

CALAVERAS COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2012

CALIFORNIA STATE BOARD OF EQUALIZATION

BETTY T. YEE, SAN FRANCISCO

SEN. GEORGE RUNNER (RET.), LANCASTER

MICHELLE STEEL, ROLLING HILLS ESTATES

JEROME E. HORTON, LOS ANGELES

JOHN CHIANG

FIRST DISTRICT

SECOND DISTRICT

THIRD DISTRICT

FOURTH DISTRICT

STATE CONTROLLER

KRISTINE CAZADD, EXECUTIVE DIRECTOR





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

BETTY T. YEE
First District, San Francisco

SEN. GEORGE RUNNER (RET.)
Second District, Lancaster

MICHELLE STEEL
Third District, Rolling Hills Estates

JEROME E. HORTON
Fourth District, Los Angeles

JOHN CHIANG
State Controller

April 30, 2012

TO COUNTY ASSESSORS:

KRISTINE CAZADD
Executive Director

No. 2012/017

CALAVERAS COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Calaveras County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Leslie K. Davis, Calaveras County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Calaveras County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

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

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

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

Sincerely,

/s/ Lynn Bartolo for

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

TABLE OF CONTENTS

INTRODUCTION.....	1
SCOPE OF ASSESSMENT PRACTICES SURVEYS	2
EXECUTIVE SUMMARY	3
OVERVIEW OF CALAVERAS COUNTY	5
ADMINISTRATION	7
BUDGET AND STAFFING	7
WORKLOAD	7
APPRAISER CERTIFICATION.....	10
STAFF PROPERTY AND ACTIVITIES.....	10
ASSESSMENT APPEALS.....	11
EXEMPTIONS	13
ASSESSMENT FORMS.....	16
ASSESSMENT OF REAL PROPERTY	17
CHANGE IN OWNERSHIP.....	17
NEW CONSTRUCTION.....	23
DECLINES IN VALUE	25
CALIFORNIA LAND CONSERVATION ACT PROPERTY.....	27
TAXABLE POSSESSORY INTERESTS	28
MINERAL PROPERTY	32
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....	33
AUDIT PROGRAM	33
BUSINESS PROPERTY STATEMENT PROGRAM.....	35
BUSINESS EQUIPMENT VALUATION	38
MANUFACTURED HOMES	38
APPENDIXES	40
A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP	40
B. RELEVANT STATUTES AND REGULATIONS.....	41
ASSESSOR'S RESPONSE TO BOE'S FINDINGS	48

INTRODUCTION

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

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

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

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.2

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

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

² All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

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

The assessor has instituted many taxpayer friendly programs in Calaveras County, as well as improved the overall operation of the office. The following are a few of the programs highlighted throughout this document:

- The assessor's website has been updated to provide helpful online information and a tool to assist the public with questions and concerns regarding declining property values.
- For CLCA properties, the assessor utilizes a computer system that automatically compares the calculated restricted value to the factored base year value and the current market value, enrolling the lower of the three values.
- Applicants complete a questionnaire for the assessor as part of the business license application process. This novel approach assists the assessor in making more informed and accurate enrollment decisions.
- The assessor has incorporated a factor schedule into her computer system to review the values of manufactured homes automatically.

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

In our review of the assessor's administration programs, we noted the assessor is satisfactorily handling staffing, workload, appraiser certification, staff property and activities, assessment forms, and assessment appeals. However, we made recommendations in the area of exemptions.

In the area of real property assessment, the assessor has effective programs for declines in value, California Land Conservation Act (CLCA) property, and mineral property. However, we made recommendations in the areas of change in ownership, new construction, and taxable possessory interests.

In the assessment of personal property and fixtures, the assessor has effective programs for the valuation of business equipment and the assessment of manufactured homes. However, we found areas for improvement in the assessor's programs for conducting audits and processing business property statements.

Despite the recommendations noted in this report, we found most property within the county is assessed in compliance with property tax laws.

We found no significant assessment problems as defined in Rule 371. Since Calaveras County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include

assessment sampling. Accordingly, pursuant to section 75.60, Calaveras County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Exempt all relevant property eligible for exemption.14

RECOMMENDATION 2: Improve the change in ownership program by properly notifying taxpayers of any penalty added in compliance with section 482(f).19

RECOMMENDATION 3: Value construction in progress at market value as of the lien date pursuant to section 71.....25

RECOMMENDATION 4: Improve the taxable possessory interest program by:
 (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value,
 (2) assessing all taxable possessory interests,
 (3) reappraising all taxable possessory interests upon a change in ownership in accordance with section 61(b),
 (4) correctly calculating the value of taxable possessory interests at the fairgrounds, (5) obtaining copies of all lease agreements or permits that create taxable possessory interests, (6) deducting allowable expenses from gross income when valuing taxable possessory interests by the direct income approach, and (7) adding the present worth of unpaid future contract rents to the sale price of a taxable possessory interest.29

RECOMMENDATION 5: Audit the books and records of professions, trades, and businesses pursuant to section 469.....34

RECOMMENDATION 6: Use a comprehensive audit checklist as a standard component of the audit program.35

RECOMMENDATION 7: Improve the business property statement program by:
 (1) requiring vessel owners to file annual vessel property statements for all boats costing \$100,000 or more,
 (2) mailing BPSs to all business accounts with taxable personal property costing \$100,000 or more,
 and (3) applying a penalty assessment to all business property accounts that fail to timely file a BPS in accordance with section 441.36

OVERVIEW OF CALAVERAS COUNTY

Calaveras County is located in the heart of California Gold Country. The county is 1,037 square miles. Calaveras County is bordered by the counties of Stanislaus to the southwest, San Joaquin to the west, Amador to the north, Alpine to the northeast, and Tuolumne to the southeast. In 2009, the population was around 46,731. The county seat is located in San Andreas, and the city of Angels Camp is its only incorporated city.

Calaveras County was established in 1850 as one of California's original 27 counties. The county's heritage centers on a multitude of fortune seekers who came from around the world. Today it offers historic gold rush towns, art galleries, antique shops, and California gold rush museums. Mark Twain set his story, *The Celebrated Jumping Frog of Calaveras County*, in Calaveras County. Each year, the county hosts its County Fair and Jumping Frog Jubilee, which features a frog jumping contest to celebrate the association with Mark Twain's story.

For the 2009-10 roll year, Calaveras County ranked 40th in total assessed value of county assessed property subject to general property taxes.

The following table sets forth information pertinent to the 2009-10 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$2,367,488,483
	Improvements	\$4,421,322,046
	Fixtures and Personal Property	\$37,961,701
	Total Secured	\$6,826,772,230
Unsecured Roll	Land	\$6,245,064
	Improvements	\$25,813,260
	Fixtures and Personal Property	\$120,364,352
	Total Unsecured	\$152,422,676
Exemptions³		(\$91,783,824)
	Total Assessment Roll	\$6,887,411,082

³ The Homeowners' Exemption value is not included in the exemption value noted in this table.

The next table sets forth the change in assessed values over recent years:⁴

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2009-10	\$6,887,411,000	-3.3%	-2.4%
2008-09	\$7,120,486,000	0.8%	4.7%
2007-08	\$7,064,948,000	11.4%	9.6%
2006-07	\$6,340,401,000	17.2%	12.3%
2005-06	\$5,411,368,000	14.2%	11.1%

⁴ State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

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

Budget and Staffing

The following table sets forth the budget and staffing levels for the assessor's office over recent years:

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2009-10	\$1,137,768	-15.6%	14.5
2008-09	\$1,348,152	-0.6%	18
2007-08	\$1,355,694	-0.5%	19
2006-07	\$1,362,920	14.3%	19
2005-06	\$1,192,657	15.9%	17

As shown in the table above, the assessor's gross budget and budgeted permanent staff has decreased each of the last three years, with the most significant decrease showing in the 2009-10 budget year. In the preceding table, the total assessed value has increased four of the last five years, with the 2009-10 roll year showing a decrease.

For the 2009-10 budget year, the assessor's office had 14.5 approved budgeted permanent positions. At the time of our survey, however, only 13 positions were occupied by staff. This is almost a 32 percent decrease from the number of budgeted permanent staff for the 2007-08 budget year. The staff included the assessor, the chief appraiser, the chief of assessment services, 3 real property appraisers, 1 auditor-appraiser, 1 cadastral specialist, 1 assessment cadastral analyst, and 4 assessment technicians.

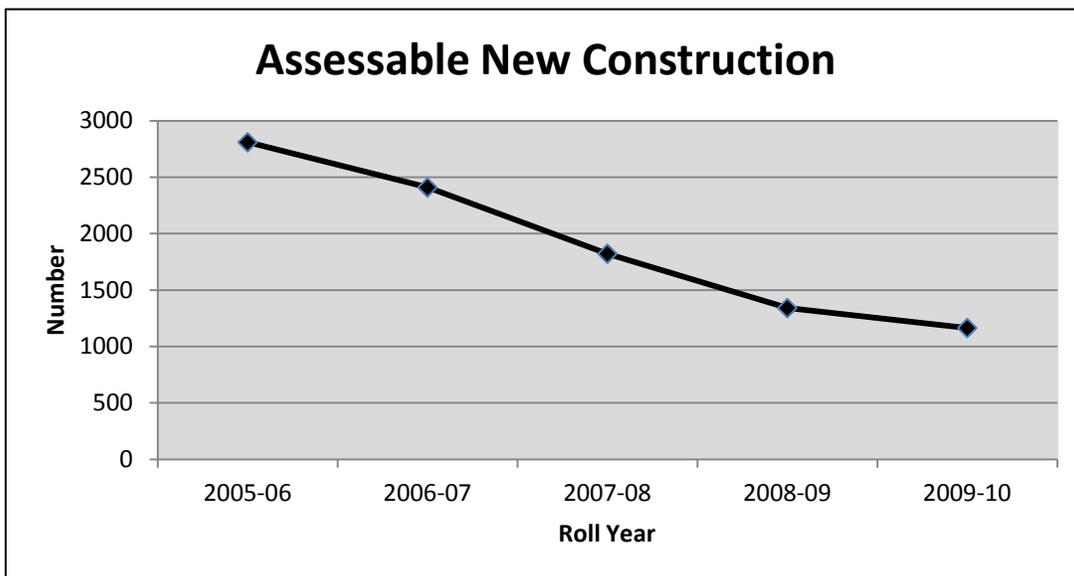
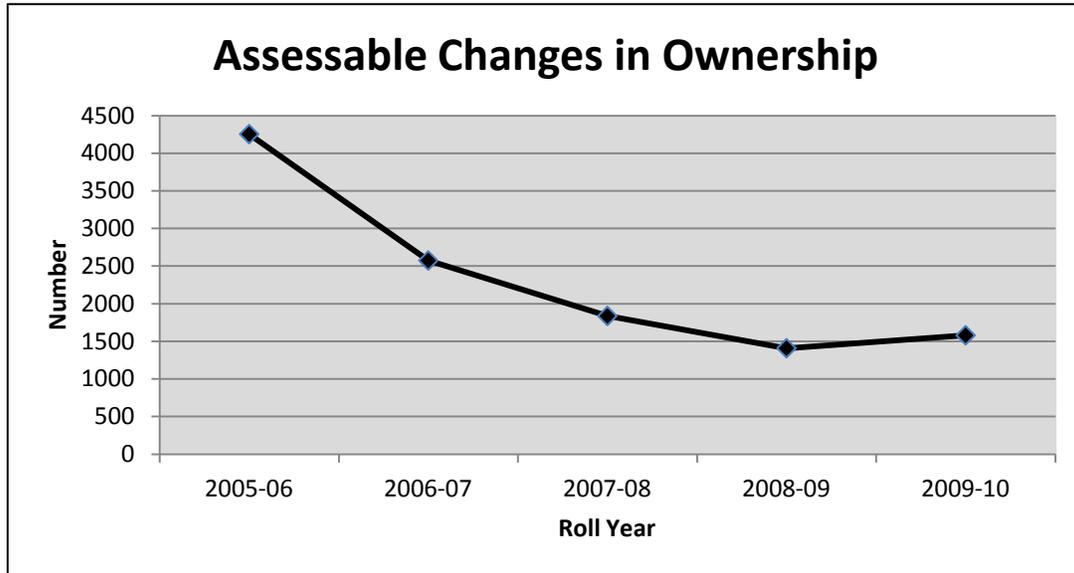
Workload

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

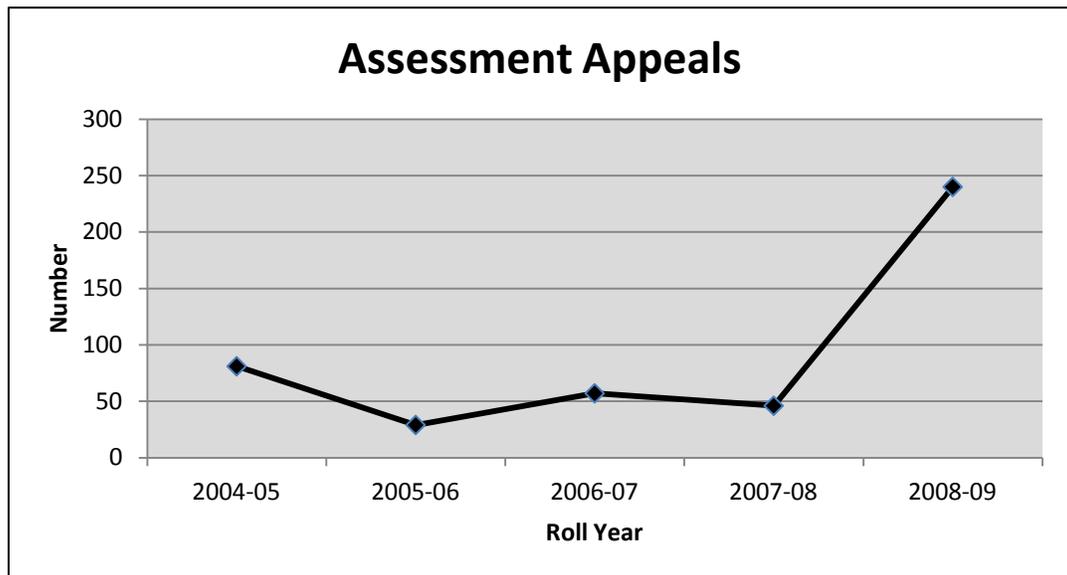
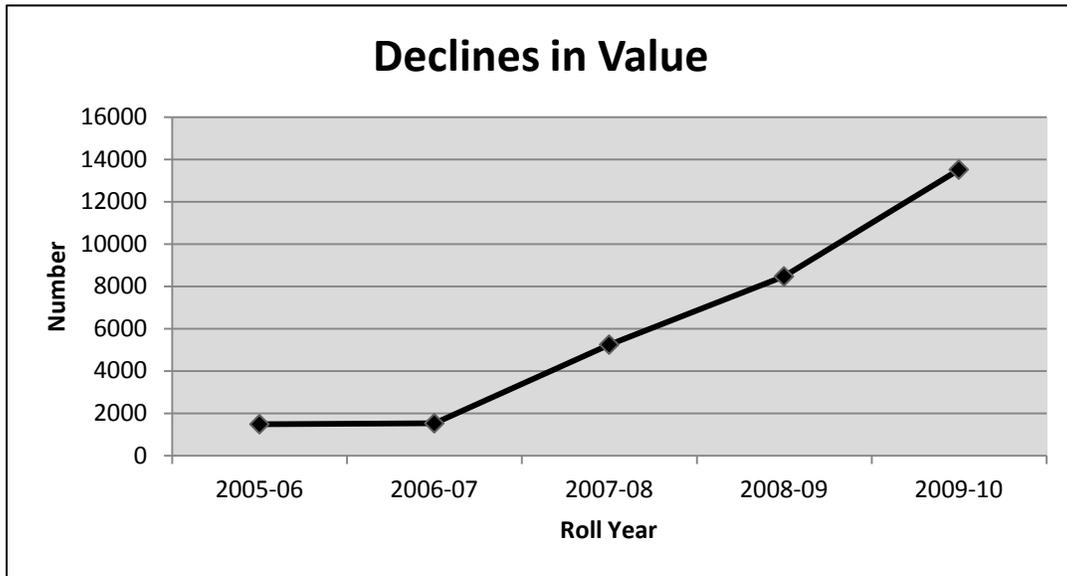
In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to

determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

The assessor's workload has seen a decrease in the number of assessable changes in ownership and the number of permits resulting in assessable new construction. The following charts illustrate these changes:



The decrease in workload for assessable changes in ownership and assessable new construction was replaced by significant workload increases in the areas of declines in value and the number of assessments appeals filed. The following charts illustrate these changes:



Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are seven certified appraisers on staff, including the assessor; five hold advanced appraiser's certificates. We found that the assessor and her staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraiser performing audits meets the requirements referenced in section 670(d). The assessor does not use contract appraisers.

We have no recommendations for the assessor's appraiser certification program.

Staff Property and Activities

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

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, *Statement of Economic Interests* (Form 700).

Form 700 requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity. Information provided includes the nature of the interest and the percentage of ownership. The acting assessor complies with section 672 and has ensured all staff has completed Form 700.

The assessor's policy is that no employee shall perform work that will result in changing assessment roll data, such as, but not limited to, ownership, values, exemptions, comparable benchmarking, and property characteristics for properties owned by the employee, their spouse, parents, or children. When an appraisal for either a change in ownership or completed new construction is required on a staff-owned property or business, the assignment is given to the appraiser assigned to that geographic area. If the staff-owned property is located in their own geographic area, the appraisal is assigned to another appraiser or a supervising appraiser. Upon completion of the appraisal, it is forwarded to a chief appraiser and then to the assessor for review and approval. It is the assessor's policy that violations of the employee-owned assessment policy will result in discipline including termination of employment.

The assessor also has policies to prevent conflicts of interest. Among other activities, employees are not allowed to engage in non-assessor's office appraisals or appraisal related activities within Calaveras County. The assessor's policy clearly states that violation of the assessor's policy regarding conflict of interest could result in discharge, suspension, and oral or written warning of such employee by the assessor.

We reviewed a number of staff-owned properties, including the assessor's, and found no problems with their valuation.

Assessment Appeals

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

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

In Calaveras County, Ordinance 2966 was adopted in 2009 creating the county's assessment appeals board (AAB). The AAB consists of five members appointed directly by the board of supervisors. The county does not have hearing officers. Pursuant to section 1624.02, all members of the AAB completed the required training when appointed.

All assessment appeal hearings are conducted before three of the appointed members. Assessment appeal hearings are held the third Wednesday of each month, with the exception of May and June. Hearings are not held in May or June due to time constraints for closing the roll.

Applications for changed assessment can be obtained at the board of supervisor's office. No fee is charged to file an appeal. Applications are filed with the clerk. The clerk confirms that the applications are complete and timely filed. The filing period for appeals in Calaveras County is July 2 through November 30. Copies of applications are sent electronically to the assessor's office.

The chief of assessment services receives a copy of the appeal from the clerk and enters it onto a spreadsheet for tracking purposes. The files associated with the application are pulled and given to the chief appraiser. The chief appraiser reviews the appeal and assigns the appeal to an appraiser. The chief appraiser meets weekly with the appraisers to go over the assigned files.

Appraisers attempt to make contact with each applicant prior to the hearing to explain the assessment, to gain an understanding of the applicant's concerns, and to try to reach an agreement before going to hearing. If an agreement is reached, a withdrawal form is obtained by the applicant to be signed and returned to the clerk. If the assessor and the applicant agree to a

changed value as part of the agreement, the assessor prepares any necessary roll corrections. Once the clerk receives the withdrawal, it is placed on the agenda for approval at the next AAB hearing and a copy of the withdrawal is forwarded to the assessor's office. If no agreement can be reached, the appeal process continues and the clerk schedules the appeal for hearing. A letter is sent to the applicant with notification of the time, date, and place of the hearing in compliance with section 1605.6.

The chief appraiser tracks the progress of assessment appeals in an effort to ensure all appeals are resolved timely. Section 1604(c) requires the applicant's opinion of value to be enrolled if the hearing is not held within two years. The taxpayer's opinion of value was enrolled.

The following table sets forth the appeal workload over recent years:

ASSESSMENT ROLL	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	240	46	57	29	81
Appeals Carried Over From Prior Year	18	32	14	24	16
Total Appeals Workload	258	78	71	53	97
Resolution:					
Withdrawn	49	11	23	28	34
Stipulation	0	0	0	0	0
Appeals Reduced	11	35	5	3	31
Appeals Upheld	16	2	7	1	4
Appeals Increased	0	0	0	0	0
Other Determination*	27	12	4	7	4
Total Resolved	103	60	39	39	73
To Be Carried Over**	155	18	32	14	24

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

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

The majority of appeals in Calaveras County involve residential properties. Because of the increase in the number of residential properties experiencing declines in value, the number of assessment appeals being filed dramatically increased for the 2008-09 roll year.

During our survey, we were able to attend an AAB hearing. The assessor's staff was well prepared and able to answer questions or concerns. We reviewed copies of prior appeal packets created by the appraisers and found them to be well organized.

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

Exemptions

For the exemptions portion of the Calaveras survey, we reviewed all church exemptions and a sampling of religious, welfare, and disabled veterans' exemptions. The exemptions program in Calaveras County is administered by an assessment technician, who reports to the chief of assessment services. For guidance, the assessor's staff relies on Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267), as well as the California Assessors' Administrative Services Association (CAASA) Education Committee exemptions course manual.

We found that all documents and information necessary to administer exemptions were well maintained and readily available. In addition, we found that appropriate timely filing procedures are observed, and any late-filing penalties for church, religious, and welfare exemptions are administered accordingly.

Church and Religious Exemptions

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

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

The following table sets forth religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2009-10	63	\$20,987,030	9	\$662,351
2008-09	65	\$20,819,588	9	\$634,467
2007-08	65	\$19,256,328	7	\$474,147
2006-07	65	\$18,813,589	8	\$473,798
2005-06	64	\$18,113,679	7	\$446,095

We reviewed a number of church and religious exemption claims and discovered an area where improvement is needed.

RECOMMENDATION 1: Exempt all relevant property eligible for exemption.

We discovered a property that included improvements owned by a religious organization, but located on leased land. The assessor correctly granted a church exemption for the improvements, but did not extend the exemption to the land. Land required for convenient access to the structure and parking were likewise not granted an exemption.

Article XIII, section 3(f) of the California Constitution allows for an exemption of buildings, *land on which they are situated*, and equipment used exclusively for religious worship. Article XIII, section 5 provides for an exemption of property required for convenient access to otherwise exempt property, and section 206.1 provides for an exemption of parking for congregations of 500 members or fewer. AH 267 states that the church exemption does not require the property to be owned by a church organization to be eligible for the exemption; it merely requires it be used exclusively for religious worship.

Denying exemption of property that is constitutionally exempt does not follow statutory provisions and imposes an unsupported tax liability on the claimant organization.

Welfare Exemption

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

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

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

The following table sets forth welfare exemption data for recent years:

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2009-10	95	\$55,302,668
2008-09	85	\$25,015,043
2007-08	80	\$24,131,706
2006-07	78	\$19,166,442
2005-06	65	\$18,630,269

We found that the assessor thoroughly reviews claims and ensures the inclusion of necessary documents, such as valid OCCs, when applicable. Field inspections for new exemption claims are conducted by appraisal personnel who, in turn, communicate their findings to staff via BOE-267-FIR, *Welfare Exemption Assessor's Field Inspection Report*.

Disabled Veterans' Exemption

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

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

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

ROLL YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2009-10	92	\$10,430,746
2008-09	93	\$10,197,992
2007-08	91	\$9,650,544
2006-07	83	\$8,581,903
2005-06	83	\$8,516,501

Of special note is the attention the assessor pays to disabled veterans' exemptions claimants. If a claimant for the low-income provision of the exemption has not responded to the annual filing requirement by early February, the assessor's staff calls to remind them of the February 15 filing

deadline. The assessor and her staff are to be commended for their proactive approach to this exemption program.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.⁵ Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for Board-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

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

We have no recommendations for the assessor's assessment forms program.

⁵ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

ASSESSMENT OF REAL PROPERTY

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

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

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

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

Document Processing

The assessor maintains written policies and procedures for processing changes in ownership. The assessor's primary means of discovering properties that have changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, to accompany documents submitted for recordation transferring ownership of real property. If a transfer document is received without a PCOR, a \$20 charge is applied to the recording fee. PCORs are available at both the assessor's and recorder's offices, as well as on the county's website. Local ordinance requires the assessor's parcel number (APN) to be noted on all deeds.

The following table sets forth the total number of reappraisable transfers in Calaveras County in recent years:

ROLL YEAR	REAPPRAISABLE TRANSFERS
2009-10	1,580
2008-09	1,408
2007-08	1,837
2006-07	2,574
2005-06	4,254

The recorder's office does not initially screen documents that are electronically sent to the assessor. The assessor's office electronically filters all recorded documents from the computer system and pulls only documents related to possible change in ownership events. Each day the recorder's office delivers PCORs to the assessor's office from the prior day's recordings. The assessment technicians (AT) are responsible for downloading the recorded documents applicable to the change in ownership event and matching the documents with the applicable PCOR. The AT determines if the transfer is reappraisable, and verifies the legal description and the grantor's name. The draftsman confirms any complex legal descriptions and makes any necessary splits or lot line adjustments. If additional information is needed in processing the change in ownership, the AT will send a letter to the property owner. If an exclusion may apply, the AT will send applicable claim forms to the property owner. The AT will also confirm any changes to the homeowners' exemption and process accordingly. Once the AT has determined an event is reappraisable, the building record, PCOR, recorded document, and any exclusion form are sent to the appraisers for further review and processing.

The assessor also discovers potential changes in ownership through newspapers, business property statements, field visits, family members, and address change requests. For discovery of potential changes in ownership due to the death of a property owner, the assessor receives monthly reports from the recorder's office. Once the report is received, the AT performs a name search in the computer system for each name listed on the report to search for any property in the county that may be subject to reassessment. If property is discovered, the appropriate APN is listed next to the name on the report. The social security numbers are matched and the homeowners' exemption is deleted. The AT mails BOE-502-D, *Change in Ownership Statement Death of Real Property Owner*, to the stated property owner, and adds notes to the computer system showing when the form was mailed and indicates the date of death as the event date. Once the form is returned, it is reviewed and sent to an appraiser for valuation of the property if necessary.

We examined recorded documents and found the assessor conducts a proper and thorough review of reappraisable and nonreappraisable events.

Penalties

When a recorded document is received without a PCOR, the AT mails BOE-502-AH, *Change in Ownership Statement (COS)*, to the property owner. Labels are created for each property owner.

Copies of the labels are used to track when the COS was mailed. The AT reviews the copies of the labels on a monthly basis. If there is no response in 45 days, a second COS is mailed with the penalty language highlighted. If there is still no response to the COS after another month, the property is reappraised by an appraiser and a new base year value is determined by using the appropriate approach to value. The assessor cannot automatically abate a penalty; the property owner must file an appeal.

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

RECOMMENDATION 2: Improve the change in ownership program by properly notifying taxpayers of any penalty added in compliance with section 482(f).

Property owners are not properly notified of the penalty added to either the secured or unsecured roll. The assessor only notifies a property owner of a potential penalty by highlighting the penalty language within the "Important Notice" on the COS the second time it is sent.

Section 482(f) provides that notice of any penalty added to either the secured or unsecured roll shall be mailed by the assessor to the transferee. In addition, section 483(a) provides that if the assessee establishes to the satisfaction of the county board of supervisors that the failure to file the change in ownership statement within the time required by section 482(a) was due to reasonable cause and not due to willful neglect, and has filed the statement with the assessor, the county board of supervisors may order the penalty abated. The property owner must file a written application for abatement of the penalty with the board of supervisors no later than 60 days after the date of notification of the penalty. The assessor's current method of notifying the property owner of a penalty does not inform the property owner that a penalty has been applied nor does it inform them of the penalty abatement process.

By not providing property owners with proper notification of an added penalty or information about their right to file a written request to have the penalty abated, the property owner may be unaware of the penalty and may be forced to pay a penalty that could have been abated.

Transfer Lists

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than an undivided interest, within the county, which have occurred within the preceding two-year period. Section 408.1(e) states that the provisions of section 408.1(a) shall not apply to any county with a population under 50,000 people as determined by the 1970 federal decennial census. Based on the population of Calaveras County in 1970, the assessor is not required to maintain a transfer list and has elected not to maintain one.

Legal Entity Ownership Program (LEOP)

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

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

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

The assessor discovers changes in control or ownership of legal entities from newspaper articles, appraiser and auditor canvassing, LEOP reports, the Internet, and business property statements. When the assessor receives LEOP reports, the AT reviews the reports and disc to determine if any entities that have undergone changes in control or ownership own real property within Calaveras County. To ensure all of the entity's real property is reassessed, the AT conducts a name search of the entity against the assessor's database to determine if any other parcels are owned by the entity, but not reported on BOE-100-B. The assessor is aware that if a change in control or ownership is not listed on the LEOP reports, the assessor should notify the BOE's LEOP section by using BOE-100-BR, *County Assessor Legal Entity Transfer Referral*. If the transfer results in a reappraisable event, the AT will provide the building record to the appropriate appraiser for valuation.

Calaveras County does not encounter many transfers of legal entities. A review of the assessor's program confirms that reassessment of affected properties are processed timely and correctly.

Change in Ownership Exclusions – Section 63.1

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

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

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

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

ROLL YEAR	SECTION 63.1 CLAIMS FILED
2009-10	216
2008-09	307
2007-08	506
2006-07	192
2005-06	239

If a PCOR or COS indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren), the assessor is proactive in notifying taxpayers of a possible exclusion. The assessor sends interested parties a claim form, along with a letter explaining the exclusion and requesting a response within 45 days. Claim forms are tracked in a database. After 45 days with no response, a second letter and claim form are sent requesting a response within 60 days. If no claim is returned, the property will be reappraised. A fee of \$150.00 will be imposed to process a claim not filed within 60 days of the second request.

The AT typically reviews all section 63.1 applications and determines if the exclusion will be granted or denied. The applicant isn't notified if the exclusion is granted; however, a formal letter is sent if the exclusion is denied.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives the quarterly *Report of Transferors Exceeding \$1,000,000* from the BOE, the report is

reviewed to determine if property in Calaveras County has exceeded the limit. Very few claims involving property within the county have exceeded the \$1 million limitation. If multiple properties transfer within the county, the assessor contacts the property owner or representative to determine which parcel(s) they want to reappraise. If parcels exceeding the limit are in counties other than Calaveras County and the most recent transfer is in another county, the assessor contacts the other county to ensure a reappraisal is completed.

Pursuant to section 63.1(i), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a locked and secure area not accessible to the public.

We reviewed accepted and denied section 63.1 claim forms and found them to be properly handled.

Change in Ownership Exclusions – Section 69.5

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

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

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

Calaveras County does not accept base year value transfers from other counties. Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website.

The following table sets forth section 69.5 claims filed in Calaveras County in recent years:

ROLL YEAR	SECTION 69.5 CLAIMS FILED
2009-10	0
2008-09	13
2007-08	4
2006-07	15
2005-06	15

If a PCOR or COS indicates a transfer may involve a base year value exclusion, a claim form and cover letter are sent to the taxpayer advising them of a possible exclusion from reassessment.

Appraisers determine the fair market value of both the replacement and original properties, apply the appropriate value comparison percentage based on the date the replacement property was purchased or construction was completed, and determine if the exclusion will be accepted or denied. A search is completed in the computer system to determine if the property owner has previously been approved for a base year value transfer in the county. The property owner is notified in writing if a claim is accepted or denied.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. Although the assessor has previously reviewed the quarterly *Duplicate Social Security Report* from the BOE, no duplicate claims have been made within the county in the past five years.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a locked and secure area not accessible to the public.

We reviewed accepted and denied section 69.5 claim forms and found them to be properly handled.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Sale price is not automatically enrolled and may be overridden when data is available to rebut the presumption that the sale price accurately reflects market value. To confirm the listed sale price accurately reflects market value, appraisers generally rely on the comparative sales approach for residential properties and the comparative sales, cost, and income approaches for commercial properties. To obtain additional income and expense information of commercial properties, the assessor mails a questionnaire to the property owner. The assessor maintains a commercial and residential sales database to assist in the valuation process.

We reviewed a number of transfers that included residential, commercial, and partial interest transfers. We found the assessor is following proper procedures for valuations and is correctly processing supplemental assessments.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

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

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

Discovery

The assessor's primary means of discovering assessable new construction activity is through building permits. Currently, the assessor receives building permits from five permit-issuing agencies: the Calaveras County Building Department, the Calaveras County Environmental Health Department, the Department of Housing and Community Development (HCD), the City of Angels Camp, and the Tri-Dam Project, which is a joint management agency of the Oakdale Irrigation District and the South San Joaquin Irrigation District.

The assessor receives the building permits, a list of permits issued, and a list of finalized permits from the Calaveras County Building Department through an online database system. Information from the other agencies is received in hard-copy format. Building plans are periodically obtained by the appraisal staff from the agencies. Other methods used to discover new construction include field inspections, newspaper articles, business property statements, aerial photography, and reviews of properties listed for sale.

Permit Processing

The following table sets forth the number of new construction permits received and the number of permits resulting in new assessments for recent years:

ROLL YEAR	PERMITS RECEIVED	ASSESSABLE NEW CONSTRUCTION
2009-10	1,609	1,163
2008-09	1,840	1,340
2007-08	2,573	1,821
2006-07	2,413	2,409
2005-06	2,752	2,809

The chief appraiser screens and culls incoming permits. The assessment technician enters the permits into the computer system on an appraisal control screen, so the assigned appraiser is aware of all transactions that have occurred on the parcel. Appraisers find assessable new construction events that have been assigned to them in the appraisal queue screen in the computer system.

Valuation

The assessor values new construction by estimating the market value as of the date of completion for completed new construction. Appraisers determine the completion status of new construction

through direct contact with the permit-issuing agency, information provided by taxpayers, field inspections, or the recorded date of occupancy. Appraisers determine which items of new construction require a field inspection based on the information available to them and the type of permit.

The assessor relies primarily on the cost and comparative sales approaches to value new construction, but occasionally utilizes the income approach to value if applicable. The assessor uses a variety of sources to develop a cost indicator of value for new construction, including Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Assessors' Handbook Section 534, *Rural Building Costs* (AH 534), the owner's reported costs, and *Marshall Valuation Service*. Supplemental assessments are created and issued based on the date of completion of the assessable new construction.

We reviewed a number of parcels with present or recent new construction activity and found one area of concern.

RECOMMENDATION 3: Value construction in progress at market value as of the lien date pursuant to section 71.

We found the assessor does not establish the market value of construction in progress each lien date. Instead, the assessor first estimates the percentage of completion of the project at lien date and then multiplies that percentage by the value reported on the permit.

Section 71 requires that the enrolled value of construction in progress shall be its fair market value as of the lien date. Typically, the value reported on permits is based on published cost factors derived from a building journal and only reflects average costs throughout various regions in California; the values are not necessarily representative of construction costs in Calaveras County. Moreover, these estimates cannot account for variations in construction costs resulting from differences in square footage, construction quality, or the complexity of each proposed project. Thus, the value reported on the permit is not likely to represent fair market value. In order to develop an accurate indicator of value for construction in progress, the assessor must determine its market value using the cost, market, and/or income approaches.

The assessor's current assessment practice of enrolling a percentage of the permit value for construction in progress as of the lien date is not in compliance with section 71 and will likely result in inaccurate assessments.

Declines in Value

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

Due to unfavorable economic conditions, property values in many areas of California have either declined or become stagnant. As a result, many assessors throughout the state have increased the number of decline-in-value assessments. Calaveras County is no exception.

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

ROLL YEAR	DECLINES IN VALUE
2009-10	13,516
2008-09	8,468
2007-08	5,244
2006-07	1,525
2005-06	1,483

The assessor reviewed approximately 15,000 properties for declines in market value for the 2009 lien date, which included properties purchased from 2003 forward. For the 2010 lien date, the assessor will review properties purchased from 2000 forward and anticipates approximately 20,000 properties will be reviewed for declines in market value. The majority of properties that have declined in value are residential; however, the county is beginning to see an increase in the number of commercial properties experiencing declines in market value.

Calaveras County has very few homogeneous neighborhoods and subdivisions. Most decline-in-value properties in recent years have been discovered by the large number of purchased properties the assessor reviewed dating back to the year 2000. Residential properties are reviewed by the appraiser assigned to the geographic area. Values are typically determined by the comparative sales approach. Once a property is determined to have declined in value, the appraiser submits the new value, along with supporting comparable sales, to the chief appraiser for review. Once the chief appraiser approves the new value, notes are made to the appraisal record, any necessary roll corrections are completed, and the fair market value is enrolled for the lien date.

Appraisers annually compile sales that are good indicators of fair market value for each type of property in their designated areas. The comparable sales are put into a master book that becomes the basis for a mass appraisal in each area. The data is entered into the assessor's computer system. Parameters are added to adjust for differences and special features, such as pools and barns. Properties in decline-in-value status are valued by the computer system annually. The computer system automatically compares the fair market value to the FBYV, enrolling the lower of the two values.

Commercial properties are reviewed by the chief appraiser. Values are determined using the income approach. For commercial properties that have declined in value, notes are made on the appraisal record and supporting income calculations are attached. Existing commercial properties in decline-in-value status are reviewed each year by the chief appraiser.

Once a property is placed on a decline-in-value status, it is coded with an 800 number in the assessor's computer system for tracking purposes and a "Notification of Assessed Value Change" is sent to the property owner. The notice shows the FBYV, the proposed decline-in-value assessment (enrolled value), and informs the property owner of their rights to appeal the assessment. For subsequent years, the property owner receives an annual "Assessed Value

Notification Card." For property that is fully restored to its FBV, a notification is sent to the property owner showing the restored FBV to be enrolled.

The assessor is very proactive when it comes to public awareness. The assessor's website provides information to the public defining section 51 and answers questions about the program. The website also contains a helpful tool that allows the public to enter an assessor's parcel number to determine if the property will be reviewed during the current year for a decline in value. If the property is not up for a review, the website provides links to the informal property review request form and instructions for completing the form. The form asks for supporting evidence of the owner's opinion of value if possible, but it is not a requirement. The informal property review request form is available to the public throughout the year. We commend the assessor for providing helpful online information and creating a tool to assist the public with questions and concerns about declining property values.

Overall, the assessor has an effective and well administered decline-in-value program.

California Land Conservation Act Property

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

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

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

The Calaveras County Board of Supervisors adopted Resolution No. 75-489 on November 24, 1975, implementing the California Land Conservation Act of 1965. For the 2009-10 roll year, Calaveras County had 1,156 parcels encumbered by CLCA contracts, totaling 141,467 acres with a total assessed value of \$35,261,344. This included 79 parcels (7,573 acres) that were in nonrenewal status; no contracts have undergone cancellation since the prior survey. The county also had 20 parcels under open-space contracts encompassing 4,582 acres, valued at a restricted rate with a total assessed value of \$777,095, that were not included in the CLCA totals. Calaveras County does not have any parcels under Farmland Security Zone contracts, which are a more restrictive contract providing greater valuation benefits than CLCA contracts, nor have they adopted section 423.3, which allows for CLCA property to be enrolled at a specified percentage of the base year value. There are no scenic easements under restricted value within the county.

Most of the rural property in Calaveras County is used for livestock grazing, with smaller, more adaptable areas improved with fruit and nut crops. Livestock, poultry, and wine grapes generate the bulk of the agricultural revenue in the county. Most of the land under CLCA contract is rated non prime and is used for grazing. The county accounted for approximately \$20.5 million in gross production value of agricultural commodities in 2008, which was a decrease of approximately 6 percent from the 2007 production value. The decreased agricultural revenues can be mostly attributed to both the drought conditions that affected the feed available for grazing and an early spring freeze of the county's fruit and nut crops.

In Calaveras County, the chief appraiser is responsible for the valuation of CLCA properties. Income and expenses are derived from a market analysis, which utilizes data from the Calaveras County crop report, the state crush report, questionnaires from property owners, and other published data. CLCA questionnaires are mailed out bi-annually for grazing properties in the program, and the chief appraiser reviews the information. Properties with living improvements are inspected and valued annually by the chief appraiser. The assessor utilizes a computer system that automatically compares the calculated restricted value to the factored base year value (FBYV) and the current market value, enrolling the lower of the three values. We found that the assessor correctly estimates the income stream for living improvements by utilizing an inclining-stable-declining approach to the income stream.

In developing the restricted capitalization rate used in the valuation of CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE and includes components for risk and tax rate. The assessor uses a 1 percent risk component in the capitalization rate for all restricted land and improvements, while the tax component is specific to the property's location.

We reviewed several CLCA assessments and found the assessor has an efficient and well organized program in place to value these properties. We have no recommendations for the CLCA assessment program.

Taxable Possessory Interests

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

For the 2009-10 roll year, the assessor enrolled 174 taxable possessory interests with a total assessed value of \$6,589,191. The majority of taxable possessory interests in Calaveras County are privately owned cabins on U.S. Forest Service land, fairground concessionaires, and private interests at the airport. Other types of taxable possessory interests in the county include grazing rights, cable television franchises, employee housing, marinas, and other private uses at various public and governmental agencies across the county.

The assessor discovers taxable possessory interests primarily from reports received annually from public agencies. Each year the assessor sends BOE-502-P, *Possessory Interests Annual Usage Report*, to 56 agencies. This report requests a list of tenants, terms of the property usage, and amount of consideration. Most agencies are cooperative and responsive. Once the reports are received, the assessor compares them to information from prior years to determine if any changes have occurred. Additions, changes, or cancellations are noted on the reports and routed to an appraiser for necessary valuation adjustments. The assessor correctly issues supplemental assessments for changes in ownership of taxable possessory interests.

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

RECOMMENDATION 4: Improve the taxable possessory interest program by:

- (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value,
- (2) assessing all taxable possessory interests,
- (3) reappraising all taxable possessory interests upon a change in ownership in accordance with section 61(b),
- (4) correctly calculating the value of taxable possessory interests at the fairgrounds, (5) obtaining copies of all lease agreements or permits that create taxable possessory interests, (6) deducting allowable expenses from gross income when valuing taxable possessory interests by the direct income approach, and (7) adding the present worth of unpaid future contract rents to the sale price of a taxable possessory interest.

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

We found that taxable possessory interests are not reviewed periodically for declines in value. Instead, the assessor enrolls the factored base year value each year.

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

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

Assess all taxable possessory interests.

We reviewed several 2009 usage reports submitted by public agencies and discovered some potential taxable possessory interests that were not being assessed, despite having values that might exceed the county's \$2,000 low value exemption. We also obtained a list of concessionaires from the Calaveras County Fairgrounds and discovered one carnival vendor for the 2009 fair whose possessory interest was not assessed.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession must be independent, exclusive, durable, and provide a private benefit. Several uses listed on the usage reports appear to meet these requirements and, therefore, should be reviewed for possible assessment as taxable possessory interests. Failure to assess all potential taxable possessory interests results in escaped assessments and a loss of revenue.

Reappraise all taxable possessory interests upon a change in ownership in accordance with section 61(b).

We found that the assessor does not reappraise taxable possessory interests at the end of the anticipated term of possession used to value the taxable possessory interest. In addition, we confirmed with the U.S. Forest Service (USFS) that all cabin permits expired on December 31, 2008 and were renewed; however, the assessor failed to reappraise these properties as a result of the change in ownership.

Section 61(b) states that a change in ownership, as defined in section 60, includes, but is not limited to, the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property. Section 61(b)(2) provides that, for renewals or extensions, the assessor shall, at the end of the initial term of possession used by the assessor, establish a new base year value based upon a new reasonably anticipated term of possession.

By not revaluing taxable possessory interests at the end of the anticipated term of possession, the assessor may be enrolling inaccurate assessments.

Correctly calculate the value of taxable possessory interests at the fairgrounds.

We reviewed several taxable possessory interest files of concessionaires at the Calaveras County Fairgrounds. All of the files reviewed were incorrectly calculated. The matter was discussed with the assessor and it was unclear how the value placed on the roll was calculated. Using the rate and term determined by the assessor and the present worth of one per period compound interest table, we determined each file was underassessed.

Obtain copies of all lease agreements or permits that create taxable possessory interests.

We found the majority of taxable possessory interest files reviewed did not contain copies of leases for the taxable possessory interests being assessed. The assessor relies on annual usage reports provided by each public agency to gather information necessary to value taxable possessory interests. Copies of leases are requested by the assessor only if the information provided on the usage report is inadequate.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Rule 21(d) states that the stated term of possession is deemed the reasonably anticipated term of possession except in certain situations, and Rule 21(e)(3)(C) explains how to determine the net operating income for capitalization purposes. These steps in the valuation process cannot be completed if the contract conveying the taxable possessory interest is not reviewed. The assessor may have information relating to the initial lease term, but may not know of any renewal options contained in the lease or of lessor/lessee expense allocations. The usage reports submitted annually to the assessor may provide some information; however, they are not adequate substitutes for the actual leases.

Without access to necessary information contained in the lease or permit creating taxable possessory interests, the assessor is not able to correctly value such interests and may lead to incorrect assessments.

Deduct allowable expenses from gross income when valuing taxable possessory interests by the direct income approach.

The assessor typically uses the direct income approach to determine the fair market value of a taxable possessory interest. We found that the assessor is inconsistent with deductions from the gross income for the lessor's allowable expenses. The assessor indicated it is her practice to deduct management expenses of 5 percent from the gross income; however, we found many taxable possessory interests that did not appear to have any expenses deducted from the gross income to be capitalized.

Rule 21(e)(3)(A) provides that in the direct income approach, the amount to be capitalized to arrive at a value estimate is the future net income the taxable possessory interest is capable of generating under typical management during the term of possession. Rule 8(c) provides that it is appropriate to reduce a lessor's rental income for typical management and other operating expenses incurred by the lessor required to develop and maintain the estimated income.

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

Add the present worth of unpaid future contract rents to the sale price of a taxable possessory interest.

Upon the sale of a taxable possessory interest of a privately owned cabin on USFS land, the assessor enrolls the sale price of the cabin as market value. However, the assessor does not add the present value of unpaid future contract rents for the remaining term of possession to the reported sale price.

The direct method of the comparative sales approach is one of the generally accepted methods for valuing a taxable possessory interest. In this method, as described in Rule 21(e)(1)(A), an important adjustment to the reported sale price is the addition of the present value of the unpaid future contract rents over the remaining term of possession.

When determining the value of a taxable possessory interest, the assessor must include the total consideration paid for the taxable possessory interest. To arrive at the total consideration paid, the assessor must add the present value of the unpaid future contract rents (reduced by allowable expenses paid by the lessor) for the remainder of the reasonably anticipated term of possession to the sale price. If this adjustment is not made, the value indicator will only reflect the buyer's equity value and not the full value of the taxable possessory interest, which may result in underassessments.

Mineral Property

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

There are no assessable geothermal or petroleum properties located in Calaveras County.

Calaveras County has a small number of actively producing sand and gravel properties. The properties are appraised by the chief appraiser. The procedures used generally comply with Board-recommended practices.

There are also a number of unpatented mining claims in the county. Most of the mining claims are exempt, because the value is below the low-value ordinance of \$2,000. The procedures used to value those unpatented mining claims with values greater than the exemption value generally comply with Board-recommended practices.

Overall, the mineral assessment procedures are well administered.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we review the assessor's audit program, business property statement program, business equipment valuation, and the assessment of manufactured homes. The assessor's business property division is comprised of one auditor-appraiser, who is assisted on a part-time basis by an assessment technician.

Audit Program

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

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

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

As noted above, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. We reviewed the assessor's supporting

documentation establishing future audit workloads, as well as audit production to date. Our findings gave us cause for concern.

RECOMMENDATION 5: Audit the books and records of professions, trades, and businesses pursuant to section 469.

We found the assessor has neglected her statutory responsibility to conduct audits pursuant to section 469. The assessor has completed no audits for the 2009-10 fiscal year. Nor were any audits completed during the 2008-09 fiscal year. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. The assessor is required to complete at least four audits per year. The lack of recent audit production provides no indication the assessor will meet this obligation in the future.

An audit program is an essential component of any equitably administered assessment program. A weak or nonexistent audit program can render a business property assessment program with no means of either verifying the accuracy of taxpayer reporting or for correcting noncompliant reporting practices. Furthermore, experience shows the further removed the audit is from the year being audited the more difficult it is to obtain the records necessary to substantiate accurate reporting. Therefore, timeliness of the audit is also an important factor in an effective audit program and, ultimately, a well managed assessment program. By failing to conduct audits in a timely manner, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to escape assessment.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed-time period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

As a rule, the assessor requests waivers of the statute of limitations from taxpayers when she anticipates an audit will not be completed in a timely manner. We sampled a number of waivers on record and found them to be adequately prepared. However, due to staffing and resource limitations in 2008-09, no waivers were presented or signed by audit candidates. The lack of signed waivers during 2008-09 appears to be an isolated event.

Audit Quality

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

We found the assessor verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment. We also reviewed the assessor's application of roll corrections to reflect audit findings. When correcting for multiple-year audit findings, the assessor properly enrolls roll corrections for each year in which the escape assessment took place pursuant to section 531. However, we found one area needing improvement.

RECOMMENDATION 6: Use a comprehensive audit checklist as a standard component of the audit program.

Frequently, during our review of sampled audits, we could not determine the scope of the assessor's audit investigations, because an audit checklist was not included in the work papers. The assessor's audit program does not include the routine use of a comprehensive audit checklist indicating the areas of investigation.

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

Business Property Statement Program

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

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. In addition to taxpayer self-reporting, the assessor reviews fictitious business name filings, city and county business licenses, real property appraiser referrals, business directory services, and BOE notifications. The assessor also conducts focused field canvasses. Furthermore, the assessor performs field inspections of habitual non-filers who fail to file a BPS for three consecutive years. Lastly, applicants must submit a completed questionnaire to the assessor as part of the business license application process. This novel approach assists the assessor in making more informed enrollment decisions. We found, for the most part, the assessor employs effective methods of discovering businesses likely to own taxable personal property.

General Statement Processing

An assessment technician opens and date stamps all submitted BPSs. Property statements are then reviewed for completion and the inclusion of a legally acceptable signature. Complete BPSs are sorted for processing. A data field in the computer system is coded to reflect the timely

submission. Incomplete BPSs are forwarded to the auditor-appraiser, who mails the incomplete BPS back to the property owner, along with a letter detailing the reason for the rejection.

The auditor-appraiser processes all submitted BPSs in Calaveras County. Once the filing deadline passes, the assessor runs a report listing accounts for which a BPS was required, but not submitted. The auditor-appraiser manually activates the computer system data field, allowing for the inclusion of a late-file penalty for those accounts not timely filed.

We reviewed the BPS program, including processing procedures, use of Board-prescribed forms, processing by noncertified staff, completeness of the accepted BPSs, authorized signatures, application of penalties, real property division coordination, and record storage and retention. In addition, we reviewed several recently processed BPSs. We found all BPSs sampled were completed in sufficient detail, evidenced the proper usage of Board-prescribed forms, and were properly signed. Overall, we found the BPS processing procedures to be correctly administered with the following exceptions:

RECOMMENDATION 7: Improve the business property statement program by:
(1) requiring vessel owners to file annual vessel property statements for all boats costing \$100,000 or more,
(2) mailing BPSs to all business accounts with taxable personal property costing \$100,000 or more,
and (3) applying a penalty assessment to all business property accounts that fail to timely file a BPS in accordance with section 441.

Require vessel owners to file annual vessel property statements for all boats costing \$100,000 or more.

The assessor mails BOE-576-D, *Vessel Property Statement*, to owners of vessels costing over \$100,000 once every three years. The assessor does not currently require owners of these vessels to report annually.

Section 441 requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year to file a signed annual property statement with the assessor. This provision also applies to all vessels, including noncommercial vessels. Vessel information provided during annual reporting provides the assessor with current and accurate data regarding replacement engines and new accessories. Failing to require owners of such vessels to file a property statement increases the risk of inaccurate assessments based on insufficient information and allows for noncompliance of statutory provisions.

Mail BPSs to all business accounts with taxable personal property costing \$100,000 or more.

The assessor recently suspended the mailing of BPSs to owners of all business property accounts sited in Calaveras County. Therefore, many property owners required to file an annual BPS are not being furnished a BPS by the assessor.

Rule 171(f) states that the pertinent property statement form and instructions shall be furnished by the assessor to every person required by law or requested by the assessor to file a property statement. In addition, section 441 requires owners of business property with an aggregate cost of \$100,000 or more to file a signed annual property statement.

Annual BPSs form the backbone of the business and personal property assessment program and are vitally important in aiding with the discovery of taxable business property. It is usually impossible for the assessor's staff to determine the accuracy of enrolled market valuations calculated from historically provided cost data when current data is not available. Under the assessor's new policy, many property owners that are required to file an annual property statement or have filed annual property statements in the past are no longer being furnished with a property statement by the assessor. This practice may leave some property owners with business personal property of \$100,000 or more with the impression they are no longer legally obligated to file an annual property statement. Consequently, the assessor could experience a higher rate of escaped assessments and an increase in roll corrections as property owners receive penalty notices for non-filing.

Apply a penalty assessment to all business property accounts that fail to timely file a BPS in accordance with section 441.

During our review, the assessor posted a press release to her website expressing her intention to suspend the application of late and non-filing penalties prescribed in section 463. This policy change is described as another element in the assessor's attempt to reduce operating costs.

As previously stated, section 441 requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year to file a signed annual property statement with the assessor. Section 441(b) provides that a property statement is considered late if it is not filed by May 7. This section also provides for a penalty assessment pursuant to section 463 to be applied to property statements not filed by May 7. Amended property statements filed on or before May 31 are considered timely. Section 463 levies a penalty of 10 percent of the assessed value to be added to the assessment on the current roll. In terms of business property accounts meeting or exceeding the \$100,000 threshold described in section 441, the legally mandated penalty provided by section 463 remains in force regardless of whether the assessor mails a property statement.

The assessor's newly adopted policy has a number of consequences. First, the assessor's policy will likely lead to a significant loss in tax revenue resulting from the escape of unreported taxable business equipment. Second, this policy leaves the impression with larger business property owners, who otherwise are required to file an annual property statement, that it is legally permissible not to report newly acquired taxable property. Third, this policy leads to inequitable treatment of taxpayers who voluntarily report and those who reported before the policy change. Finally, the policy endangers the assessor's ability to conduct her most fundamental duty: to discover and assess all taxable property located in the county.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

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

During our review, we found that the assessor does not maintain formal written procedures. The office's sole auditor-appraiser updates valuation tables and calculates all value estimates based upon past experience and her familiarity with local business enterprises.

Application of Board-Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment (such as pagers, facsimile equipment, high tech medical equipment, and photocopiers), which the CAA recommends should not be trended. The assessor helps to enforce consistent usage of valuation tables and equipment lives with pre-programmed defaults tied to specific industry and equipment classifications. We sampled several business property enrollments and found the assessor's valuation tables to be properly compiled and consistently applied.

Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. The assessor pro-rates reported machinery and equipment to fixtures and personal property based on knowledge of local business operations and previous audit findings. We reviewed numerous valuation calculations and found no problems with either fixture allocations or classification determinations between fixtures and personal property upon enrollment.

Manufactured Homes

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

For the 2009-10 roll year, Calaveras County had 1,869 manufactured homes located in 15 parks, with a total assessed value of \$57,072,868. Pursuant to sections 5801(b)(2) and 5830, the assessor classifies manufactured homes as personal property and enrolls them on the secured roll with an assessment number beginning with "910." All manufactured homes in Calaveras County are assessed by one real property appraiser.

Once permanently affixed to an approved foundation, a manufactured home is considered an improvement and enrolled as real property. The assessor verifies the home is affixed to an approved foundation in accordance with Health and Safety Code section 18551 and requires proof the notice of affixation (form 433A) has been recorded.

The assessor discovers new manufactured homes and transfers of manufactured homes in the county by reviewing the Department of Housing and Community Development (HCD) reports, building permits, and dealer reports of sale, as well as performing field canvasses.

In determining the full cash value for a manufactured home on rented or leased land pursuant to section 5803, the assessor considers sale prices listed in recognized value guides for manufactured homes. The assessor's primary valuation tool is the National Automobile Dealers Association *Manufactured Housing Cost Guide* (NADA). Site value is not included in the manufactured home assessments.

The assessor develops a factor schedule based on data from NADA and local sales that calculates the taxable value of a manufactured home for each lien date in relation to its acquisition date, size, and condition. The assessor has incorporated the schedule into her computer system to review the values of manufactured homes automatically.

We reviewed a number of manufactured home assessments, including recent transfers and new installations, comparing the taxable value on the roll to the current NADA valuation. We found the assessor's taxable values were within the range of those indicated by NADA values.

The assessor correctly applies supplemental assessments to new and transferred manufactured homes. She correctly exempts from assessment manufactured homes held in dealer's inventory and those held or owned by financial institutions and insurance companies.

We believe the assessor has a sound and reliable manufactured home assessment program.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Calaveras County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Pamela Bowens

Supervising Property Appraiser

Survey Team Leader:

Pamela Bowens

Supervising Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Tammy Aguiar

Associate Property Appraiser

Bryan Bagood

Associate Property Appraiser

Angie Berry

Associate Property Appraiser

Michael Brennan

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

Rule 371. Significant assessment problems.

(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 Board a response to the findings and recommendations in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Calaveras County Assessor's response begins on the next page. The BOE has no comments on the response.



Calaveras County Assessor's Office

Leslie K. Davis
Assessor

April 11, 2012

Mr. Dean Kinnee, Chief
County Property Tax Division
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0063

Re: Calaveras County Assessment Practices Survey Response

Dear Mr. Kinnee:

I have reviewed the *Calaveras County Assessment Practices Survey Report* and the recommendations contained in it. I have attached my response to that Report pursuant to section 15645 of the Government Code.

I strongly believe that periodic surveys by the State provide an opportunity to review processes and improve service to the public. The professionalism of your survey team and their diligent review of our practices should be acknowledged and applauded. While we do not agree with every recommendation, your team was courteous and openly discussed their findings with the intent of providing constructive feedback, rather than criticism. In fact, they were able to bring items to our attention that needed to be addressed immediately rather than wait for written survey results.

As you know, Calaveras County has been particularly hard hit by the economic downturn. Your statistics demonstrate that our assessment roll growth consistently exceeded the state average from 2002 through 2007 then declined in advance of the balance of the state, again at rates higher than the state average. This resulted in an unprecedented requirement to review the values of thousands of properties affected by the declining market. Thank you for acknowledging the efforts made by my staff in that regard.

I would like to express my sincere appreciation to the staff of the Calaveras County Assessor's Office for their hard work and professionalism. Their dedication and conscientious efforts enables this office to provide high quality and responsive service to the public during these challenging times. It is an honor to work with such a dedicated team of public servants.

Respectfully submitted,

A handwritten signature in blue ink that reads "Leslie K. Davis".

Leslie K. Davis
Assessor

CALAVERAS COUNTY ASSESSMENT PRACTICES SURVEY
April 2012

Recommendations and Responses

Recommendation 1: Exempt all relevant property eligible for exemption

Response: We agree. We have already corrected the single property that was handled incorrectly and we have taken steps to ensure that staff is adequately trained to handle this type of exemption in the future.

Recommendation 2: Improve the change in ownership program by properly notifying taxpayers of any penalty added in compliance with section 482(f).

Response: We respectfully disagree. Our notification letter contains all of the required elements regarding the penalty and its abatement. We will continue our efforts to obtain purchase information in an attempt to avoid imposition of penalties.

Recommendation 3: Value construction in progress at market value as of the lien date pursuant to section 71.

Response: We agree, in concept, with the recommendation. However, we respectfully disagree with the comments relative to this recommendation and, therefore, we believe that the conclusion is flawed. Assessors' Handbook 501 (Basic Appraisal), Assessors' Handbook 502 (Advanced Appraisal) and Property Tax Rule 6 provide guidance on the valuation of incomplete new construction. Each directive clearly concludes that the cost approach may be the best approach to valuing construction in progress (CIP) on the lien date. Having said that, the question becomes: which cost service is appropriate? We use the BOE costs as well as Marshall Valuation Service. In our experience, the costs reported on building permits are well within the range of those cost services and do not exceed market value. There are two major flaws in the conclusion. First, it presumes that a "typical" practice in other jurisdictions is followed by the Calaveras County Building Department. Second, it presumes that a percentage of the permit value was used in all instances of CIP valuation. Neither presumption is correct, hence our belief that the conclusion is flawed.

Recommendation 4: Improve the taxable possessory interest program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (2) assessing all taxable possessory interest, (3)

reappraising all taxable possessory interests upon a change in ownership in accordance with section 61(b), (4) correctly calculating the value of taxable possessory interests at the fairgrounds, (5) obtaining copies of all lease agreements or permits that create taxable possessory interests, (6) deducting allowable expenses from gross income when valuing taxable possessory interests by the direct income approach, and (7) adding the present worth of unpaid future contract rents to the sale price of a taxable possessory interest.

Response: In general, we agree that the assessments of possessory interests have room for improvement. We will, as time and resources permit, make changes to improve the process.

We do not agree with all seven components of the recommendation. Most importantly, we disagree with the suggestion that we obtain copies of all lease agreements or permits that create taxable possessory interests. There is no requirement in state law that supports this recommendation. In fact, the law provides two alternative ways for public agencies to report a possessory interest so there is no need to obtain a copy of the document if it is reported correctly. Also, it should be noted that possessory interests are created by public agencies that are not subject to state law and their responsiveness is not something that the Assessor can control.

Recommendation 5: Audit the books and records of professions, trades, and businesses pursuant to section 469.

Response: We concur and have taken action to ensure that required audits are completed.

Recommendation 6: Use a comprehensive audit checklist as a standard component of the audit program.

Response: We agree that a comprehensive audit checklist should be used and have taken action to ensure that audit staff follows internal policies that require its use.

Recommendation 7: Improve the business property statement program by: (1) requiring vessel owners to file annual vessel property statements for all boats costing \$100,000 or more, (2) mailing BPSs to all business accounts with taxable personal property costing \$100,000 or more, and (3) applying a penalty assessment to all business property accounts that fail to timely file a BPS in accordance with section 441.

Response:

Unfortunately, budgetary and staffing constraints make it difficult to consider implementing any part of this recommendation at this time. Even so, we respectfully disagree with the principles driving the recommendation as explained in the Report.

We agree that the information contained in a Business Property Statement is important. If our budget adequately covered all of the costs associated with the production of the assessment roll, this would not be an issue. As noted in your Report, budget cuts since 2007 have resulted in the need to set priorities. The Report would have the reader believe that our failure to assess penalties on business/personal property accounts (1) will lead to a significant loss in tax revenue, (2) will lead business owners to believe that they are not required to report taxable property, and (3) result in the inequitable treatment of taxpayers. Those contentions are false.

(1) We agree that the current staffing level is adversely affecting the assessment roll. Those staffing levels are not controlled by the assessor. Clearly, some work will not be completed or, if completed, it will be delayed. The unsecured roll represents less than 2.5% of the total assessment roll yet it cost more than 8.5% of my 2010-11 budget to produce. Logic dictates that unfunded, high cost activities must be curtailed. This is unrelated to penalties for failure to file a BPS.

(2) The law does not waive the requirement for filing a BPS or invalidate the assessment based on whether or not the assessor mailed a request. If the contention contained in the report is correct, I would suggest that our time would be better spent eliminating arcane regulations that appear to be in place to deliberately confuse and/or penalize taxpayers.

Moreover, the law does not require that BPSs be mailed to all business/boat owners. Rather, it requires that the assessor "furnish" copies. That has been accomplished by posting the form on our website. Additionally, all business owners have the ability to file using the CAA BPS On-Line filing system (www.calbpsfile.org). They need only contact my office to obtain filing instructions and access codes.

(3) All business/personal property owners are being treated the same.

Our current practice is a major departure from past practices. During these challenging times it is important to focus on the bigger picture of producing an assessment roll with the available resources. Our time is better spent on tasks that protect the integrity of the assessment roll. The application of a few penalties will not make or break the bottom line.