processed tax bills solely to collect the special assessments for approximately half of the properties in the county that would not otherwise have received tax bills because these properties were exempt due to low value. While County Code 2611.4 specifies that tax bills under $20 need not be sent, the tax collector lowered the threshold to $10.
REAL PROPERTY VALUATION AND ASSESSMENT

The assessor’s programs for assessing real property include the following elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government owned land.
- Annual review of properties with assessments authorized by Section 2(b) of article XIII A of the California Constitution. These are properties with market values less than their factored base year value.

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation, unless there is a change in ownership or new construction.

Change in Ownership

Section 60 defines a change in ownership as the 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 interest. As the definition indicates, the test for change in ownership is a three-way test. In order to qualify as a change in ownership, a transfer of ownership of real property must transfer a present interest in real property, as well as the right to beneficial use of the property, and the value of the property transferred must be substantially equivalent to the fee value of the property. One of the assessor’s main duties is to identify and value properties that have changed ownership.

Article XIII A of the California Constitution requires that real property be assessed at the lower of current market value or factored base year value. The assessed value on the 1975 lien date or a value that results from a change in ownership or new construction is referred to as a base year value. The base year value is adjusted annually to reflect inflation as measured by the California Consumer Price Index; however, the inflation factor cannot exceed 2 percent. This compounded or indexed value is known as the factored base year value.

Discovery

The Sonoma County Recorder’s Office is the main source of information by which the assessor discovers properties for which a change in ownership has occurred. The Sonoma County Recorder’s Office annually records 25,000 to 35,000 documents. A Preliminary Change in Ownership Report (PCOR) accompanies the majority of recorded transfer documents. A service company forwards a copy of all recorded documents (including birth certificates) from the
recorder to the assessor. Currently, the assessor receives the information within two to three weeks of the recording date.

Processing

The Sonoma County Assessor processed 11,312 changes in ownership for the 1998-99 assessment roll. When a transfer document is recorded without a PCOR, the assessor sends a Change in Ownership Statement (COS) form to the owner. A COS is also sent when there is insufficient or incomplete information on the PCOR. The assessor mails approximately 12 to 15 Change in Ownership Statements each month, and of those sent, only two or three per month are not returned. A transfer analyst reviews each recorded document and forwards those indicating a change in ownership to the appraisal section. The property assessment record and PCOR/COS are sent to the appraiser assigned to the area in which the property is located. The appraiser determines the base value of the property and forwards the value to the clerical staff for enrollment.

Direct Enrollment Program

Since the conversion of the assessor’s computer system to the Megabyte system, the assessor has implemented a pilot program for direct enrollment in the Rohnert Park area. Currently, only single family residential properties, with transfer deeds accompanied by a PCOR, are eligible for direct enrollment. The appraiser responsible for this area receives a printout of sales designated for direct enrollment, for review. The direct enrollment program is well administered; controls are in place to prevent properties that do not meet the criteria established by the assessor from being enrolled. In the near future, the assessor hopes to expand this program to include more areas.

Current Findings

Our prior survey recommended that the assessor discontinue using change in ownership statements as the source of information for the two-year transfer listing. In our review, we found that the assessor now uses only confirmed sale prices and sale prices computed from transfer stamps. We commend the assessor for implementing our recommendation.

In our current survey, we reviewed 158 properties with a new base year value resulting from a change in ownership. Thirty-five of these were included in the assessor’s direct enrollment program. Our review disclosed that several appraisal files contained information indicating the sale price might not have represented market value. In all cases, however, the sale price was enrolled as market value even though the files lacked information to support the sale price as market value.

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6 An information services software company
RECOMMENDATION 11: Improve the process of valuing properties resulting from changes in ownership by ensuring that sufficient documentation is in the appraisal file to support market value conclusions.

A competent appraisal is supported by market data. It is important to have relevant and sufficient information to support a conclusion of market value. We cite three examples of appraisals for which the file contained insufficient information regarding market value, or information supporting a value other than sale price.

In the first instance, the appraiser accepted the sale price of $87,000 as market value for a 2,518 square foot single family residence. The appraiser allocated $80,000 to the land and the remaining $7,000 to the improvements. At the time of the transfer, the property was bank-owned and the Multiple Listing Service (MLS) printout stated that the residence was a “major fixer.” The Preliminary Change in Ownership form indicated the house was in poor condition. There was no information in the property file to indicate that the appraiser viewed the property at the time of transfer, or had attempted to confirm its condition or the repairs needed. This same property changed ownership one year later for $186,000. Five months after the property sold for $87,000, it was listed on the MLS for $190,000, stating it was “remodeled with new roof, paint, appliances and floor coverings.” The information, or lack of information contained in the file, indicates that either the original sale price of $87,000 was not market value, or there may have been considerable new construction that escaped assessment.

In the second instance, the appraisal file for an office building, which sold for $700,000, contained information indicating the sale price might have been below market value. The appraiser enrolled the sale price as market value, despite analysis in the property appraisal file indicating higher square foot prices for comparable sales. The indicated sale price for the subject property was $56.45 per square foot. Comparable sales used by the appraiser in the property appraisal file ranged from $71.67 to $87.45 per square foot. In the income approach, market rent was $1.25 per square foot. The appraiser reduced the value per square foot by 20 percent and the market rent by 25 percent, citing the condition of the property and its obsolescence. There was no indication in the file that the appraiser viewed the property or confirmed the subject rents. The value determined using comparable sales and income approach reflecting the above-mentioned adjustments reconciled to the sale price. The appraisal file did not contain data supporting value adjustments.

In another instance, the appraisal file of an office condo, which sold for $240,000, with no money down, contained information indicating the sale price might not have represented market value. The condo was purchased with no money down and a balloon payment due in three years for $240,000, and financed at a market rate by an unknown person or institution. Prior to the sale, the subject property was assessed at current market value for $310,000, which was less than its factored base year value. The appraiser based the 97/98 assessed value on the income approach, using a market rent of $0.95 per square foot, 5 percent vacancy and collection factor, 10 percent expenses and an overall capitalization rate of 9.5 percent. One year later, when the property sold in December 1997, the same appraiser used rent of $0.80 per square foot, a 5 percent vacancy
and collection factor, 15 percent expenses and an overall capitalization rate of 10.5 percent. The resulting value, using the income approach, was equal to the sale price. Circumstances regarding the choice of market income, expenses, and overall capitalization rate were not documented in the file.

Developing a program of review, along with thorough documentation, will help ensure market value conclusions are reasonable and well-supported. Implementing these recommendations will produce complete appraisal records useful in appeal proceedings, data collection, and in responding to taxpayer inquires.

**New Construction**

Assessors are required to establish a base year value for newly constructed real property as of the date of completion of new construction. Section 71 and Property Tax Rule 463(d) provide that new construction in progress on a lien date is assessable on such lien date and shall be appraised at its full value on each lien date thereafter until complete. Section 70 and Property Tax Rule 463 define the meaning of “newly constructed” and “new construction.” Common types of new construction for improvements are new buildings and related structures, square footage additions to existing structures, finishing previously unfinished areas such as attics or garages, pools, and patios. Common types of new construction for land are retaining walls, grading, land fill, and altering vacant land for the purpose of development.

The process of discovery, inventory, and valuation of new construction is an important and significant portion of the assessor’s workload. The assessor has a computerized system that tracks new construction projects. When new construction is completed a base year value is established for the newly constructed portion of the property.

**Implementation of Prior Survey Recommendations**

The assessor implemented our prior survey recommendations that a more concerted effort be made to assess all qualifying new construction, request all issuing agencies send all permits to the assessor, and increase the use of historical cost data in valuation of new construction. Receiving all building permits has enabled the assessor to better control the permit program and make more accurate decisions concerning which construction activity warrants reappraisal. Gathering and considering historical cost data is necessary to properly assess new construction at market value.

Despite our prior recommendation, the assessor has continued the practice of allowing building permits valued at less than $5,000 to be discarded (with some exceptions) without review, and therefore not be considered for assessment. Many of these permits may represent activity that does not qualify as new construction (e.g., maintenance, repair, re-roofing, replacement siding, etc). However, discarding them before determining if the activity qualifies as new construction could result in taxable property escaping assessment.
Discovery

Building permits are the primary source for discovering new construction in Sonoma County. These permits are issued by the County of Sonoma and the city planning departments of Cloverdale, Healdsburg, Petaluma, Santa Rosa, Sebastopol, Sonoma, Rohnert Park, Cotati, and Windsor. New construction is also discovered during appraisal staff field checks. Information reported on the business property statement can also be a means of discovering new construction.

Permit Processing

The assessor receives copies of all building permits from issuing agencies. Upon receipt, permits are routed to an appraiser aide for review and “culling.” Culling is the process of identifying and discarding permits that do not qualify as a new construction. Permits that are typically discarded include re-roofing, electrical, plumbing, mechanical, signs, fences, siding, repair, air conditioning, heating, back flow devices, landscaping, and permits under $5,000.

Permits that qualify as new construction are then entered into the computerized workload monitoring system. Information input includes assessment number, issuing agency code, permit number, issue date, estimated cost, document code, code for self reporting letter, permit type, and comments regarding the type of work involved. After the information is entered, an “Appraisal Control Record” (worksheet for value update) and “Property Owner’s Statement of New Construction” (self-reporting letter) are generated.

Information on construction activity, such as owner reporting, completion dates, and values, is entered into the computerized new construction system as it becomes available. Data input for new construction is coordinated with other items to be worked (e.g., changes of ownership) to create a master document to monitor the entire workload for each roll year.

Self-Reporting

The assessor has a “self-reporting” new construction program in place in which questionnaires are sent to permit holders. Questionnaires are not sent to owners of commercial properties, manufactured homes, or properties issued permits for sewage disposal, wells, or foundations. When new construction questionnaires are returned to the assessor, the response is entered into the computerized workload monitoring system.

Valuation

Proper valuation of new construction means estimating the full value of the qualifying new construction, as of the date of completion or, if the construction is in progress, as of the lien date. The Sonoma County Assessor uses the costs published in Assessors’ Handbook Section 531, Residential Building Costs, for rural and residential properties. The assessor requests builders or owners of newly constructed custom homes to complete cost questionnaires. For commercial properties, the assessor uses market costs. Contract costs are collected and cost questionnaires required on all new commercial structures.
The assessor’s new construction program is well coordinated and the procedures are well documented. However, the system could be improved.

Policies and Procedures for Discarding Permits

The assessor has limited written procedures to identify permits for entry into the automated scheduling system. Those procedures require permits to be discarded (not entered) if the stated value is under $5,000, or the permit is for electrical, plumbing, mechanical, signs, fences, siding, repair, A/C, heating, back flow devices, and landscaping.

The appraisal personnel currently responsible for reviewing permits appear to have a clear understanding of the decision-making process for discarding permits. Staff uses notes based on experience to assist in determining which permits should be entered into the monitoring system. Establishing a procedure to provide additional guidance on which permits to include in the new construction monitoring system, and which permits to discard, is important. Staff or workloads may change, and improper understanding may result in escaped assessments. Since current staff is very knowledgeable regarding “culling,” we suggest the assessor incorporate the staff’s guidelines or notes into the assessor’s policies and procedures manual.

**RECOMMENDATION 12:** Improve the new construction assessment program by more closely reviewing permits with stated values below $5,000.

Arbitrary value limits for discarding permits, based solely on dollar amounts, could result in construction activity, such as a small addition to a kitchen, dining area or bathroom, that qualifies as a new construction, escaping assessment. Each permit, regardless of dollar amount, should be reviewed to determine the type of construction activity. We recommend that the assessor discontinue the practice of discarding permits with construction cost estimates less than $5,000.

**Declines in Value**

Section 51 requires that real property valued pursuant to article XIII A be assessed annually at the lower of factored base year value, or current market value as defined in section 110. When a property’s current market value declines below its factored base year value, for any reason, the lower value must be enrolled as the taxable value for the years of decline.

For the 1998-99 roll, there were 14,544 parcels on the Sonoma County assessment roll with assessed values below their factored base year values. This represents approximately 8 percent of all properties assessed on the secured roll.

The Sonoma County Assessor has an extensive program for identifying, recognizing and monitoring properties with market values below factored base year value. The procedures for determining the assessed value for such properties are clearly stated in the assessor’s policies and procedures manual. Currently the assessor is developing a program of regression analysis for use in evaluating upward trends in values in order to restore factored base year values for identified properties.
Discovery

The assessor uses a variety of methods to identify properties with a market value less than factored base year value. He has issued press releases to inform taxpayers of their rights and the actions required to avail themselves of those rights. Office procedures have been simplified to allow initiation of a review based on a property owner’s telephone or in-person request.

An extensive portion of the assessor’s policies and procedures manual is dedicated to specific practices and procedures related to declines in value.

Appraisers continually monitor trends in their assigned geographic areas to identify those locations where values are declining. We commend the assessor for actively seeking to identify properties that have declined in value, rather than waiting for those declines in property value to be brought to his attention by the property owners.

Recognizing Declines in Value

When a property is assessed at its current market value due to a decline in value, the resulting assessment is commonly referred to as a “Prop. 8” value.

The assessor has implemented a program to recognize declines in value on all properties in a neighborhood, based on sales activity. The program is designed to allow appraisers to review designated neighborhoods and consistently develop market values for individual properties.

A report listing property characteristics, current values, and the last event date for all parcels within a neighborhood is generated and analyzed. The assessor’s program allows an appraiser to review all or a portion of the properties within a given area, grouped by base year. This system allows the appraiser to enroll a taxable value that is less than factored base year value without a taxpayer request. The report itself acts as the value input document.

In addition to recognizing declines in value based on sales activity, the assessor has not applied the annual inflation factor to properties that changed ownership after March 1, 1989, beginning with the 1995-96 assessment roll. We also found that properties subject to annual inflationary factor blocking do not contain supporting documentation in the file.

Individual properties are evaluated for declines in value using the assessor's sales search program. The program’s format is designed to show sales information to support a value conclusion, compare current market value to factored base year value, and make a decline in value determination.

Monitoring

Taxable values recognizing that the current market value of a property has fallen below its factored base year value are temporary. Once such a value has been enrolled, a property’s taxable value must be annually reviewed to determine whether its current market value on the lien date is
less than its factored base year value. The property must be annually reviewed until its current market value exceeds the factored base year level.

Monitoring differences between current market values and factored base year values is a major concern of the Sonoma County Assessor. For the 1998-99 roll, 14,544 parcels were monitored as property with a market value less than factored base year value. The factored base year values, market value, and taxable value for these properties are maintained in a computer database. Each parcel is reviewed annually and either scheduled for continued review or restored to the factored base year value.

Documentation

The assessor's policies and procedures manual provides that appraisal records should reference the comparable properties used. However, our review of individual records disclosed that this procedure is not being practiced consistently.

**RECOMMENDATION 13:** Include documentation supporting the assessed value for all properties with an assessed value less than their factored base year values.

Our review disclosed that assessment records often did not contain a list of the comparable properties used to arrive at market value conclusions. We found that assessment records contained adequate documentation to support taxable values less than factored base year value for the year the property first received the reduction. However, there was a lack of supporting documentation for reviews of subsequent years for these taxable values. This lack of documentation makes it difficult to determine each property's base year and factored base year value, and makes doubtful the propriety of value conclusions. The lack of supporting evidence could lead to unsupportable values, and possibly, inaccurate assessments.

Listing of sales of comparable properties may support an appraiser's value conclusion. Supporting documentation could include the printout from the assessor’s database of comparable properties. We recommend that the assessor document the supporting data for each assessed value conclusion in the assessment record.

**Supplemental Assessments**

Whenever a change in ownership or new construction occurs, section 75 et seq. requires the assessor to appraise the property at its full cash value, on the date the property changed ownership or new construction was completed, and issue a supplemental assessment. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated assessment (the supplemental assessment) that covers the portion of the fiscal year remaining after the date of change in ownership or completed new construction.

We reviewed the Sonoma County Assessor’s procedures for compliance with the Revenue and Taxation Code sections relating to supplemental assessments. The assessor’s policy is to issue
supplemental assessments whenever there is a change in ownership or completion of new construction. The supplemental assessment process is also used for re-enrollment of a factored base year value for property damaged by misfortune or calamity, as provided in section 170. Supplemental assessments are processed and computer-generated approximately one week after the appraisal staff has completed a value change. The values are then posted to the supplemental roll. It is the Sonoma County Assessor’s policy to issue supplemental assessment notices, including those with zero values, to all property owners. Our review found the assessor’s supplemental assessment processing program to be current and reflect accurate value calculations. Supplemental assessments are properly calculated and promptly enrolled. However, there are two areas needing improvement.

**RECOMMENDATION 14:** Revise the supplemental assessment program by issuing supplemental assessments for all low value taxable possessory interests.

Section 75.55(b) allows a board of supervisors to adopt an ordinance authorizing the assessor to cancel supplemental assessments that would result in a tax liability less than the cost of assessing and collecting those taxes. In no event shall any supplemental assessment be canceled pursuant to this subdivision if the amount of taxes resulting from the supplemental assessment exceeds $20, or $50 in the case of eligible manufactured home accessories. At the time of our current survey, the Sonoma County Board of Supervisors had not adopted such an ordinance.

In our prior survey, we recommended that the assessor issue supplemental assessments for all taxable possessory interest assessments. We find, however, that the assessor does not issue supplemental assessments for taxable possessory interests if the tax revenue is less than $20. Examples of such taxable possessory interests are taxable possessory interests in marina berths, airport tie-downs, and fair concessionaires.

We recommend the assessor issue supplemental assessments on all taxable possessory interests, unless the board of supervisors adopts an ordinance consistent with section 75.55 directing the assessor not to issue certain supplemental assessments.

**RECOMMENDATION 15:** Review classification practices for leasehold improvements.

In our prior survey, we recommended that supplemental assessments be enrolled for leasehold improvements assessed on the unsecured assessment roll. We find, however, that the assessor does not issue supplemental assessments for leasehold improvements on the unsecured assessment roll.

The assessor’s real property appraisal section is responsible for valuing and enrolling leasehold improvements; this section determines the roll on which the property should be assessed. When the real property appraisal staff determines that leasehold improvements should be assessed on the unsecured assessment roll, the leasehold improvements are enrolled to the same account as the tenant’s business personal property assessment. When the real property appraisal staff
determines that leasehold improvements should be enrolled on the secured assessment roll, the
leasehold improvements are enrolled to the property’s parcel number.

The assessor is properly issuing supplemental assessments for leasehold improvements assessed
on the secured assessment roll; however, the assessor does not issue supplemental assessments
for leasehold improvements assessed on the unsecured roll. Supplemental assessments are
required for all locally assessed real property, except fixtures ordinarily valued as a separate
appraisal unit, and manufactured homes that have undergone a change in ownership or completed
new construction.

In effect, the assessor classifies all leasehold improvements assessed on the unsecured
assessment roll as a fixture exempt from supplemental assessment, as authorized by section 75.5.
It seems unlikely that all leasehold improvements assessed on the unsecured assessment roll
would be fixtures exempt from supplemental assessment. We recommend the assessor review his
staff’s classification practices for structure improvements and fixture improvements.

**California Land Conservation Act**

An agricultural preserve is established by contract between a landowner and a city or county,
pursuant to the California Land Conservation Act of 1965 (CLCA). Lands under contract are
valued for property tax purposes on the basis of agricultural income-producing ability, including
any compatible use income (e.g., hunting rights, communications facilities, etc.). They are
assessed at the lowest of this restricted value, the current market value, or the factored base year
value, as defined in Article XIII A of the California Constitution. Sections 422 through 430.5
prescribe the guidelines for assessing lands subject to agricultural preserve contracts.

As of the 1998-99 lien date, Sonoma County had 290,745 acres encumbered by CLCA contracts,
covering 2,476 parcels. CLCA properties are a significant part of the assessment roll; they
represent 29 percent of the county’s total acreage. The agricultural property assessment section,
led by the supervising rural appraiser, is responsible for valuing CLCA properties. The CLCA
values are computed annually by a computerized valuation program.

We reviewed the assessor’s CLCA program for adherence to statutory mandates and uniform
treatment of taxpayers. Improvements to the CLCA program have been made since our last
survey; however, conditions involving income estimates and tax relief under section 423.3 need
improvement.

**Valuation**

Agricultural preserve property encumbered by a CLCA contract is assessed on the basis of its
agricultural income-producing ability, including any compatible use income.
RECOMMENDATION 16: Revise procedures for valuing California Land Conservation Act (CLCA) properties by periodically updating market information.

Our prior survey recommended that the assessor update market information periodically. We find that the assessor continues to conduct surveys to collect this data every other year for tree and vine properties, and every fourth year for grazing and all other lands. There is some interim updating of this information, by way of telephone interviews with certain local growers and the County Agricultural Commissioner’s office.

Section 423(a) sets the fundamental criteria for the determination of the income to be capitalized. It provides that the income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in an area of similar land, in similar use. The assessor’s practice of collecting market data every other year for tree and vine properties, and every fourth year for grazing and all other lands, is insufficient to ensure that the data used to value CLCA properties represents current market data. Failure to collect current market data can result in the use of income estimates that do not reflect market value, and in incorrect assessments for CLCA properties. We recommend that the assessor develop market income for agricultural property types, by collecting annual market data.

Tree and Vine Income Streams

RECOMMENDATION 17: Revise procedures for valuing CLCA properties by capitalizing tree and vine income streams based on other than a straight-line declining income premise.

Our prior two survey reports (1989 and 1995) recommended that the assessor project future net operating income for orchards and/or vineyards, based on a premise other than straight line declining net operating income. We find that the assessor continues to use a straight line declining net operating income premise when appraising orchards and/or vineyards.

The straight line declining net operating income premise assumes that net income declines in equal amounts each year during the orchard or vineyard’s productive life. Typically, the net operating income for orchards and/or vineyards does not exhibit this pattern. A more representative net operating income pattern for orchards and/or vineyards is a three-part curve reflecting inclining production in early years, level production at maturity, then a short period of declining production (assuming the trees or vines were not removed at the onset of declining production).

Failure to recognize the appropriate pattern of the future net operating income may result in the improper valuation of trees and/or vines. The assessor should project future net operating income in the same pattern as a seller and a buyer.

Income patterns and appropriate methods for valuing orchards and vineyards are discussed in Assessors’ Handbook Section 521A, Assessment of Agricultural and Open-Space Properties. We
recommend that the assessor use an income capitalization premise appropriate to the pattern of the future net operating income when valuing vineyards and orchards.

Compatible Use Income

**RECOMMENDATION 18:** Revise procedures for valuing CLCA properties by identifying and valuing income from compatible uses.

Our prior two surveys recommended that income from compatible uses be considered when valuing orchards and vineyards. Our review disclosed that the assessor has implemented a procedure for obtaining income information from compatible uses; however, the outcome of these efforts could be improved by providing examples of compatible uses.

In an effort to discover compatible use income when valuing CLCA properties, the assessor requests owners of CLCA properties to complete information questionnaires (form letter SCAO 057/10-96, back). These CLCA property questionnaires include a section requesting information on leased or rented portions of the property. The wording in this section of the questionnaire is too general in that it does not effectively discuss compatible uses. Citing examples such as hunting rights, mineral or gas exploration rights, microwave antenna, or radio tower site leases, could lead property owners to offer information they had not previously considered as relevant.

We recommend that the assessor identify and include all compatible use income in the income to be capitalized, when determining the value of CLCA properties.

**Tax Relief under Section 423.3**

Section 423.3 defines four categories of land restricted by CLCA and allows a city or county to limit assessments of land in each category to a value no higher than a specified percentage of the property’s factored base year value. It provides property owners some tax relief in situations where their property’s factored base year value is less than the CLCA value.

The Sonoma County Board of Supervisors, on February 24, 1987, adopted resolution 87-0343, directing the assessor to implement section 423.3. When applying the provisions of section 423.3, the Sonoma County Assessor uses the method set forth in section 423.3, subdivision (b), which states:

Land specified in subdivision (c) of Section 16142 of the Government Code shall be assessed at the value determined as provided in Section 423, but not to exceed a uniformly applied percentage of its base year value pursuant to Section 110.1, adjusted to reflect the percentage change in the cost of living not to exceed 2 percent per year. In no event shall that percentage be less than 75 percent.
Allocation

RECOMMENDATION 19: Revise the procedures for implementing section 423.3 by allocating the assessed value between land and improvements using generally accepted appraisal methods.

The assessor directs his staff to use the method set forth in subdivision (b) when applying the provisions of that section. The assessor has determined the most appropriate use of section 423.3(b) is to apply the 75 percent factor only to restricted land and growing improvements of the total property assessment, when the factored base year value is less than the CLCA value.

Section 607 requires that land and improvements be separately assessed. Currently, the assessor computes the restricted land value as a percentage of the factored base year land value. When the restricted value is less than 75 percent of the factored base year land value, the restricted land value is enrolled. The assessor then subtracts the portion allocated for land from 75 percent of the total factored base year value for land and growing improvements, to arrive at a residual value for the growing improvements. When the restricted land value is greater than 75 percent of the factored base year land value, the assessor enrolls 75 percent of the factored base year values for land and growing improvements.

Although the assessor’s method of computation for allocating land and improvements, when restricted value is less than 75 percent of the factored base year value, enrolls the proper total value, it does not comply with the statutes or the board of supervisors’ contract with the land owner. The statute and contract require taxable value to be limited to a defined percentage of the factored base year value of land/improvements. The technique used by the assessor will not, in all instances, result in taxable values of the different classes of property that meet that requirement.

The weakness is in the allocation of total value to land and growing improvements. The proper method is to calculate 75 percent of factored base year value separately for each of the land and growing improvements. We recommend the assessor use this method in all instances when assessments are the result of section 423.3. This change will enroll the same total values and bring the assessor into conformity in valuation of all similar assessment types.

Board of Supervisors Approval

RECOMMENDATION 20: Comply with board of supervisor’s resolution 87-0343 by submitting enabling resolutions or ordinances for the board of supervisors’ approval.

County resolution #87-0343 incorporates the use of section 423.3 into the administration of the county’s CLCA properties. It instructs that such ordinances and resolutions as shall be necessary to implement resolution 87-0343 shall be prepared and submitted to the board of supervisors for adoption.
Our search of documentation in the offices of the county counsel and the clerk of the board of supervisors did not verify completion of the requirements of resolution number 87-0343. Our review further disclosed that there has been no follow up resolution or ordinance submitted to or passed by the board of supervisors to authorize the assessor’s implementation of section 423.3 under section 423.3 (b). As a result, the assessor’s staff interprets and implements section 423.3 without the complete authority of the Sonoma County Board of Supervisors.

We recommend the assessor submit appropriate resolutions authorizing the use of section 423.3 (b), as currently being implemented.

Subsequent to the date of this survey, on September 22, 1998, the Governor approved Senate Bill 1362, which amended section 423.3. Former subdivision (b) of section 423.3 is now subdivision (a). It would be appropriate, at this time, to incorporate the changes to section 423.3 into the assessor’s policies and procedures manual, as well as the resolution(s) or ordinance(s) required to fully implement resolution 87-0343.

**Timberland Production Zones**

Land zoned as timberland production zone (TPZ) can be used only for growing and harvesting timber, and for certain other compatible uses as defined by law. There are 372 parcels, totaling 77,832 acres, of TPZ land in Sonoma County. The total 1996 timber harvest was 32,698,000 board feet, valued at $14,060,000. Sonoma County has some properties that are both zoned TPZ and restricted with California Land Conservation Act contracts.

**Valuation**

The statutory provisions for valuation of timberland and timber are set forth in sections 431 through 437. Sections 421 through 428 provide for the valuation of open space land subject to an enforceable restriction. Section 423.9 requires that land zoned as Timberland Production Zone (TPZ), and not under California Land Conservation Act contract, be assessed based on the special TPZ site classifications contained in section 434.5 that exclude the value of the standing timber.

For the properties in Sonoma County that are zoned TPZ and also have an enforceable restriction with CLCA contracts, the assessor uses a blended valuation technique. That technique assesses the timber-producing land, using the site values expressed in section 434.5. To this value, the assessor adds the CLCA capitalization of income value specified in section 423, for the remainder of the parcel that is not timberland. The assessor’s method of valuation for these properties is in compliance with the sections governing assessment of CLCA properties and those sections governing assessment of TPZ properties.

**Appraisal Records**

Government Code section 51120 requires that a parcel be valued pursuant to section 426 when a TPZ parcel is rezoned. Section 426 provides that, if a restriction is terminated, the land value
shall be determined pursuant to section 110.1, or section 110 in the case land is not subject to 110.1, when the restriction expires. Therefore, it is important for the assessor to maintain base year value data, since the unrestricted property is to be assessed at the lower of factored base year value or current market value.

**RECOMMENDATION 21:** Record the base year values on Timberland Production Zone parcel records.

The assessor’s appraisal records are often difficult to understand, especially in the area of base year and base year value. This deficiency is especially evident when the parcel has TPZ computations. Examples we reviewed had different calculations on each of the two computation worksheets for the same factored base year items.

When evaluating the property for change of ownership, the assessor should clearly indicate the market value of the total property and allocate between its individual components (e.g. land, improvements, home site, etc.) on the property file. This would maintain consistency in record keeping, as the TPZ properties are the only real property files that do not currently have base year and factored base year value available in the assessor’s computer system. This will assist in calculating a proper base year value required by section 426, when a property is withdrawn from a TPZ zone. We recommend recording the base year value on all Timberland Production Zone parcels.

Compatible, Nonexclusive Use

Section 435 requires that the assessor use, as the value of each parcel of timberland, the appropriate site value described in section 434.5, plus the value, if any, attributable to existing, compatible, nonexclusive uses of the land.

**RECOMMENDATION 22:** Send income questionnaires to all TPZ parcel owners.

Our research disclosed that permitted uses, such as home sites and cabins, are being assessed, but there has been no systematic canvassing of TPZ landowners to determine whether other compatible uses exist. These uses may include hunting, grazing, camping, and mining, among others. The value of these compatible uses must be annually determined and added to the site class values of the timberland.

We recommend the assessor send income questionnaires to all TPZ owners to determine whether owners are receiving income from compatible uses of the property, and include the value of this income in the value of the TPZ property.

**Government-Owned Properties**

Section 3 of article XIII of the California Constitution exempts from taxation any property owned by local governments. However, section 11 of that article provides that land and the improvements thereon, located outside the boundaries of the agency, are taxable if the property
was subject to taxation at the time of acquisition. The provisions of article XIII A of the Constitution were deemed to be applicable to taxable government-owned property by the California Supreme Court in 1995.

The assessed value for taxable government-owned land is the lowest of (1) the 1967 assessed value adjusted by the appropriate section 11 factor (supplied annually by the BOE), (2) the current fair market value, or (3) the article XIII A factored base year value. Taxable government-owned improvements should be assessed at the lower of (1) current market value, (2) factored base year value, or (3) the highest full value ever used for taxation of the improvements.

Identification

The assessor maintains a list of 57 section 11 properties that are owned by 12 government agencies. Identification of section 11 properties is accomplished by comparing the parcel tax-rate area codes against the tax-rate area index. The transfer department also notifies the staff of any applicable change of ownership.

In our prior survey, we recommended that all taxable government-owned properties be identified and assessed. At that time, we found six parcels of land owned by city agencies and described as “non-taxable” with tax rate area codes indicating the properties were located outside of the city boundaries.

RECOMMENDATION 23: Revise the valuation and assessment of government-owned properties by identifying and assessing all taxable government-owned property.

In our current survey, we reviewed the assessor's list of all government-owned properties. Government-owned properties or parcels are identified by taxability code “034.” We compared the properties with taxability code “034” to those listed on the assessor’s list of section 11 properties. We found ten properties identified with the taxability code “034” that did not appear on the assessor’s list of section 11 properties. Additionally, eight properties on the assessor’s section 11 list were not listed on the “taxability code 034” parcel list.

Both of the conditions we found indicate possible problems with the assessor’s procedures for identification of government-owned land and subsequently, the land’s taxable status.

We recommend the assessor analyze and annually compare the listing of section 11 properties and the taxability code 034 listing of government-owned properties, to ensure that all taxable government-owned properties are correctly identified and assessed.
Zero Values

RECOMMENDATION 24: Review the policy of assigning zero values to taxable government-owned property.

In the prior survey we found two properties that were city-owned, but located outside the city boundaries and enrolled with zero values. The assessor contended that, because these parcels were being used as access roads to surrounding properties, any value associated with these parcels was intrinsic to the surrounding properties. It is the BOE’s contention that, while these properties may benefit from the access roads, the land that comprised the roads also has value.

During our current survey, we discovered another parcel of taxable government-owned land enrolled with a zero value. The assessor’s premise for enrolling a zero value for this property is that the property is a land-locked parcel of land. In California no parcel of land can be legally land-locked, unless such a condition is expressed in the deed. We saw no indication that the deed so stated. Absent such a deed condition, each property has at least a right of easement by necessity to the closest public road. Regardless of the property’s location or poor accessibility, the land has some market value and that value should be enrolled. We recommend reviewing the policy of assigning a zero value to these properties.

Consider Factored Base Year Value

RECOMMENDATION 25: When determining taxable value for government-owned property, consider the property’s factored base year value.

In valuing taxable government-owned land, the assessor compares the property’s section 11 value to the property’s market value, and enrolls the lower of these two values. The section 11 value is calculated by multiplying the 1967 assessed value by the Phillips Factor, which is supplied annually by the BOE.

In our review of appraisal records we found that the assessor is not considering the property’s factored base year value when deciding the assessed value of taxable government-owned property. Additionally, the appraisal records lacked documentation supporting market value conclusions. The market value appears to be the value established when the government agency acquired the property.

We recommend the assessor annually determine and enroll the lowest of section 11 value, current market value, or factored base year value to comply with statutory provisions.

Policies and Procedures

The assessor’s policies and procedures regarding the valuation of section 11 properties are clearly written and easy to understand. However, the manual has not been updated to reflect current legal requirements for valuing section 11 land.
Currently, a policy in the assessor's policies and procedures manual states that "the fair market value and the Phillips Factor value must be determined and compared in order to arrive at the value to be enrolled." The assessor's policy does not reflect the current requirement to include the factored base year value in determining and enrolling the lowest of market or section 11 values. We recommend the assessor update the policies and procedures manual to reflect current law for the valuation of taxable government-owned property.

**Possessory Interests**

A taxable possessory interest is established when a private right to exclusive use and possession is created in tax exempt, government-owned real property. Important elements in a possessory interest assessment program include the ability to identify the government agencies granting the possessory interest, the holder of the possessory interest, the term of possession, and the economic rent. Section 107 et seq., and Property Tax Rules 20 through 28 define the requirements for possessory interest assessments. The Sonoma County Assessor assesses approximately 800 possessory interests.

**Discovery**

Assessors have four primary sources for discovering possessory interests: reports from government agencies, field inspections, recorded leases, and agreements. Every lien date, the assessor sends a summary of the prior year’s assessments to each of the 38 government agencies in Sonoma County that report possessory interests. From that information, the assessor asks those agencies to update the records and to add any new users of real property. For new possessory interests, the assessor requests that the agencies send a copy of the lease or license agreement, which states the details of the interest held, the term, a description of the leased property, and the lease amount. Typically, government agencies are cooperative and responsive. However, agencies that do not respond are sent a second request and, if necessary, are contacted by telephone.

**Valuation**

Property Tax Rule 25 provides that a taxable possessory interest may be valued by one or more of the following approaches: comparative sales approach, income approach, or the cost approach. Property Tax Rule 25 requires that, when using the income approach, the “possessory interest be valued either by directly capitalizing all future net income that the possessory interest is capable of generating under typical management during the term of possession, or indirectly by first capitalizing the net income to estimate the value of the possessor’s rights as if perpetual and then deducting the present worth of those rights for the period subsequent to the term of the possessory interest.”

The Sonoma County Assessor values possessory interests using the direct income method. In applying this method, the assessor directly capitalizes the current annual payment into an
indicator of value. Important components in valuing possessory interests are the income to be capitalized, term of possession, and selection of a yield rate.

Findings

We commend the assessor for implementing our prior survey recommendation to revise the policy for determining capitalization rates and not to assess possessory interests in government-owned manufactured homes. However, further improvements to the process for determination of the term of possession and documentation of the process used to determine yield rates are necessary.

Reasonably Anticipated Term of Possession

RECOMMENDATION 26: Use a reasonably anticipated term of possession when assessing taxable possessory interests.

Property Tax Rule 23 requires the assessor to use a reasonably anticipated term of possession, whether that term is shorter or longer than the one specified in the written agreement. The history of the property’s use, the policy of the public agency that administers it, and the intent of both the agency and the possessor, are among the factors that the assessor should consider when estimating a reasonably anticipated term of possession.

In our prior two assessment practice surveys (1989 and 1995), we recommended the assessor use terms of possession that reflect market data. Our review indicates that the assessor continues to use terms of possession shorter than those indicated by available market information.

When valuing possessory interests, the Sonoma County Assessor uses estimated terms of possession substantially less than those indicated by the actual tenancies. For instance, the assessor uses a one-year term of possession for boat berths, and a two-year term for airport tie-downs and hangers. Our review of leases at these facilities indicates that the assessor can support a longer term of possession.

Application of a shorter term of possession results in a significant underassessment. We recommend the assessor review the terms of possession used in the appraisal of possessory interests, using terms that reflect the market.

RECOMMENDATION 27: Improve the taxable possessory interest assessment program by documenting the reason for annual reduction of the term of possession for long-term leases.

During our research, we discovered that the term of possession for a possessory interest with an original 25-year master lease is reduced annually. According to the assessor’s staff, the assessor’s practice of annually reducing the term of possession is to recognize the declining market value for the possessory interest. Although this reduction may be appropriate, the appraisal records did not contain any supporting documentation or remarks justifying the reduction.
We recommend the assessor document the basis for reducing the term of possession used in the appraisal of long-term possessory interests.

Rate Derivation

Property Tax Rule 25(b) requires that, when deriving a capitalization rate used in the income approach, the appraiser shall:

- Extract a rate from sale prices of comparable possessory interests; or
- Extract a rate from sale prices of fee interests in similar properties that are not expected to yield substantially higher incomes after expiration of the possessory interest being valued than during its existence; or
- Derive a rate by combining weighted components for debt and equity yields.

RECOMMENDATION 28: Document the selection of capitalization rates used in the appraisal of taxable possessory interests.

According to the appraisal staff, capitalization rates are reviewed annually to ensure they are applicable for the type of possessory interest being valued. However, our review disclosed that the method of deriving rates was not documented. While the rates may be proper, we recommend that the assessor require his staff to properly document, on the appraisal record, how capitalization rates are derived.

**Leasehold Improvements**

Leasehold (tenant) improvements are improvements on land owned by someone other than the owner of the improvements. Leasehold improvements may be enrolled on either the secured or unsecured assessment roll. Section 405 allows leasehold improvements assessed on the unsecured roll to be assessed to the landowner, the tenant, or both.

Discovery

Leasehold improvements on commercial, industrial, and office properties require constant monitoring by an assessor because the initial assessed value may result from a property being in various stages of construction, from a shell structure to completed building. In addition, as tenants change over time, changes may be made to the original improvements (e.g., converting a warehouse area to office use, constructing additions, demolishing improvements).

The most common means of discovering leasehold improvements is through business property statements and building permits. Taxpayers are required to report structural and land improvement costs on the business property statement. Requiring this reporting supplements the building permit discovery process because many construction items, such as paving and concrete work, may not require a building permit. Additionally, many companies with large facilities perform a number of construction projects each year, which may not be clearly identified by the
building permits. Information on the business property statement can assist the assessor in discovering these items and obtaining acquisition costs.

Coordination

To ensure uniform assessment of similar property, coordination between the business property and real property divisions is essential for assessments of leasehold improvements. Procedures should be designed to ensure that leasehold improvements are valued at the appropriate amount, not assessed to multiple accounts, and that such improvements are assessed to the proper person.

The assessor’s written policy requires the business property staff to send the real property division a copy of each business property statement that contains costs newly reported in the structure, land development, or land improvement categories, and any additional information relating to the costs. A three-part memo transmittal form is to be sent with all referrals, and is required to be included in the appraisal file.

Inflation Factor

**RECOMMENDATION 29:** Improve the leasehold improvement assessment program by applying the correct inflation factor when valuing leasehold improvements.

Section 51 requires an annual inflation factor adjustment to the base year values of real property. The adjustment is based on the annual change in the California Consumer Price Index, and limited to a maximum of two percent per year. In our prior survey we recommended the assessor apply the same inflation factor adjustment to the base year value of real property, without regard to the secured versus unsecured assessment roll status of the assessment.

Our current survey found that the assessor continues to apply different inflation factors for real property assessed on the secured and the unsecured assessment rolls. When preparing the taxable values of real property assessed on the unsecured roll, the assessor applies an inflation factor rounded to two decimal places. When preparing the taxable values of real property assessed on the secured assessment roll, the assessor applies an inflation factor rounded to four decimal places.

This inconsistent practice will result in two properties with identical base year values and base years having different factored base year values (FBYV). The upper limit of taxable value, the FBYV, will be a function of the assessment roll upon which the assessment is placed. There is no statutory authorization for this distinction.

The assessor should use the inflation factor provided by the BOE, which is rounded to four decimal points. This change can be simply accomplished by adjusting the assessor’s existing computer program. We recommend that the same inflation factor be applied to real property assessed on both the secured and the unsecured assessment rolls.
Investigate Reported Information

RECOMMENDATION 30: Investigate reported tenant improvement costs when valuing leasehold improvements.

The assessor relies heavily on information reported on the annual business property statement when deciding whether to classify real property as an assessable structure or fixture item. Taxpayers may make errors on the business property statement when characterizing real property costs as a fixture or a structure cost. Property owners may also report costs for structural improvements when, in fact, the costs were incurred for work that would properly be classified as normal maintenance and repairs, which are not assessable. Also, demolition costs for removal of existing property may be included in the acquisition costs of new property items. Repair and maintenance costs are not assessable property items, and demolition costs may not increase the value of the new property item.

Unless there is an investigation of the reported costs, erroneous assessments may result. We recommend the assessor investigate the taxpayer’s characterization of property items, as reported on the business property statements.

Compliance with Coordination Policies

RECOMMENDATION 31: Ensure that the appraisal staff complies with existing procedures addressing the coordination of tenant improvement assessments.

Although the assessor has implemented a system of coordination between the business property and the real property divisions, for the assessment of tenant improvements, we found inconsistencies in assessments showing that those policies are not always followed. As a result, the assessed values of similar property items, classified as structures, differ according to which group in the assessor’s office prepares the assessment. This causes significantly different assessments for very similar properties. We also found that appropriate referrals for tenant improvements, from the business property division to the real property division, are not always made.

We recommend the assessor ensure that his staff complies with existing policies regarding the coordination of the assessment of tenant improvements.

State-Assessed Properties

Section 19 of article XIII of the California Constitution requires the BOE to assess certain property types, or property owned by entities engaged in certain lines of business. A special effort is required to avoid duplicate assessments when both the state and the county assess property. For the most part, the assessor has accurately identified property assessed by the state, and has not issued assessments for such property. However, we discovered that improvement to the screening process is needed.
**RECOMMENDATION 32:** Develop a process that compares names of state assessees to the assessees names on the local assessment roll to prevent duplicate assessments.

Presently, the assessor assigns a taxability code of “040” to property assessed by the BOE. However, the names of assessees on the local assessment roll are not compared to a list of state assessees. If the assessor’s current practice fails to properly identify a state-assessed property, the assessor must rely on taxpayers to discover property assessed by both the state and the county. Since the tax collector issues tax bills for both state and locally assessed properties, there is a possibility that duplicate assessments may go unnoticed by a taxpayer.

We found one parcel assessed by both the BOE and the county assessor. This property, owned by a public utility, appeared on both the local assessment roll and the state-assessed property roll until it was sold in 1993.

The county should not assess property subject to assessment by the BOE. We recommend that a process be developed to compare the names of persons whose properties are assessed by the state to the names of assessees on the local assessment roll.
PERSONAL PROPERTY VALUATION AND ASSESSMENT

The county assessor’s program for assessing personal property includes the following elements:

- Processing annual business property statements (BPS’s);
- Auditing BPS’s to ensure proper reporting by taxpayers;
- Annual valuation of personal property reported on BPS’s;
- Annual valuation of other taxable property, including vessels, aircraft, and manufactured homes.

The Sonoma County Assessor’s business property division is responsible for annually processing approximately 19,000 business property statements and appraising 11,419 boats and 880 aircraft. The business property division must also appraise a variety of commercial, industrial, and agricultural properties. This program is administered by one supervising auditor-appraiser, seven auditor-appraisers, and three assessment clerks.

Audit Program

The audit program is an important function of an assessor’s business property assessment program. Audits ensure that taxable property has been reported accurately by the taxpayer and assessed properly by the assessor. Audits also allow investigation and resolution of reporting and appraisal problems. A property tax audit is a means of collecting data relevant to determination of taxability, situs, and value of property. Based on the audit findings, the original assessment may be adjusted to reflect the audited values.

Mandatory Audits

Section 469 requires an audit of the books and records, at least once every four years, for assessees owning or possessing tangible business personal property and fixtures with a full value of $300,000 or more. Property Tax Rule 192 clarifies the statute by requiring that the amount specified in section 469 be reached for each of four consecutive lien dates.

The Sonoma County Assessor is responsible for auditing approximately 800 accounts subject to the mandatory audit requirement. Each year the assessor generates a computer listing of accounts attaining values of $300,000 or more for four consecutive years. That list forms the basis for the mandatory audit list.

RECOMMENDATION 33: Bring the mandatory audit program to current status.

Audits should be completed within four years after July 1 of the assessment year for which the property should have been assessed. Our review disclosed that, for each of the past three years,
an average of 18 accounts subject to the mandatory audit requirement has been carried forward from previous years. However, the further removed the audit is from the years being audited, the more difficult it is to obtain the necessary records for audit purposes. We therefore recommend the mandatory audit program be brought to current status.

Vessel and Aircraft Audits

**RECOMMENDATION 34:** Include vessels and aircraft with values of $300,000 and above in the mandatory audit program.

The Sonoma County Assessor does not include aircraft and marine vessels with a full value of $300,000 or more in the mandatory audit program. Seven aircraft valued over $400,000 and three vessels valued over at $300,000 were assessed on the 1998/1999 assessment roll. None of these aircraft or marine vessels has been audited or inspected by the assessor. The mandatory audit requirements apply to aircraft and vessels owned as business tangible personal property. We recommend the assessor identify and audit all business-related aircraft and vessels that are assessed at $300,000 or more.

Non-mandatory Audits

Non-mandatory audits are not required by law, but are authorized by section 470 and Property Tax Rule 192(e). An audit program is not complete unless it includes a representative sampling of all sizes and types of property. Conducting non-mandatory audits is part of a representative sampling. A comprehensive audit program helps identify problems, correct inaccurate assessments, and increase the likelihood that improved reporting by assessees and improved understanding of the property by the assessor will make future assessments more accurate.

**RECOMMENDATION 35:** Develop criteria for selecting non-mandatory audits and incorporate the review of non-mandatory accounts in the audit program.

The Sonoma County Assessor does not routinely audit accounts with assessed values below $300,000. Approximately 95 percent of the business property accounts do not meet the mandatory audit level. As a result, approximately 18,000 business accounts are never audited for property tax purposes.

Reporting deficiencies in these non-mandatory accounts will go undetected unless a problem arises triggering an audit. The audit program would benefit from the identification of accounts needing investigation and the scheduling of an audit.

The assessor should develop criteria for selecting these audits. Examples of audit criteria appropriate for selecting accounts for audit may include identified discrepancies; accounts just below the mandatory audit level; inconsistent, incomplete, or non-filed property statements; and/or selection by type of business. We recommend that the assessor develop criteria to identify
accounts for non-mandatory audits and incorporate the review of non-mandatory accounts in the audit program.

**Audit Working Papers**

Working papers required for an audit consist of all documentation necessary to support the information on the summary sheets and in the narrative. Working papers should be complete and include support for all conclusions reached. In addition, audits should be logically organized and clearly referenced. Consistent audit working papers promote professionalism and enable the reader to follow the auditor’s logic and flow of data.

Generally, the audits we reviewed were very good and contained adequate comments and working papers appropriate for the audit. However, these working papers were neither adequately labeled nor adequately cross-referenced. We urge the assessor to direct his staff to reference and cross-reference all audit working papers.

**Business Property Valuation**

Business property assessed value calculations are computerized. The assessor’s use of the computerized assessment system has streamlined the processing of business property statements. Original costs, by equipment category and year of acquisition, are maintained in the cost database. Prior to the appraisal season each year, valuation factors are entered in the computerized appraisal program. The current year’s business property statement is compared to the prior year’s reporting, and only additions and deletions are entered into the computer program. Codes identifying index factor tables and equipment lives are pre-assigned to specific categories of equipment and are carried forward each year until a change is authorized. The highly integrated, computer-based processing of business property statements provides optimal conditions for the use of price index factors specific to all types of equipment.

**Equipment Valuation Factors**

Taxable values (or assessed values) of equipment are typically derived from historical costs, through the use of valuation factors. The valuation factors are the product of the price index factors and percent good factors. Accurate assessments of equipment depend on the proper choice and application of these factors.

Section 401.5 requires the Board to issue information that, in the judgment of the Board, will promote uniformity in appraisal practices and in assessed values throughout the state.

The Board specifically complies with section 401.5 for business personal property by publishing Assessors’ Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). Price index and percent good factors are published annually for use in computing current market value estimates from historical costs of machinery and equipment.
AH 581 contains 12 categories of indices for commercial equipment, six categories for industrial equipment and one category each for agricultural and construction equipment. The percent good factors are set forth in two tables, one for machinery and equipment, and one for agricultural and mobile construction equipment. For agricultural and construction equipment, the percent good factors are provided for both new and used equipment.

**RECOMMENDATION 36:** Revise equipment valuation procedures by using price index and percent good factors that are applicable to the category of equipment being appraised.

Price index factors are used to adjust acquisition costs to an estimate of current replacement costs of property with equal utility. The Sonoma County Assessor uses the price index factors from AH 581 to appraise machinery and equipment, but not in the manner intended. Rather than using the specific index for each class of property as intended, the assessor uses the arithmetic average of the 12 published categories of commercial equipment to compute the replacement cost new (index factor times acquisition cost) for commercial, industrial, and construction equipment.

Because the price index factors vary for each classification, it is important that the appropriate equipment category be selected. Averaging factors for different categories of equipment might result in a small difference in total valuation; however, the accuracy of specific categories can be materially distorted. Averaging indices sacrifices accuracy for convenience, and may result in inequitable treatment of taxpayers.

We recommend the assessor’s staff select the appropriate replacement cost index based on the business type, and discontinue the practice of averaging the commercial replacement indices for all business categories.

**Percent Good Factors**

Percent good factors are used to reflect a property’s average remaining value. Percent good factors are applied to replacement cost new (acquisition cost x index factor) to approximate replacement cost, less normal depreciation.

The Sonoma County Assessor does not use the recommended percent good factor tables from AH 581 to appraise machinery and equipment in the manner intended. The assessor uses an arithmetic average of the new and used factors for mobile agricultural equipment, rather than applying the appropriate new or used factor for the property being appraised.

**RECOMMENDATION 37:** Discontinue the practice of limiting equipment valuation factors to an arbitrary minimum level.

The assessor currently establishes an arbitrary minimum value at 20 percent of cost for commercial, industrial, agricultural, and construction equipment.
Index factors recognize items such as price changes and the effects of technological progress, and are intended to reflect the price of a replacement. The percent good factors are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives. The percent good factors contained in the handbook are based on the premise that these types of properties lose value as they age.

When valuing property, it is necessary for appraisers to analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the normal percent good factor to reflect the deviation. Arbitrarily establishing minimum values is not an acceptable appraisal practice. We recommend that the assessor discontinue the practice of limiting valuation factors to an arbitrary level.

Computer Valuation

Our review found the assessor has properly used the composite valuation factors provided by the BOE in his valuation of non-production computers.

Leased Equipment Assessment

One of the responsibilities of the assessor’s business property division is the discovery and assessment of leased equipment. Assessee are required to report all leased property (taxable property in their possession but belonging to others) on the annual property statement. Assessee are required to provide the type of property, year of acquisition and manufacture, cost to purchase new, description and lease number or identification number, annual rent, and the lessor’s name and mailing address.

The Sonoma County Assessor also requires the lessor to report equipment on lease on the annual property statement. The leased equipment is then routinely assessed to the lessor unless the lessor is exempt (e.g., a financial institution), or the lease agreement is actually a conditional sales contract in which instance the lessee is assessed as the owner of the property. Reports of leased equipment are maintained in the files of the reporting entity.

Properly Identify, Value and Assess Leased Equipment

**RECOMMENDATION 38:** Implement a system to ensure the assessment of leased equipment.

Our review indicates that a lessee is rarely assessed for his or her reported leased equipment. The assessor’s policy focuses the assessment on the lessor. When property is on lease, the lessor reports the property and is routinely assessed for it.

The assessor does not cross-check information reported by lessors and lessees. Cross-checks verify the accuracy of reported information, and prevent leased equipment from escaping assessment or being double assessed.
We reviewed 12 business property statements with leased equipment reported on Part III, *Declaration of Property Belonging to Others*, to determine if the leased equipment was properly assessed. Of the 12 reviewed, the leased equipment reported on six of the property statements was assessed to the lessor; and the leased equipment reported on the remaining six escaped assessment.

We recommend that the assessor implement a procedure to ensure the assessment of all leased equipment.

**Property Statement Processing**

Section 441 requires that every person owning taxable personal property, with an aggregate acquisition cost of $100,000 or more for any assessment year, file a signed property statement with the assessor. Section 441 also provides that every person owning personal property that does not require the filing of a property statement shall, upon request of the assessor, file a property statement. If a taxpayer fails to file the property statement, section 501 requires the assessor to estimate the value based upon information in the assessor’s possession.

**Utilization of Non-Certified Personnel**

Section 670 requires that a person performing the duties of an appraiser for property tax purposes hold a valid appraiser’s certificate issued by the State Board of Equalization.

In Sonoma County, non-certified assessment clerks process routine business property statements for assessment purposes. These duties include receiving, reviewing for completeness, calculating, and enrolling the full cash value.

**RECOMMENDATION 39:** Ensure that only BOE certified personnel are permitted to estimate market value.

While we advocate the use of non-certified personnel to examine routine property statements for completeness or timeliness of filing, and to perform data entry in a computerized valuation process, non-certified personnel should not perform the duties of an appraiser by estimating values.

We recommend that the assessor discontinue the practice of allowing non-certified personnel to estimate values.

**Other Taxable Personal Property**

**Vessels**

For the 1998-99 assessment roll, Sonoma County assessed 11,665 vessels with a total assessed value of $56,202,611. Included in this total were 246 documented vessels, assessed at four percent of full cash value, having a total assessed value of $8,187,750.
The primary sources of discovery are Department of Motor Vehicles (DMV) reports, marina lists, statements from prior boat owners, and referrals from the BOE’s Sales and Use Tax Department. Also, other county assessors notify the Sonoma County Assessor when boats are relocated from their counties into Sonoma. The assessor has on-line computer access to the DMV’s boat registration records through the Sonoma County’s Information Systems Department. Boat registration records provide useful sales data and descriptive information about registered boats.

Filing Requirements

Section 441 requires taxpayers to file a signed property statement with the assessor. Section 452 states, in part, “[T]he Board shall prescribe in detail the content of property statements.” Property Tax Rule 171 requires property statements to be approved by the Board. Section 453 specifies that a penalty be imposed for a taxpayer’s failure to file or late filing of a property statement. Only property statements that have been prescribed by the BOE are subject to this penalty.

The Sonoma County Assessor requires owners of vessels costing $20,000 or more to annually file the Board-approved Vessel Property Statement (BOE Form-576-D). Additionally, owners of vessels purchased for less than $20,000 are required to file a Vessel Owner’s Report for the lien date following the purchase. The Vessel Owner’s Report form (VOR) used by the Sonoma County Assessor is not prescribed by the BOE, and therefore, assessees failing to file the VOR are not subject to the penalty provisions.

For the 1998 lien date, the VOR improperly stated that a penalty would be added, as required by section 463, for failure to return the form. The assessor revised the current Vessel Owner’s Report to eliminate reference to the penalty.

Valuation and Assessment

Assessors in California are required to annually appraise boats at market value and to assess all boats with an assessed value above $400, unless the county has a resolution exempting low-valued property above the $400 statutory exemption. Sonoma County has a resolution exempting property valued at less than $1,500.

**RECOMMENDATION 40:** Change the valuation technique used to appraise boats.

Property statements are randomly reviewed to ensure the reported purchase price is within a reasonable range of the value indicated in published boat valuation guides. For the lien date following a purchase, the Sonoma County Assessor values the boat based on its purchase price, less 10 percent if the boat is new, or 5 percent if the boat is used. If the boat was acquired between January and September, the assessor reduces the value by an additional 5 percent. The assessor considers a boat new if it was purchased within two years of its model year. After the initial valuation, values are reduced by five percent annually; values are reduced at 10 percent annually in the case of personal watercraft.
The assessor’s method of valuing boats assumes a fixed depreciation rate for each boat, which may or may not lead to market value. The assessor does not perform annual market studies to substantiate that depreciation factors reflect market conditions. This arbitrary value reduction on all boats is an administrative convenience substituted for actual market value appraisals. We recommend that the assessor annually appraise all boats at market value, by using a boat valuation guide or applying depreciation factors based on the analysis of market data.

Aircraft

Assessors in California are required by law to annually appraise aircraft. The Sonoma County Assessor is responsible for assessing approximately 880 aircraft, including two certificated aircraft. The assessor’s office has an effective program to discover aircraft in the county. Aircraft are discovered through reports from the Federal Aviation Administration (FAA), the list of registered aircraft owners provided by the State Board of Equalization, aircraft manager reports, and referrals from other county assessors.

General Aircraft

LTA 97/03, dated January 31, 1997, advises county assessors to use the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft, with the *Vref Aircraft Value Reference* as an alternate for planes not listed in the *Aircraft Bluebook Price Digest*. LTA 97/03 also directs that listed retail values be reduced 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date.

The Sonoma County Assessor’s Office primarily uses the *Aircraft Bluebook Price Digest* valuation guide for appraising general aircraft. The value is calculated by reducing the list price by 10 percent, adding sales tax and making appropriate adjustments. Adjustments are made for engine hours, avionics, major damage history, airframe hours, and general aircraft condition.

Air Taxis

Air taxis in Sonoma County are predominantly nonscheduled. The assessor’s staff appraises nonscheduled air taxis in the same manner as general aviation. Scheduled air taxis are appraised in the same manner as certificated aircraft. Sales tax is not included as a component for valuing certificated aircraft.

Historical Aircraft

There were 366 historical aircraft in Sonoma County for the 1998 lien date. Section 220.5 provides that aircraft of historical significance shall be exempt from taxation if (1) the aircraft is not held for resale, (2) the owner is an individual, (3) the aircraft is available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year in which the exemption is claimed, and (4) the aircraft is not used for commercial purposes or general transportation.
When claiming the exemption for aircraft of historical significance, the claimant shall provide all required information and answer all questions contained in an affidavit furnished by the assessor. The assessor uses the Board prescribed exemption claim form Aircraft of Historical Significance (BOE-260-B). The form requires the claimant to list the dates, locations of display, and the names and telephone numbers of each display site’s owner.

**RECOMMENDATION 41:** For historical aircraft granted the exemption, verify the 12 days of public display.

The assessor accepts the exemption claim form without verification of reported information. To ensure that the taxpayer is entitled to the exemption allowed by section 220.5, we recommend that the assessor establish a procedure for verifying the 12 days of public display. An example of such a procedure is to randomly audit the exemption claims.

**Manufactured Homes**

Although the assessor should classify most manufactured homes as personal property, their assessment—in most respects—falls under the same standards as real property subject to article XIII A. In the assessment of manufactured housing, the assessor relies on data provided by the Department of Housing and Community Development, building permits, and dealer sales reports.

A manufactured home is subject to local property taxation if it was first sold new on or after July 1, 1980, or if the owner voluntarily requested conversion from vehicle license fee status to local property taxation. The statutes prescribing the method of valuing and assessing manufactured homes are set forth in sections 5800 through 5842. Health and Safety Code sections 18001.8 through 18613.2 define a manufactured home.

The Sonoma County Assessor is responsible for assessing approximately 2,800 manufactured homes. Most manufactured homes are sited in approximately 127 rental parks in the county. For the 1998/1999 assessment roll, the total assessed value of manufactured homes was $90,705,819.

**Classification**

**RECOMMENDATION 42:** Revise the manufactured home assessment program by classifying manufactured homes, except those placed on approved permanent foundations, as personal property.

Even though section 5801 (b)(2) requires a manufactured home to be classified as personal property, the Sonoma County Assessor currently classifies all manufactured homes as Structural Improvements. This incorrectly categorizes manufactured homes not placed on an approved, permanent foundation as real property. The Sonoma County Assessor’s practice of classifying all manufactured homes as real property improvements improperly classifies them and violates the statute.
Proper classification is important because manufactured homes, when classified as personal property, are exempt from property taxation when the manufactured home is:

- Held for sale or lease by a dealer (business inventory exemption);
- Owned by military personnel on active duty in California who are legal residents of another state (Soldiers and Sailors Relief Act);
- Owned by a bank, insurance company, or financial corporation;
- Owned by a government agency, but used by a private person or non-governmental entity. (No taxable possessory interest can exist in personal property.)

Also, unlike real property, personal property is not subject to special assessments. Improper classification may result in special assessments being levied.

We recommend that the assessor classify manufactured homes not placed on approved permanent foundations as personal property.
APPENDIX

A. County Property Tax Division Survey Group

Sonoma County Survey

Chief, County Property Tax Division
Charles Knudsen Chief

Survey Program Director:
Gene Palmer Principal Property Appraiser

Office Survey Team Supervisor
David J. Hendrick Supervising Property Appraiser

Office Survey Team
Glenn Danley Associate Property Appraiser
Manuel Garcia Associate Property Auditor Appraiser
John Magorian Associate Property Appraiser
James McCarthy Senior Petroleum and Mining Engineer
Dale Peterson Associate Property Auditor Appraiser
Wes Hill Associate Property Appraiser
Chris Jimenez Assistant Property 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 also show the county assessor’s requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

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

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

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

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

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

15644. **Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.
15645. **Survey report; final survey report; assessor’s report.**

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

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

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

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

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

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

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

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

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

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

(1) Uniformity of treatment for all classes of property.

(2) Discovering and assessing newly constructed property.

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

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

(5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

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

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

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

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

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

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor’s response, and the BOE’s comments on the assessor’s response, if any constitute the final survey report. The Sonoma 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 response begins on the next numbered page (there are no numbers for the assessor’s response).
June 22, 2000

Mr. Richard C. Johnson
Deputy Director
Property Taxes Department
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Johnson:

Enclosed is my response to the recommendations included in the State Board of Equalization Assessment Practices Survey of Sonoma County. The response was prepared in accordance with Section 15645 of the California Government Code.

In reviewing my response, you will note that we agree with many of the recommendations and have already implemented or are planning to implement the changes necessary to achieve compliance.

I want to thank David Hendrick and his team for the courteous and professional manner in which they conducted the audit, including Gene Palmer’s subsequent visit.

Most importantly, I want to thank my staff for their hard work, professionalism, and dedication to serving both Sonoma County and the Sonoma County taxpayer as they administer the California property tax laws in a fair and equitable manner.

Sincerely,

James J. Gallagher
Sonoma County Assessor

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Enclosure
RESPONSE TO STATE BOARD OF EQUALIZATION'S
SONOMA COUNTY ASSESSMENT PRACTICES STUDY

Recommendation 1:
Ensure that staff fulfill the training requirements required by section 671.

We concur with this recommendation and have ensured that all certified staff have completed the requisite training requirements.

Recommendation 2:
Revise the reference guide comments on filing an appeal to accurately reflect the filing periods set forth in statutory provisions.

We concur with this recommendation and note that it was our “in house” computerized reference guide (InfoNet) that needed to be updated not our printed material available to the public. InfoNet has been updated.

Recommendation 3:
Obtain periodic reports from local fire protection agencies to discover property that has been damaged or destroyed.

We concur with this recommendation and have prepared a letter to each of our fire districts asking them to send us this information on a regular (monthly) basis.

Recommendation 4:
Improve disaster relief claim processing by revising the policies and procedures manual to accurately reflect statutory provisions for disaster relief application filing deadlines, date stamping all applications, and retaining postmarked envelopes in order to document that applications are filed timely.

We concur in this recommendation and have updated our policy on date stamping calamity damage claim forms and retaining postmarked envelopes.

Recommendation 5:
Comply with section 170 by revaluing properties damaged by misfortune or calamity as of the date of restoration.

Although the SBE’s recommendation is technically correct, we had verified that even though starting dates and ending dates of repairs somewhat varied, all were completed by July 1, 1998.

Recommendation 6:
Revise the policies and procedures manual to conform to section 70 and Property Tax Rule 463.

It is not and never has been the policy in our office to treat repairs made to calamity damaged property as new construction.
Recommendation 7:
Revise the assessment roll change procedures by citing the proper code section when enrolling escape assessments.

We concur with this recommendation and are updating our procedures and conducting training to ensure that the proper codes are being cited.

Recommendation 8:
Comply with statutory provisions by including the correct heading when notifying taxpayers of proposed escape assessments.

It would be difficult and/or impossible to make the wording change recommended given the confines of our current property information system, however “Notice of Proposed Escape Assessments” stamps will be purchased and we will “stamp” the appropriate escape notices.

Recommendation 9:
Limit assessment roll corrections to only those years permitted by statute.

Several years ago this office made an administrative decision to allow a Prop 8 reduction for prior years, if market information clearly warranted the change.

Recommendation 10:

We concur with this recommendation and note that for FY2000/2001 this office mailed out the Annual Report of Boarded Racehorses before December 15.

Recommendation 11:
Improve the process of valuing properties resulting from changes in ownership by ensuring that sufficient documentation is in the appraisal file to support market value conclusions.

We concur with this recommendation and are reviewing our internal procedures to make sure that all transfers contain the appropriate documentation to either support or reject the indicated sales price.

Recommendation 12:
Improve the new construction assessment program by more closely reviewing permits with stated values below $5,000.

We will look more closely at building permits under $5,000. However, due to the large number of permits we receive and the amount of time it takes to cancel a scheduled permit that does not add value, we will NOT be discontinuing the practice of discarding certain permits that have cost estimates under $5,000.

Recommendation 13:
Include documentation supporting the assessed value for all properties with an assessed value less than their factored base year values.
In theory this is a reasonable request, however in reality it has not been possible.
Our office has used regression analysis to aid us in reducing and now increasing
Prop 8 properties. While we document each regression Prop 8 file with the actual
computer generated worksheet, it does not contain the actual comparable
properties used in the regression formula. Because of the large number of Prop 8
requests in the mid 1990's some properties were automatically “rolled over” each
year after reviewing the general market conditions. These records would not
contain a sales comparison approach for each year under Prop 8 status.

Recommendation 14:
Revise the supplemental assessment program by using supplemental assessments
for all low value taxable possessory interests.

We will continue to value all taxable PI’s as we have done in the past. Any PI
with a value below $1,500 will not go to the tax roll because of our low value
ordinance. On the issue of supplementals, we will actively pursue an ordinance
under section 75.55.

Recommendation 15:
Review classification practices for leasehold improvements.

We will review our classification practices for structure improvements and
fixtures. The decision on whether or not we change our program will be based
upon the results of this review.

Recommendation 16:
Revise procedures for valuing California Land Conservation Act (CLCA)
properties by periodically updating market information.

We concur in this recommendation and are in the process of hiring an intern who
will assist in the collecting and analyzing of rental data in order to apply new
values to the 2001 CLCA roll properties.

Recommendation 17:
Revise procedures for valuing CLCA properties by capitalizing tree and vine
income streams based on other than a straight-line declining income premise.

We concur in this recommendation and will incorporate the revised values in the
new Megabyte 2000+ property tax system.

Recommendation 18:
Revise procedures for valuing CLCA properties by identifying and valuing
income from compatible uses.

We concur in this recommendation and will include a section in our agricultural
income questionnaires for compatible use income.
Recommendation 19:
Revise the procedure for implementing section 423.3 by allocating the assessed value between land and improvements using generally accepted appraisal methods.

The total value currently calculated under 423.3 is correct and the amount of taxes paid by the property owner are the same under either method. We will investigate changing the program methodology when we move to the new Megabyte 2000+ system.

Recommendation 20:
Comply with the board of supervisor’s resolution 87-0343 by submitting enabling resolutions or ordinances for the board of supervisors’ approval.

We will investigate this situation with our county counsel. If needed, we will submit the appropriate resolutions to our Board and also incorporate any changes in our policies and procedures.

Recommendation 21:
Record the base year values on Timberland Production Zone parcel records.

This seems to be a housekeeping item that can be worked on over time. At this point, the values that go to the roll are calculated in our TPZ database. The base year values of the TPZ properties are in the property records but are not updated annually.

Recommendation 22:
Send income questionnaires to all TPZ parcel owners.

We concur with this recommendation and, for the upcoming year, will start sending income questionnaires to the TPZ property owners.

Recommendation 23:
Revise the valuation and assessment of government-owned properties by identifying and assessing all taxable government-owned property.

We concur with this recommendation and are reviewing our ownership procedures in identifying section 11 transfers. We will generate an annual report that compares the section 11 properties to the properties with 034 codes.

Recommendation 24:
Review the policy of assigning zero values to taxable government-owned property.

We will review our policy on assigning zero values. The two properties identified were city owned right-of-way parcels located outside the city. The value of the roadways was included in the two parcels that use the roadway for access.
Recommendation 25:
When determining taxable value for government-owned property, consider the property’s factored base year value.

For the last two years we have been complying with current law. We annually determine and enroll the lowest of: section 11 values, current market values, or factored based year values.

Recommendation 26:
Use a reasonably anticipated term of possession when assessing taxable possessory interests.

As recommended, we will annually review the possessory interest terms of possession. Based on our review we will determine the typical terms for each property type. Although in the end, our opinion of the economic term of possession may differ from the SBE’s.

Recommendation 27:
Improve the taxable possessory interest assessment program by documenting the reason for annual reduction of the term of possession for long-term leases.

We concur in this recommendation and will document, in our electronic possessory interests records, the reasons for using a declining term on long-term leases.

Recommendation 28:
Document the selection of capitalization rates used in the appraisal of taxable possessory interests.

We concur in this recommendation and will note in each electronic record how the rate was established.

Recommendation 29:
Improve the leasehold improvement assessment program by applying the correct inflation factor when valuing leasehold improvements.

As of the 1999/00 roll, our office has been complying with this recommendation. We are using a four-digit CPI factor.

Recommendation 30:
Investigate reported tenant improvement costs when valuing leasehold improvements.

We concur in this recommendation. Our current procedure is to review all BPS and if the costs are reported without any details, we send a request for more details to the taxpayer. If, after this request, no details are provided, and if necessary, a RP appraiser will review all of the records to determine the classification and value.
Recommendation 31:
Ensure that the appraisal staff complies with existing procedures addressing the coordination of tenant improvement assessments.

Our office policy is to have the RP section and the BP section meet at least annually to discuss classification issues and referrals. We will revisit the referral form recommendation and make sure both the RP section and the BP section are using it as described in our procedures.

Recommendation 32:
Develop a process that compares names of state assessees to the assessee names on the local assessment roll to prevent duplicate assessments.

We concur in this recommendation and will develop a report which compares the names of persons whose properties are assessed by the state to the names of assessees on the local assessment roll.

Recommendation 33:
Bring the mandatory audit program to current status.

Our office would like to be able to comply with this recommendation, however due to current staffing levels and the complexity and size of the existing audit workload, we have had to prioritize our efforts and concentrate on the mandatory audits. We are in the process of hiring two auditors. This will help us to comply with the recommendation.

Recommendation 34:
Include vessels and aircraft with values of $300,000 and above in the mandatory audit program.

With the growing economy, the attrition of our experienced audit staff, the challenge of recruiting qualified applicants and the complexity of our large audits, we have had to prioritize our efforts. We are in the process of hiring two auditors. This will help us to comply with the recommendation.

Recommendation 35:
Develop criteria for selecting non-mandatory audits and incorporate the review of non-mandatory accounts in the audit program.

We are in the process of hiring two auditors. This will help us to comply with the recommendation.

Recommendation 36:
Revise equipment valuation procedures by using price index and percent good factors that are applicable to the category of equipment being appraised.

In the past, we did use the average index factors for commercial equipment on all equipment types. The differences in the factors for each equipment classification
were minimal and using an average saved valuable auditor time. With the hiring of two new auditors we will review this recommendation.

Recommendation 37:
Discontinue the practice of limiting equipment valuation factors to an arbitrary minimum level.

We concur with this recommendation and beginning in FY2000/01 we will be using the CAA's recommendation for minimum percent good.

Recommendation 38:
Implement a system to ensure assessment of leased equipment.

We would like to implement this recommendation and have solicited specific suggestions from SBE personnel. We will work on developing a program to match all lessors with lessees and follow-up on the non-matching exceptions.

Recommendation 39:
Ensure that only BOE certified personnel are permitted to estimate market value.

Value ranges are established by the certified auditor staff and reviewed annually. If the property fits into the range, the non-certified personnel enroll the value. This streamlined process was necessary due to the shortage of certified audit staff.

Recommendation 40:
Change the valuation technique used to appraise boats.

We will try to incorporate this recommendation for the upcoming year by using a boat valuation guide. We have not had the staffing to conduct an annual market study.

Recommendation 41:
For historical aircraft granted the exception, verify the 12 days of public display.

Our current procedure is to require first time exception filers to provide documentation of the 12 days of public display. We have not had the staffing to incorporate field checks into the workload.

Recommendation 42:
Revise the manufactured home assessment program by classifying manufactured homes, except those placed on approved permanent foundations, as personal property.

Our current property tax system carries mobile homes as an unsecured assessment on the secured roll. With the upcoming conversion to Megabyte 2000+, we will attempt to change the classification of mobile homes from structures to personal property.
BOARD’S COMMENTS ON ASSESSOR’S RESPONSE

In accordance with the provisions of Government Code section 15645, the Sonoma County Assessor elected to incorporate his response to the BOE’s findings and recommendations in the published survey report. Section 15645 of the Government Code also allows the BOE to include in the report comments regarding the assessor’s response.

Recommendation 9: Limit assessment roll corrections to only those years permitted by statute.

The assessor states in his response to Recommendation 9 that “Several years ago this office made an administrative decision to allow a Prop 8 reduction for prior years, if market information clearly warranted the change.”

The assessor is in direct violation of the provisions of subdivision (b) of section 4831 that provides:

“(b) Any error or omission involving the exercise of judgment that arises solely from a failure to reflect a decline in the taxable value of real property as required by paragraph (2) of subdivision (a) of section 51 shall be corrected within one year after the making of the assessment that is being corrected.” (Emphasis added.)

Subdivision (b) was added to Section 4831 in 1995 to permit the assessor to make roll corrections for value judgment when it is determined that the property’s value had declined as described in paragraph (2) of subdivision (a) of section 51. Until this amendment, assessments involving value judgments could be changed only through the appeals process.

The one-year limitation specified in subdivision (b) was not a legislative drafting error. The limitation was discussed and agreed to by interested parties prior to adoption of the legislation. There is no doubt that when the assessor makes such a correction more than one year after the assessment being corrected, he is acting without legal authority.