

EL DORADO COUNTY ASSESSMENT PRACTICES SURVEY

SEPTEMBER 2011

CALIFORNIA STATE BOARD OF EQUALIZATION

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September 30, 2011

TO COUNTY ASSESSORS:

EL DORADO COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2011/037

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

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September 2009 through February 2010. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The retired assessor, Mr. Tim Holcomb, and the current assessor, Mr. Weiland, and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:dcl
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the El Dorado 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 El Dorado 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 Karl Weiland, El Dorado County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation 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 C.

Our survey of the El Dorado County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in El Dorado County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2009-10 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This 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.

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 improved his operation by embracing new technology. The following are a few examples of the improvements the assessor has made since our last survey:

- The assessor implemented a web-based paperless recorded document processing and workflow management system to streamline the assessment process;
- The assessor integrated unrecorded document processing into his web-based paperless system, giving appraisers the ability to process and track diverse documents such as:
 - 1) U.S Forest Service cabin leases
 - 2) Manufactured home transfer documents
 - 3) BOE notifications regarding changes in control of legal entities;
- The assessor developed a computerized section 51 value adjustment system;
- The assessor reconfigured batch processing of deeds to real time individual deed processing, reducing any issues associated with a subsequent event occurring before the initial event is processed and billed;
- The assessor transitioned to electronic map processing and implemented GIS capability for staff to access maps and aerial photos from their desks; and
- The assessor created a Data Integrity Group to analyze workflow and data entry with the goal of reducing data entry errors, improving data integrity, and simplifying workflow.

The assessor has also created programs and tools to assist the public with property tax questions and inquiries. The following are a few examples:

- The assessor provided remote, on-site, and online disaster center assistance to victims of the Angora Fire; and
- The assessor received a California State Association of Counties Challenge Award of Merit for creating a Taxpayer's Guide to Supplemental Assessments and Estimator that the public can access from the assessor's website. The guide provides the entire tax calculation, including section 75.54 proration where applicable.

In the area of administration, we noted that the assessor effectively manages his budget and staffing. He also has effective programs in place for monitoring and assessing staff-owned property, disaster relief, exemptions, disaster relief, and the processing and presentation of assessment appeals. However, several administrative components, such as administering appraiser certification and training, assessment roll changes, and assessment forms, are in need of improvement.

In the area of real property assessment, the assessor is efficiently running the new construction program. We did note the need for improvement in the assessor's assessment programs for change in ownership, declines-in-value, California Land Conservation Act (CLCA) properties, taxable possessory interests, leasehold improvements, and mining properties.

In the area of personal property and fixtures assessment, the assessor has effective programs for the audits and business property statement processing. However, the business equipment valuation and vessel programs are in need of improvement.

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

The El Dorado County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2009-10 assessment roll indicated an average assessment ratio of 100.25 percent, and the sum of the absolute differences from the required assessment level was 1.37 percent. Accordingly, the BOE certifies El Dorado County is eligible to receive reimbursement 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: Notify the BOE when certified appraisers terminate employment with the assessor's office.....9

RECOMMENDATION 2: Improve assessment roll change procedures by: (1) revising the *Notice of Proposed Escape Assessment* to comply with section 531.8; (2) enrolling an escape assessment no fewer than ten days after sending the *Notice of Proposed Escape Assessment*; (3) sending a *Notice of Enrollment of Escape Assessment* as required by section 534; and (4) ensuring both penalty and interest are added to escape assessments.....13

RECOMMENDATION 3: Improve the assessment forms program by: (1) submitting property tax form checklists to the BOE as required by Rules 101 and 171, and (2) using BOE-prescribed forms in place of county-generated forms as required by Government Code section 15606.....17

RECOMMENDATION 4: Apply the section 482 penalty for failure to file the *Change of Ownership Statement*.25

RECOMMENDATION 5: Annually review the assessment of timeshares in decline-in-value status as required by section 51(e).....29

RECOMMENDATION 6: Revise CLCA assessment procedures by: (1) annually calculating restricted values for CLCA properties as required by section 423, and (2) appraising each CLCA property as an appraisal unit.31

RECOMMENDATION 7: Assess taxable government-owned properties at the lowest of current market value, factored base year value, or the restricted value.....32

RECOMMENDATION 8: Improve the taxable possessory interest program by: (1) not revaluing taxable possessory interests prior to the expiration of the reasonably anticipated term of possession; (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value and enrolling the values consistently; (3) issuing supplemental assessments for changes in ownership or new construction of qualifying taxable possessory interests assessed on the unsecured roll; (4) adding the present worth of unpaid rents to the nominal sales price as required by Rule 21.34

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RECOMMENDATION 11: Use AH 581 as intended by: (1) using minimum percent good factors that are supportable as provided in section 401.16(b), and (2) discontinuing the use of the economic downturn adjustment factor without a supporting study to justify the adjustment.....43

RECOMMENDATION 12: Revise vessel assessment procedures by: (1) discontinuing the use of unsupported depreciation adjustments and (2) including sales tax as a component of market value when appraising vessels.....44

OVERVIEW OF EL DORADO COUNTY

El Dorado County lies in the heart of California's Gold Rush Country. Established in 1850 as one of the original California counties, it encompasses approximately 1,788 square miles. The town of Coloma is where gold was first discovered in California.

El Dorado County is bordered by the counties of Placer to the north, Alpine and Amador to the south, Sacramento to the west, and the state of Nevada to the east. Within the borders of the county are beautiful lakes, rivers, 10,000 foot mountain peaks, gold mines, historic towns, and ski resorts. In 2008, El Dorado County had a population of 176,075. The county seat is Placerville, one of only two incorporated cities. Historically, mining and logging dominated El Dorado County's economy. Today the county has only a small number of active mining properties, and the last active lumber mill closed in the summer of 2009. Tourism, light manufacturing, pears, apples, cherries, plums, wineries, livestock, and professional service occupations have become the important industries for the county.

Of the 58 counties in California, for the 2009-10 roll year, El Dorado County ranked 25th in total assessed value of county-assessed property subject to general property taxes.²

² State Board of Equalization Annual Report, Table 7

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

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$9,030,146,609
	Improvements	\$17,944,543,359
	Personal Property and Fixtures	\$267,899,910
	Total Gross Secured	\$27,242,589,878
	Less Exemptions	\$455,805,059
	Total Secured	\$26,786,784,819
Unsecured Roll	Personal Property and Fixtures	\$616,706,456
	Total Assessment Roll	\$27,403,491,275

The next table illustrates the growth in assessed values over recent years:³

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE INCREASE
2009-10	\$27,403,491,000	-2.1%	-2.4%
2008-09	\$27,996,594,000	3.8%	4.7%
2007-08	\$26,981,810,000	8.6%	9.6%
2006-07	\$24,846,568,000	13.7%	12.3%
2005-06	\$21,847,602,000	14.4%	11.1%

³ 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, appraiser certification, staff property procedures, assessment appeals, disaster relief, assessment roll changes, exemptions, and assessment forms.

Budget and Staffing

The following table shows budget and staffing levels in recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF ⁴
2008-09	\$3,971,293	-0.51%	40
2007-08	\$4,184,349	0.75%	45
2006-07	\$4,152,164	5.25%	45
2005-06	\$3,944,786	18.5%	45

The assessor has a main office in Placerville and a field office in South Lake Tahoe. Presently, the number of employees for both offices total 40, which includes the assessor, the assistant assessor, 1 assessment office manager, 1 executive secretary, 1 property transfer supervisor, 4 property transfer specialists, 1 geographic information systems analyst, 1 senior information technology department coordinator, 1 information technology department specialist, 1 South Lake Tahoe branch managing appraiser, 1 assessment standards supervisor, 1 supervising appraiser, 1 supervising auditor-appraiser, 10 real property appraisers, 2 auditor-appraisers, 1 cadastral drafter, 9 assessment technicians, and 2 appraiser aides.

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 a total of 19 certified appraisers on staff, including the assessor, with 14 having an advanced certificate. We found that the assessor and his staff possess the required appraiser's certificates. The assessor does not use contract appraisers.

The assistant assessor is the training coordinator. In this capacity the assistant assessor oversees the training and certification program for appraisers and tracks individual appraiser's educational progress utilizing BOE annual reports. Appraisers are encouraged to attend courses required to obtain their advanced certification as quickly as possible. The assessor does not provide any financial incentive to obtain advanced certification; however, it is recognized when employees apply for the senior appraiser position.

⁴ The number of staff reported includes the assessor.

Our review of the assessor's appraiser certification program indicates one area needing improvement.

RECOMMENDATION 1: Notify the BOE when certified appraisers terminate employment with the assessor's office.

According to BOE's report on training hours for El Dorado County, four appraisers were deficient as of June 30, 2009 (the end of the fiscal year). Our review indicates those four appraisers are no longer employed by the assessor. An appraiser's certificate becomes inactive upon the appraiser's termination of employment. The county in which the appraiser worked should submit a notice of termination of employment for the appraiser on BOE-743-A, *Report of Property Appraiser's Change in Employment Status*. Failure to notify the BOE when a certified appraiser is no longer employed by the assessor could result in inaccurate training records in the county and with BOE.

Staff Property Procedures

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

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

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.

When an appraisal is required on a staff-owned property or business, the assignment is given to the appraiser assigned to that geographic area. If an appraiser owns property within their assigned geographic area, the appraisal will be assigned to another appraiser or a senior appraiser. If the property is owned by a senior appraiser, then a senior appraiser from another area will do the appraisal. Upon completion of the appraisal, it is forwarded to the assistant assessor and then to the assessor for review and approval.

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

Assessment Appeals

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

El Dorado County Ordinance No. 4442 provides for the creation of one assessment appeals board (AAB). The El Dorado County AAB consists of five members; however, members are randomly selected by the clerk of the AAB to act as a three-member panel for assessment appeals hearings pursuant to section 1622.1. There are no hearing officers.

The El Dorado County Board of Supervisors directly appoints members to the AAB. Current AAB members have documentation of qualifying experience on file with the clerk of the AAB as required by section 1624(b), and have successfully completed the training required by section 1624.02.

Assessment appeal applications are filed with the clerk of the AAB. Beginning July 1, 2009, a \$30 nonrefundable processing fee must be paid at the time of filing pursuant to the board of supervisor's Resolution 145-2009.

The clerk of the AAB confirms applications are complete and timely filed. The assessor notifies the clerk of the AAB and the tax collector by April 1 of each year if notices of assessed value of real property on the secured roll will be sent by August 1 as required by section 1603(b)(3)(A). The regular filing period for appeals in El Dorado County is July 2nd through November 30th.

Copies of applications are sent to the assessor's office. The assigned appraiser discusses the nature of the dispute with the applicant, performs a physical inspection of the property, and determines value using sales, income, and cost data. When the review is complete, the appraiser discusses the appraisal with the supervising appraiser or assistant assessor.

If an agreement can be reached, the appeal may be resolved by a stipulation or a withdrawal. Approximately 80 percent of appeals end with either a stipulation or a withdrawal. If the applicant agrees to withdraw without a value change, the applicant must notify the clerk of the AAB in writing. The assessor will provide the withdrawal form, but the applicant must notify the clerk of the AAB to withdraw. In the event of a stipulation, the applicant and the assessor sign a document prepared by the assessor containing the agreed upon value. Pursuant to section 1607, a stipulation agreement is signed by the county counsel in addition to the applicant and assessor, and sets forth the facts upon which the agreed upon value is based. We reviewed a sampling of appeals resolved through stipulations and withdrawals and confirmed values had a reasonable basis. All stipulations are heard by the AAB.

If no agreement can be reached, the clerk of the AAB schedules the appeal for hearing. The appraiser prepares an appeal fact sheet with photos for each appeal scheduled for hearing. The appraiser defends the assessed value before the AAB under the supervision and guidance of the assistant assessor. We reviewed copies of appeal fact sheets prepared and presented by appraisers from prior hearings; the packets were well organized.

The assistant assessor and the clerk of the AAB track the progress of assessment appeals to ensure all appeals are resolved timely. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

The following table illustrates the assessor's appeals workload in recent years:

ROLL YEAR	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	712	504	150	90	102
Appeals Carried Over From Prior Year	163	58	28	60	53
Total Appeals Workload	875	562	178	150	155
Resolution:					
Withdrawn	711	336	62	51	31
Stipulation	3	28	45	30	43
Appeals Reduced	21	13	1	22	0
Appeals Upheld	3	5	8	15	4
Appeals Increased	0	0	0	0	0
Other Determination*	0	17	4	4	17
Total Resolved	751	399	120	122	95
To Be Carried Over**	124	163	58	28	60
* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and AAB denied applications.					
**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.					

The majority of appeals filed in El Dorado County for 2008-09 roll year were decline-in-value appeals. No appeals have involved exemptions.

Overall, the assessment appeals program is well managed.

Disaster Relief

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

To obtain relief under section 170, assesseses must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity; the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal

property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The El Dorado County Board of Supervisors updated the county's disaster relief ordinance on July 3, 2007. The ordinance does not specify a termination date. The ordinance applies to any taxable property damaged through no fault of the owner where the amount of damage equals or exceeds \$10,000. This is consistent with the requirements of section 170.

Calamities are discovered through fire reports, newspaper articles, building permits issued for repairs, and taxpayer initiated contact. In addition, the assessor's written policies and procedures direct appraisers to watch for calamities when in the field.

The ordinance grants the assessor the authority to initiate disaster relief reassessment without an application from the assessee when it is determined the taxable property was damaged or destroyed within the preceding 12 months through no fault of the owner. The assessor uses this authority in addition to the disaster relief application process. The El Dorado County application form includes the following elements: applies to any taxable property, damage must equal or exceed \$10,000, a computation area for "before" and "after" damage values, and a jurat portion for taxpayer certification. In an effort to ensure accuracy, the assessor could include an "owner not at fault" element. The application form is available on the assessor's website.

The assessor processes an average of 10 to 15 disaster relief applications per year. In our review of disaster relief records, we found disaster relief applications are date-stamped to verify timely filing. In addition, the minimum \$10,000 of damage is documented using contractor's repair bids, insurance company statements, and field inspections by staff. Finally, the assessor notes the disaster information on the records, calculates the value reductions, and lowers the assessed values of properties which qualify for relief.

A notice is sent to the assessee informing them of the proposed reassessment. The notice states the amount of the proposed reassessment and advises that the assessee may appeal within six months of the mailing of the notice. This is consistent with the requirements of section 170(c).

In general, the assessor's disaster relief program is effective for identifying damaged or destroyed property, processing applications, and granting disaster relief.

Assessment Roll Changes

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of unpaid taxes requires the consent of the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

The following table shows the number of roll changes processed over recent years:

ROLL YEAR	SECURED	UNSECURED	TOTAL
2008-09	2,413	527	2,940
2007-08	2,259	568	2,827
2006-07	1,633	580	2,213
2005-06	1,714	355	2,069
2004-05	1,134	385	1,519

Roll changes are electronically generated on an "Assessment Roll Correction Request" form. This form includes the calculations, reasons for the correction, applicable code sections, approver's initials, date of review, and date corrected. The supervising appraiser or the assistant assessor must approve the correction.

Once approved, the roll change is entered into the assessor's system and the roll change request is sent to the tax auditor for processing. Penalties are calculated by the assessor, and interest is calculated by the auditor-controller.

We reviewed several roll corrections and escaped assessments processed for the 2004-05 through 2008-09 roll years. Our review revealed four areas of concern with the assessor's roll correction procedures.

RECOMMENDATION 2: Improve assessment roll change procedures by: (1) revising the *Notice of Proposed Escape Assessment* to comply with section 531.8; (2) enrolling an escape assessment no fewer than ten days after sending the *Notice of Proposed Escape Assessment*; (3) sending a *Notice of Enrollment of Escape Assessment* as required by section 534; and (4) ensuring both penalty and interest are added to escape assessments.

Revise the *Notice of Proposed Escape Assessment* to comply with section 531.8.

The assessor does not properly notify taxpayers of the enrollment of an escape assessment. Taxpayers should first receive a *Notice of Proposed Escape Assessment* and then a *Notice of Enrollment of Escape Assessment*.⁵ Instead, the only notice taxpayers receive related to escape assessments is the *Notice of Proposed Escape Assessment*. However, this notice contains appeal language that should be part of the *Notice of Enrollment of Escape Assessment*. Section 531.8 states the notice must contain (1) the heading "NOTICE OF PROPOSED ESCAPE ASSESSMENT" prominently displayed, (2) the amount of the proposed escape assessment for each tax year involved, and (3) the telephone number of the assessor's office to allow the taxpayer to contact the office regarding the proposed escape assessment. The assessor's *Notice of Proposed Escape Assessment* does not meet the requirements of section 531.8 because it contains additional appeal language that could mislead taxpayers about their right to file an appeal.

⁵ See LTA 2008/021 dated March 10, 2008.

Enroll an escape assessment no fewer than ten days after sending the *Notice of Proposed Escape Assessment*.

The assessor does not allow a minimum of ten days to elapse between notifying the assessee of the proposed escape assessment and the enrollment of the assessment. Section 531.8 provides that no escape assessment shall be enrolled before ten days after the assessor has mailed or otherwise delivered to the affected taxpayer a *Notice of Proposed Escape Assessment*. The assessor's practice eliminates the assessee's opportunity to contact the assessor in case of a disagreement prior to enrollment of the escape.

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

The assessor does not send a *Notice of Enrollment of Escape Assessment*. Section 534 requires a *Notice of Enrollment of Escape Assessment* to be mailed at the time of enrollment. The notice must include the following information: (1) the date of mailing, (2) information regarding the assessee's right to an informal review and the right to appeal the assessment, and (3) that the assessment appeal must be filed within 60 days of the date of mailing printed on the notice or the postmark date, whichever is later. Section 534(d)(2) expressly provides that the *Notice of Proposed Escape Assessment* required by section 531.8 does not satisfy the notice requirements of section 534. The assessor does not send the notification required by section 534 and, thus, does not adequately inform taxpayers of the right to an informal review of the assessment and the right to file an appeal contesting the assessment.

Ensure both penalty and interest are added to escape assessments.

When the assessor determines he has erroneously allowed a homeowners' exemption due to a taxpayer's failure to timely notify him that the property no longer qualifies for the exemption, the assessor changes the roll but does not assess interest or a penalty. Section 531.6 provides that if a homeowners' exemption has been incorrectly allowed through no fault of the assessor, an escape assessment in the amount of the exemption with interest as provided in section 506 shall be made. This section also stipulates that if the homeowners' exemption was incorrectly allowed because the claimant failed to notify the assessor in a timely manner that the property was no longer eligible for the exemption, the penalty provided in section 504 shall be added to the assessment. The assessor is responsible for imposing the penalty to the assessment and notifying the auditor that interest is to be added as well. The assessor's current procedure does not comply with statutory requirements and results in lost revenue.

Exemptions**Church and Religious Exemptions**

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial

purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

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

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

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2008-09	91	\$97,035,000	10	\$1,396,000
2007-08	91	\$88,520,000	10	\$1,063,000
2006-07	88	\$82,317,000	9	\$1,048,000
2005-06	88	\$77,201,000	11	\$1,547,000
2004-05	89	\$74,294,000	11	\$833,000

In El Dorado County, the exemption staff consists of two assessment technicians. The technicians use internally developed procedures, along with resources produced by the BOE, to review exemption claims.

Several new and annual church and religious exemption claims were reviewed during our survey. We found the county correctly administers both exemptions.

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 (OCC holder) as the managing general partner, that own and operate low-income

housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

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

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2008-09	181	\$326,329,000
2007-08	164	\$305,594,000
2006-07	151	\$294,163,000
2005-06	221	\$268,158,000
2004-05	212	\$245,114,000

In El Dorado County, the assessor verifies that each organization receiving the exemption holds a valid OCC issued by the BOE. Furthermore, the assessor is diligent in performing on-site inspections of properties whose owners are seeking an exemption for the first time. The assessor confirms all requirements have been met before a welfare exemption is issued on any property.

Several welfare exemption claims were reviewed during the survey; these included claims for low-income housing properties, hospitals, and properties involving charitable or religious activities. No deficiencies were found.

Homeowners' and Disabled Veterans' Exemptions

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

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

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

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

ROLL YEAR	HOMEOWNERS' EXEMPTIONS	EXEMPTED VALUE	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2008-09	39,911	\$278,795,000	292	\$32,243,000
2007-08	39,769	\$277,656,000	273	\$29,274,000
2006-07	39,399	\$275,273,000	261	\$26,634,000
2005-06	38,844	\$271,496,000	256	\$25,375,000
2004-05	38,459	\$267,988,000	240	\$22,634,000

In El Dorado County, the assessor follows statutory guidelines in the administration of both the homeowners' and disabled veterans' exemptions. Several new disabled veterans' claims were reviewed during the survey. We found that claims were processed within statutory guidelines, with the exception of erroneously allowed homeowners' exemptions that are covered in the Assessment Roll Changes topic.

Assessment Forms

Government Code section 15606 requires the Board to prescribe and enforce the use of all forms for the assessment of property for taxation.⁶ 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 Board 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 BOE-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 annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

A review of the forms used by the El Dorado County Assessor's Office for the 2009-10 roll year revealed two areas needing improvement.

RECOMMENDATION 3: Improve the assessment forms program by: (1) submitting property tax form checklists to the BOE as required by Rules 101 and 171, and (2) using BOE-prescribed forms in place of county-generated forms as required by Government Code section 15606.

⁶ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

Submit property tax form checklists to the BOE as required by Rules 101 and 171.

The assessor does not return completed checklists to the BOE indicating which forms will be used in the upcoming assessment year. Rules 101 and 171 require the assessor to annually submit to the BOE checklists indicating which forms they will use in the succeeding assessment year. The checklists must be returned to the BOE by October 15 for property statements and miscellaneous forms pursuant to Rule 171 and by December 1 for exemption forms pursuant to Rule 101. By not returning completed checklists to the BOE, the assessor is not in compliance with regulations.

Use BOE-prescribed forms in place of county-generated forms as required by Government Code section 15606.

Currently, the assessor is using county-generated versions of the *Claim for Intracounty Transfer of Base-Year Value for Property Damaged or Destroyed in a Governor-Declared Disaster to Replacement Property* and the *Change in Ownership Death of Real Property Owner* forms. Subdivision (d) of Government Code section 15606 empowers the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. In addition, LTA 2004/049 dated September 7, 2004 advises that an assessor may not use locally developed forms if there is a BOE-prescribed form available. As BOE-prescribed forms are available in both instances (BOE-65-P and BOE-502-D), the assessor must use these forms.

ASSESSMENT OF REAL PROPERTY

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

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

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

Change in Ownership

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

Discovery and Document Processing

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 that BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, accompany documents submitted for recordation for the transfer of ownership of real property. If a transfer document is received without a PCOR, the recorder's office applies a \$20 charge to the recording fee. PCORs are available at both the assessor's and recorder's public counters as well as from the assessor's website. The recorder does not initially screen documents. All recorded documents are sent to the assessor's office electronically, and PCORs are hand delivered to the assessor's office daily.

Other means of discovering changes in ownership include the BOE's Legal Entity Ownership Program (LEOP), news reports, audits or business property statements, requests for changes of name and address for tax bills, and requests for homeowner's exemptions.

The overall decline in the real estate market is reflected in the drop in transfer activity over the most recent four-year period. The following table shows the total number of transfer documents received and the total number of reappraisable transfers in El Dorado County in recent years:

ASSESSMENT YEAR	TRANSFER DOCUMENTS RECEIVED	REAPPRAISABLE EVENTS
2009-10	16,939	8,088
2008-09	20,436	8,523
2007-08	21,265	9,311
2006-07	27,025	13,225

Account clerks screen recorded documents and PCORs, routing documents needing verification of legal description or an assessor's parcel number (APN) to the mapping department. All other documents and PCORs are assigned to transfer specialists who determine if each transfer is reappraisable, or if an exclusion applies. Data from scanned images of the recorded document(s) and PCOR(s) is entered into the assessor's computer system. This creates a transfer event in the system, which is then assigned to an appraiser for valuation.

Valuation

Real property appraisers are in general responsible for the valuation of all property types within a geographic area. Under supervision, each real property appraiser is responsible for ensuring their assigned work is completed, resulting in timely assessment of properties that have changed ownership. Every reappraisable transfer is reviewed to confirm the reported sales price accurately reflects market value. Residential changes in ownership are reappraised using the market approach to value, and commercial changes in ownership are valued using the income approach to value. If the property is unique, the cost approach to value may be considered. All sales are analyzed for cash equivalency. Field inspections are conducted if the property has any condition issues, if there is a discrepancy with the characteristics, if it is a high-end custom property, or if market data is not available.

Each appraiser is responsible for maintaining a comparable sales database for his or her assigned area. Maintaining the sales database includes entering the sales data into the computer and classifying the sale. The primary source of sales price information for the database is the PCOR. Most of the time, the PCOR provides a good deal of information concerning the transaction. Of special interest to the appraiser is the sales price, terms of the sale, condition of the property at the time of sale, whether the property is improved or vacant, and whether it produces income. Such information is maintained and used as necessary in overcoming the sales price presumption, in assessment appeals, or in the appraisal of properties without a sales price.

Transfer List

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers within the county of any interest in property, other than undivided interests, which have occurred within the preceding

two-year period. Section 408.1(e) further states that the provisions of this section shall not apply to any county with a population of under 50,000 people, as determined by the 1970 federal decennial census. Based upon the population of El Dorado County in 1970, the assessor is not required to maintain a transfer list. Although not required, the assessor maintains a two-year transfer list for public review at no charge. Information on the transfer list is divided into geographical areas by city, book, and address and is updated each calendar quarter. The sales index includes the transferee, the assessor's parcel number, the date of recording, and recording reference number. Data provided on the transfer list is obtained from the indicated sales price calculated from the documentary transfer tax. No confidential information is inappropriately disclosed.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not cause a change 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 help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and ownership of legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property acquired. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

The assistant assessor is solely responsible for implementing the assessor's LEOP program. Monthly reports received from the BOE are routed to him for processing. The assistant assessor reviews the reports to confirm if any of the companies own property in El Dorado County. When he discovers a change in control, he ensures all of the entity's real property is identified and reassessed by running a search in the assessor's computer system and identifying all properties with the same ownership.

The assistant assessor also discovers potential changes in control of legal entities from news reports, business property statements, taxpayer reporting, and appraiser and auditor canvassing. If he discovers a change in control or ownership not listed on the BOE's LEOP reports, he notifies the BOE's LEOP section using BOE-100-BR, *County Assessor Legal Entity Transfer Referral*.

Once he determines a transfer is a reappraisable event and ensures all of the properties involved in the transfer have been identified, he notifies the transfer specialists. The transfer specialists create a transfer event in the computer, which is then assigned to an appraiser or auditor-appraiser for valuation.

The assistant assessor also reviews the annual non-response list to identify any of the entities who may own property in El Dorado County. He is aware of the required penalties for non-response and late filing. In recent years, the assistant assessor has not discovered any non-response or late filings of BOE-100-B; therefore, penalties have not been applied. During our review, we were unable to discover any transfers in which a penalty should have been applied.

Our review of several records indicates the assessor does a thorough job in reviewing the BOE's LEOP reports and reassessing all property interests identified on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, as well as additional properties not reported on the form.

Change in Ownership Exclusions – Section 63.1

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

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

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

Change in Ownership Exclusions – Section 69.5

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

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

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

The following table represents section 63.1 and section 69.5 claims processed by El Dorado County in recent years:

ROLL YEAR	SECTION 63.1	SECTION 69.5
2009-10	639	35
2008-09	816	75
2007-08	1,039	130
2006-07	1,170	135

The assessor is proactive in informing the general public about these two exclusions. The assessor routinely speaks to groups of realtors, businessmen, and other interested taxpayers concerning the benefits and eligibility of the exclusions. The assessor also occupies a booth at the county's annual fair featuring and promoting the exclusions. Pamphlets and information concerning the exclusions are also available at the assessor's public counter as well as on the assessor's website.

If a PCOR indicates a transfer may be between a parent and child or from a grandparent to a grandchild, the county will notify interested parties of a possible exclusion. The transfer specialists mail the grantee a claim form along with a cover letter explaining the exclusion. Claim forms are tracked in the computer database. If there is no response after three weeks, a second letter and claim form is automatically sent out. If there has been no reply to the second mailing after an additional three weeks, the transfer specialist will code the transfer in the computer as a reappraisable event and send it to an appraiser for valuation. Section 63.1 applications are reviewed by transfer specialists for completeness and to determine if the exclusion will be approved or denied.

Property owners are notified if the exclusion is denied. A written confirmation of an approved claim is provided upon request. The assessor voluntarily sends optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions.

The assessor has had a computer program in place since 1986 that tracks the \$1,000,000 exclusion limit on property transferred in El Dorado County other than the transferor's principal residence. The *Proposition 58 Report* identifies the assessor's parcel number, the property owner's name, social security number, date of transfer, and the approved exclusion amount. Since the program's inception, the assessor has entered into the program more than 18,500 approved exclusion events. For each transferor, the program accumulates the approved exclusion amounts over time, only those that have reached their \$1,000,000 limit are listed on the report. All future claims for exclusion will automatically be compared to this cumulative report to prevent any individual from exceeding the \$1,000,000 exclusion limit.

When the assessor receives the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE, a transfer specialist identifies the parcel(s) involved and makes a note in the computer system. If multiple properties exceeding the limit have transferred within the county, the transfer specialist contacts the property owner or representative to determine which parcel(s) to exclude

and which to reassess. The transfer specialists are proactive in contacting other counties and cooperating with them to ensure individuals transferring parcels in multiple counties are not allowed to exceed the \$1,000,000 limit. We commend the assessor on this comprehensive and effective tracking program.

All applications received for section 69.5 base year value transfers within the county are reviewed and processed by one appraiser aide, who reviews a database to determine if the property owner has previously received a base year value transfer in the county. The appraiser aide also reviews the quarterly *Duplicate SSN Report* from the BOE to determine if any claims made in El Dorado County duplicate any claims made previously in another county. If the application is incomplete, or if at least one of the applicants is not 55 years old, the appraiser aide will reject the claim and notify the claimant in writing. Claims that pass the initial screening are sent to the appraiser responsible for that particular geographical area to determine if the market value of the replacement property is less than or equal to the market value of the original property. Claims that qualify for the base year value transfer exclusion are reviewed by a supervising property appraiser before being entered into the computer system by the appraiser aide.

Pursuant to sections 63.1(i) and 69.5(n), the assessor keeps all claim forms for both exclusions in a secure area that is locked each night to protect property owner confidentiality. The information is not accessible to the public.

We reviewed several sections 63.1 and 69.5 exclusions claims, and found the records are well documented and exclusions are being processed correctly.

Change in Ownership Exclusions – Section 62(p)

The assessor processes changes in ownership of registered domestic partners similar to the way interspousal transfers are processed. Before an exclusion is granted, the county requires confirmation the partnership is registered with the California Secretary of State.

Pursuant to section 62(p), El Dorado County provides prospective relief for eligible transfers between January 1, 2000, and January 1, 2006 involving a registered domestic partnership. The county requires BOE-62-DP, *Claim for Reassessment Reversal For Registered Domestic Partners*, be filed to be considered for the relief. A property owner must have filed a claim form by June 30, 2009, to receive a reversal of a previous reassessment.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements (e.g., sewers, sidewalks, lighting, and water lines) that generally enhance the land value of privately-owned real property. Land directly benefiting from such improvements is pledged as security for repayment of the construction loan.

El Dorado County has few parcels affected by improvement bonds. For those parcels that are so encumbered, upon a change in ownership, the transfer is reviewed separately, and the bond amount is presumed to be included in the purchase price unless market data proves otherwise.

We reviewed several properties valued by the assessor for changes in ownership. We found the assessor establishes the correct base year value, adheres to the presumption contained in Rule 2, and uses reasonable appraisal techniques. He also correctly tracks and values partial interest transfers, applies the annual inflation adjustment, and enrolls supplemental assessments. Overall, the assessor has an effective and well administered change in ownership program. However, we did recognize one area needing improvement.

RECOMMENDATION 4: Apply the section 482 penalty for failure to file the *Change of Ownership Statement*.

When there is no PCOR and no exclusion from a change in ownership is apparent, a transfer specialist mails BOE-502-AH, *Change of Ownership Statement (COS)*, to the grantee. COSs are tracked by the assessor, and although only 50 to 60 percent are returned, the assessor does not apply the required penalty provided for in section 482 for not filing the COS.

The following table shows the number of COSs sent and returned over recent years:

ASSESSMENT YEAR	COS SENT	COS RETURNED	PERCENTAGE RETURNED
2009-10	344	168	49%
2008-09	462	270	58%
2007-08	317	193	61%
2006-07	1049	696	66%

Section 482(a) states, in part, If a person or legal entity required to file a statement described in section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars (\$100) or (2) 10 percent of the taxes applicable to the new base year value, whichever is greater, shall be added to the assessment made on the roll.

The information contained in a properly completed COS is important because it assists the assessor in making an accurate assessment of a property. By not applying the penalty, the assessor fails to perform a statutorily required duty.

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 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; section 70(c) and (d), and sections 73 through 74.7 address these exclusions.

Permit Processing

The assessor maintains written policies and procedures relating to new construction. The assessor also provides helpful information to the public on his website regarding new construction and new construction exclusions. The assessor's primary source of discovering new construction is building permits. Additional sources of discovery include appraiser canvassing, business property statements, and an aerial photography program.

Once a month, the assessor receives electronic and paper copies of all types of permits from the cities of Placerville and South Lake Tahoe, El Dorado County, and the California Department of Housing and Community Development (HCD). The assessor also receives permits from the El Dorado County Environmental Management Department (EMD) once a month in email format.

Permits are tracked through a computer program. An appraiser aide initially reviews all permits, codes each permit based on the type of new construction and property involved, and determines which permits should be routed to an appraiser or auditor-appraiser. Based on the property type and location, permits are then placed on an appraiser's or auditor-appraiser's electronic permit to-do list. Permit to-do lists keep record of all permits with construction in progress and permits that have been finalized. While construction is in progress, a paper copy of the permit is attached to the building record. An appraiser or auditor-appraiser determines the assessability of each permit.

Permit information, except permits which have been culled, is entered on the building record regardless of the type of new construction. Once an appraiser or auditor-appraiser places a value on the new construction, it is submitted to a supervising appraiser for review. After the supervisor reviews the work, paper copies of the permits are discarded, and the values are submitted for data entry.

The appraiser aide will cull permits for simple repairs or replacements that do not add value. If the appraiser aide is unsure if a permit should be culled, an appraiser or supervisor will review the permit and make the decision. Culled permits are kept on a separate electronic list and can be reviewed for accuracy.

The following table shows the total number of permits received and new assessments resulting from permits in El Dorado County in recent years:

ROLL YEAR	PERMITS RECEIVED	NEW ASSESSMENTS FROM PERMITS
2008-09	6,277	3,572
2007-08	8,199	4,115
2006-07	8,038	5,382
2005-06	8,994	5,276

Valuation

The assessor appraises the full value of new construction as of the date of completion. Permit issuing agencies send notices of completion and final inspections to the assessor electronically. The assessor confirms completion of new construction through field inspections and, if provided, the owner's reported cost questionnaire.

The assessor typically values residential new construction using the sales comparison approach or the cost approach. To develop a cost-based value estimate the assessor uses BOE costs found in Assessors' Handbooks Sections 531, *Residential Building Costs* (AH 531), and 534, *Rural Building Costs* (AH 534), as well as the owner's reported cost from the *Property Owner's Statement on New Construction*. When using residential costs, the assessor assigns a percent good or depreciation amount to new construction additions; generally, he assigns a 100 percent good rating to new construction of separate structures.

The assessor considers all three approaches when determining the value of commercial and industrial new construction. Cost data is obtained through the *Marshall Valuation Service* and owner-reported costs from the *Commercial Construction Cost Questionnaire*; however, most weight is typically given to the income approach.

Sales comparisons for residential properties are attached to the residential appraisal record. Income calculations for commercial and industrial properties are noted on the commercial or industrial appraisal record. The source of cost data for residential, commercial, and industrial properties is typically documented on the building record. In general, appraiser notes are typically well documented on the appraisal record regarding valuation reconciliation with the exception of some newly constructed swimming pools which could be improved.

Once a value has been enrolled, it is logged on a multiple base year worksheet for tracking purposes. The worksheet tracks the base year and type of event, indicates base year values, and, if applicable, applies trending to the enrolled values for the current roll year and roll year being prepared. A copy of the worksheet, as well as historical data, copies of building plans, returned questionnaires from property owners, and other relevant property data is kept with the paper real property appraisal record.

Supplemental assessments are created and issued based on the date of completion of any new construction activity adding value. A copy of each supplemental assessment is kept with the building record.

Self Reporting

The assessor sends a self-reporting questionnaire to property owners for all new residential construction with the exception of new-single family residences. A self-reporting questionnaire is also sent to property owners for all types of commercial and industrial new construction. Appraisers examine the reported cost data and the type of new construction project and compare it with BOE costs to determine if the cost data provided by the property owner is reasonable and reliable. Appraisers will contact property owners to clarify any questionable information. If the reported costs are reasonable and reliable in comparison to BOE costs, and 100 percent of the project had contractor involvement, the assessor will typically consider the property owner's reported costs for valuation purposes. The assessor typically sees a return rate of about 65 percent of all questionnaires sent out to property owners.

Construction in Progress

Pursuant to section 71, the assessor enrolls construction in progress at fair market value on each lien date. On subsequent lien dates, if the construction is still incomplete, the assessor again enrolls the fair market value. This process continues until the construction is complete.

The assessor uses the cost approach to determine the fair market value of construction in progress based on the estimated percentage of completion of the project. The percentage of completion is based on appraiser's estimation and the percent complete tables found in AH 531.

Appraisal records are typically documented with appraiser notes indicating percentages of completion and the cost factors used to determine the value for lien date.

Overall, we found the assessor's new construction program well administered.

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 or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value.

Due to unfavorable economic conditions, property values in many areas of California have either declined or become stagnant. As a result, many assessors have reduced taxable values below the property's factored base year value. El Dorado County is no exception.

The following table shows the number of decline-in-value assessments in El Dorado County in recent years:

ROLL YEAR	DECLINES IN VALUE
2009-10	33,315
2008-09	21,589
2007-08	13,243
2006-07	13,579
2005-06	12,837

The assessor uses a computer program to identify declines in value for residential properties and manufactured homes. Based on a market analysis, the computer program applies a trended value to properties that have had a change in ownership within an established date range. Declines in value for commercial and industrial properties are primarily discovered through taxpayer requests and appraisers' knowledge of values.

Taxpayers may request an informal review of their property value by submitting an electronic "Decline in Value – Review Request Form" located on the assessor's website. Decline-in-value adjustments are documented with a list of comparable sales or reference to a valuation grid on the appraisal record or in the database. When a property owner in a homogeneous tract requests a review, and it is determined the property's value has declined below its factored base year value, the appraiser also reviews the assessments of similar properties in the same neighborhood.

Decline-in-value properties are tracked with a "T" code in the computer system. The "T" code makes properties easily identifiable for annual reviews. The annual inflation factor is not applied to decline-in-value properties until they are restored to their factored base year values, and with the exception of timeshares, decline-in-value properties are annually reviewed after the first lien date for which the value was reduced. This meets the requirements of section 51(e).

A value notice is sent to each property owner when the assessed value has been temporarily reduced due to a decline-in-value, when a reduced value remains on the roll for the current assessment year, and when the factored base year value has been fully or partially restored. The value notice includes a statement of the assessment appeals filing period and an explanation of the stipulation procedure. The value notice also shows the factored base year value of the property. This meets the requirements of section 619.

Overall, the assessor's decline-in-value program is effective and well administered. However, we do have one recommendation regarding timeshares.

RECOMMENDATION 5: Annually review the assessment of timeshares in decline-in-value status as required by section 51(e).

Timeshares with decline-in-value assessments are not annually reviewed. In fact, some timeshares have not been reviewed since their initial decline-in-value assessment in 2000. Section 51(e) requires that all properties with taxable values less than their factored base year

value be reappraised annually until their market value exceeds their factored base year value. The practice of not annually reappraising properties with taxable values less than their factored base year values is contrary to section 51(e) and may result in incorrect assessments.

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.

For the 2009-10 roll year, El Dorado County had approximately 33,800 acres encumbered by CLCA contracts, and 185 acres restricted under the Farmland Security Zone (FSZ), which is a more restrictive form of the CLCA contract. The total assessed value for CLCA land and living improvements for the 2009-10 roll year was approximately \$22.5 million. Roughly 950 acres of the total restricted acreage is in nonrenewal status, and no contracts have been cancelled since our prior survey.

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

CLCA property valuation is the responsibility of the real property appraiser assigned to a specific geographical area. The appraiser gathers income and expense information from a variety of sources such as periodic CLCA questionnaires, interviews with property owners and farm managers, agricultural classified advertisements, the Farmland Trust, and the annual crop report. The appraiser uses this information to determine typical income and expenses for crop types throughout the county. Compatible use income reported on the questionnaires is also included and correctly valued.

Restricted values are manually calculated using the correct capitalization rate, including components for property taxes and risk. The assessor is in the process of developing a computer program to annually calculate factored base year values, track market values, and automatically calculate restricted values – all of which will facilitate the required annual three-way value comparison.

The assessor treats homesites and homesite improvements as separate appraisal units when reviewing for declines in value and enrolls the lower of the factored base year value or the current market value. Homesites are correctly valued according to section 428.

The assessor issues supplemental assessments on unrestricted portions of CLCA properties that experience changes in ownership and for any subsequent new construction. Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land or living improvements.

We reviewed several CLCA and FSZ properties and found the assessor's CLCA procedures comply with most applicable statutes; however, we found two areas where improvement is needed.

RECOMMENDATION 6: Revise CLCA assessment procedures by: (1) annually calculating restricted values for CLCA properties as required by section 423, and (2) appraising each CLCA property as an appraisal unit.

Annually calculate restricted values for CLCA properties as required by section 423.

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

Section 423(a) requires the assessor to determine a value estimate by capitalizing the annual income attributed to land and living improvements. Section 423(b) provides the capitalization rate to be applied shall include components for the BOE announced interest rate, risk, property taxes, and where appropriate, amortization of any investment in perennials. The restricted portion of CLCA property is enrolled at the lower of its restricted section 423 value, factored base year value, or current market value.

If the assessor does not annually calculate the restricted portion of CLCA property, the assessor cannot make the three-way comparison necessary to correctly value the property pursuant to section 423. This practice may lead to an inaccurate assessment of CLCA property.

Appraise each CLCA property as an appraisal unit.

The assessor typically enrolls the restricted portion of CLCA property at the lower of its restricted section 423 value, factored base year value, or current market value. However, we found instances where the assessor incorrectly enrolled the restricted value of the land and enrolled the factored base year values of restricted trees and vines separately, without comparison to the restricted appraisal unit of the property.

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

appraisal unit and not on the basis of the value of each restricted component, such as land or trees.

The assessor's practice of enrolling separate components of the restricted appraisal unit from either the restricted section 423 value, factored base year value, or current market value could result in underassessments.

Taxable Government-Owned Property

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

For the assessment year 2009-10, the assessor valued 116 parcels owned by government agencies located outside of the agency's boundaries. The 116 parcels have a total assessed value of \$33,097,293.

The assessor determines the taxability of government-owned properties at the time of acquisition by comparing tax rate area maps to the county's list of government agencies located within each tax rate area. For taxable government-owned properties acquired after March 1, 1975, the assessor establishes the base year value by comparing the market value at the time of acquisition to the restricted value for the year of acquisition and enrolling the lesser of the two. For subsequent roll years the assessor uses a computer program to automatically calculate and enroll the restricted value.

We found one area in the assessor's taxable government-owned property program that needs improvement.

RECOMMENDATION 7: Assess taxable government-owned properties at the lowest of current market value, factored base year value, or the restricted value.

We found that the assessor automatically enrolls taxable government-owned properties at the restricted value each year without performing a comparison to the current market value or the factored base year value. We also noted that the assessor has established the 1975 base year values for properties acquired before March 1, 1975, inconsistent with the guidelines presented in Letter To Assessors (LTA) No. 2000/37.

Letter To Assessors No. 2000/037 states that in addition to the value standard established by the express language of article XIII, section 11, the California Supreme Court in *City and County of San Francisco v. County of San Mateo et al.* (1995) 10 Cal.4th 554 held that the value limitation standard of article XIII A of the California Constitution also applies to taxable government-owned lands in counties other than Inyo and Mono. Thus, the value standard applicable to

taxable government-owned land assessments in those counties is the lowest of (1) the current fair market value, (2) the factored base year value, or (3) the 1967 assessed value multiplied by the appropriate Phillips Factor. Also stated in LTA No. 2000/037, for taxable government-owned land acquired *before* March 1, 1975, the base year value is the value on the 1975-76 roll, which is the lower of the value obtained by applying the appropriate Phillips Factor to the 1967 assessed value or the fair market value as of March 1, 1975.

Not performing the three-way test to determine the lowest of current market value, factored base year value, or the restricted value, as well as establishing the 1975 base year value for properties acquired before March 1, 1975, inconsistent with the guidelines presented in LTA 2000/037 may result in incorrect assessments.

Taxable Possessory Interests

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

The assessor enrolled 276 taxable possessory interests on the 2009-10 assessment roll, with a total assessed value of \$23,043,716. The majority of taxable possessory interests in El Dorado County are privately owned cabins on U.S. Forest Service land. Other types of taxable possessory interests in the county include uses at the fairgrounds, airports, a ski resort, cable television franchises, Forest Service campgrounds, employee housing, and permits for river rafting and grazing.

The assessor's primary means of discovering taxable possessory interests is from reports received annually from public agencies. Each year the assessor sends a letter to each agency requesting a list of tenants. The agencies are typically cooperative and responsive. Once the lists are received, they are compared to lists from prior years to determine if any changes have occurred. Any new taxable possessory interest(s) are appraised, and values are enrolled. With one exception, taxable possessory interests are enrolled by the business property division on the unsecured tax roll. Privately owned cabins on U.S. Forest land are enrolled on the secured tax roll. Cabin valuations are handled by a senior real property appraiser in the assessor's South Lake Tahoe field office.

We reviewed a number of taxable possessory interest records. Valuations typically involve the use of contract rents, if reflective of market rents, to estimate income, deductions of vacancy and operating expenses chargeable to the public lessor, and use of contract terms or estimated terms of possession. El Dorado County adopted and approved section 155.20 by means of Resolution 31-94 to exempt property with a full value of less than \$5,000. In the case of a taxable possessory interest, for a temporary and transitory use, in a publicly owned fairground, the full value increases to \$50,000. Our review of taxable possessory interests at the El Dorado County fairgrounds confirms the assessor is properly assessing and exempting uses at the fairgrounds.

Overall, the possessory interest assessment program is well managed and thorough. There are, however, areas in which the possessory interest program could be improved.

RECOMMENDATION 8: Improve the taxable possessory interest program by: (1) not revaluing taxable possessory interests prior to the expiration of the reasonably anticipated term of possession; (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value and enrolling the values consistently; (3) issuing supplemental assessments for changes in ownership or new construction of qualifying taxable possessory interests assessed on the unsecured roll; (4) adding the present worth of unpaid rents to the nominal sales price as required by Rule 21.

Do not revalue taxable possessory interests prior to the expiration of the reasonably anticipated term of possession.

Taxable possessory interests without a stated term of possession are periodically revalued regardless of the reasonably anticipated term of possession used in the initial valuation. For example, the assessor may use a reasonably anticipated term of possession of five years to value a typical month-to-month lease, but then revalue the taxable possessory interest before the end of the five-year anticipated term.

Section 61 defines a change in ownership as the creation, renewal, extension or assignment of a taxable possessory interest in tax exempt real property. Section 61(b)(2) provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest does not result in a change in ownership until the end of the reasonably anticipated term of possession. At that time the assessor shall establish a new base year value based on a new reasonably anticipated term of possession.

The assessor's practice of periodically revaluing taxable possessory interests prior to the end of their anticipated terms of possession is contrary to law, and results in inaccurate assessments.

Periodically review all taxable possessory interests with stated terms of possession for declines in value and enroll the values consistently.

We reviewed the files relating to several taxable possessory interests with stated terms of possession. Some files contained a spreadsheet showing declining values as the terms of possession went down. The declining values were enrolled according to the spreadsheet for a year or two, and then, in subsequent years, either the enrolled value was indexed by the BOE-announced inflation factor or a new declining value spreadsheet was created using a new stated term with no evidence of a change in ownership or an expiration of the contract term. Other files, such as those at the Placerville Airport, did not contain a spreadsheet showing declining values. Instead, the taxable possessory interests were indexed each year with no periodic review.

Rule 21(d)(1) provides that the stated term of possession shall be deemed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the public owner and private possessor have reached a mutual understanding or agreement such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as the remaining period of possession as of a specific date as stated in the lease, agreement, or permit, including any options to renew or extend the specified period of possession. Therefore, the stated term of possession of a taxable possessory interest declines each year, which may or may not have a material effect on the market value of the taxable possessory interest. For this reason, the assessor must estimate the market value of a 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 lesser of the two.

Our review found no evidence of any agreements between public owners and private lessees that would justify using a term other than the reasonably anticipated of possession; therefore, the stated term of possession should be the reasonably anticipated term of possession. Although the assessor is not required to reappraise all properties each year, the assessor should periodically review the assessments of all taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failing to use a declining term when valuing taxable possessory interests may result in overassessments.

Issue supplemental assessments for changes in ownership or new construction of qualifying taxable possessory interests assessed on the unsecured roll.

Most types of taxable possessory interests in El Dorado County are enrolled on the unsecured roll. Due to computer system limitations, the assessor is unable to issue supplemental assessments for changes in ownership or new construction occurring on taxable possessory interests on the unsecured roll. However, taxable possessory interests in cabins on U.S. Forest Service land are enrolled on the secured roll; therefore, supplemental assessments are issued for changes in ownership or new construction of these taxable possessory interests.

Section 75.14 provides all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessments. However, section 75.5 excludes newly created taxable possessory interests, established by month-to-month agreements, having a full cash value of fifty thousand dollars (\$50,000) or less.

The assessor's practice of not issuing supplemental assessments on most taxable possessory interests results in inequitable taxation and a loss of revenue to the county.

Add the present worth of unpaid rents to the nominal sales price as required by Rule 21.

When using the comparative sales approach to value, the assessor enrolls the reported sales price, or the indicated market value based on comparable sales, as the value of the taxable possessory interest. However, in determining the sales prices of both the subject and comparable sales, the assessor is not adding the present worth of the unpaid future contract rent to the sales prices.

Rule 21(e)(1)(A) provides that when using the direct comparative sales approach to value, the assessor must add the present worth of any unpaid future contract rents to the sale price of the property.

The sale price of a taxable possessory interest is an incomplete indicator of its total market value unless all future rents have been prepaid. To arrive at the actual consideration in the sale of a taxable possessory interest, the appraiser must add the present worth of the unpaid future contract rents to the reported selling price. The sum of these two components provides an indication of the total market value of the taxable possessory interest.

Failure to comply with Rule 21 will result in underassessments of taxable possessory interests.

Leasehold Improvements

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

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

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

The majority of leasehold improvements in El Dorado County are discovered from Schedule B of the BPS and from building permits. Other discovery tools include review of leases and field observations by business property and real property staff.

Typically all assessments of leasehold improvements are handled by auditor-appraisers in the business property division. The auditor-appraisers check reported costs and descriptions on the BPS, determine proper identification of the leasehold improvement, and decide to whom the property should be assessed based on a set of office guidelines. Coordination with the real property division is done when questions regarding assessability arise or reported costs of an improvement are substantial.

We reviewed a number of BPSs and real property records with leasehold improvements. We determined proper identification and assessment of leasehold improvements were made, and coordination between the business property division and the real property division was done when necessary. Structural improvements were enrolled to the secured roll and fixtures to the unsecured roll.

With one exception, we found the assessments of leasehold improvements were adequately processed and assessed.

RECOMMENDATION 9: Issue supplemental assessments for structural leasehold improvements on the unsecured roll.

We found the assessor does not issue supplemental assessments for structural leasehold improvements assessed on the unsecured roll to the tenant's business account. Instead, the unsecured tenant improvements are valued annually using the full value factor also applied to business personal property.

Since structural leasehold improvements are real property, they are subject to supplemental assessments upon change in ownership or new construction. The provisions of section 75 et seq. apply to structural leasehold improvements, whether enrolled on the secured or unsecured roll. The assessor's practice has resulted in lost revenue to the county and the failure to establish base year values for real property items.

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.

El Dorado County has no assessable high temperature geothermal properties and no assessable petroleum properties.

El Dorado County has a small number of active mining properties. Currently, mineral properties are appraised by the appraisers assigned to the particular geographic area. In our review of the assessor's assessment program for mining properties, we noted one area in need of improvement.

RECOMMENDATION 10: Determine the current market value of mineral properties for purposes of measuring declines in value by appraising mineral properties as a unit.

The assessor does not evaluate the entire appraisal unit when measuring mineral properties for declines in value because he does not determine the adjusted base year value of the fixtures.

Each year the current market value of the mineral property and the adjusted base year value should be evaluated to determine which value to enroll. Rule 469 requires mineral properties be appraised as a single appraisal unit for purposes of determining declines in value. The appraisal unit of a mineral property is defined as land, improvements, including fixtures, and reserves.⁷ This requires special handling of reported reserves and equipment to ensure proper values are developed and compared. To make the proper value determination the adjusted base year value

⁷ Property Tax Rule 469(e)(1)(C).

of the fixtures must be tracked each year so this value can be combined with the adjusted base year value of the land and mineral rights. This aggregated value is then compared to the current market value of the land, improvements, including fixtures, and reserves to determine which value to enroll. The current market value of the improvements including fixtures is most likely the Replacement Cost New Less Depreciation (RCNLD), which is commonly tracked by the business property division.

Because the assessor does not determine the adjusted base year value of the fixtures for mineral properties, the proper appraisal unit for measuring declines in mineral property values is not evaluated, and the enrolled value is a combination of the factored base year value for the mineral rights and the current market value for the improvements and fixtures. This conflicts with Rule 469(e)(1)(C).

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 upon information provided in property statements.

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

The assessor's business property division is comprised of five permanent staff members, including one supervising auditor-appraiser, two property auditor-appraisers, and two assessment technicians.

Audits

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, Revenue and Taxation Code 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 Revenue and Taxation Code section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of businesses with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted from the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent 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 calculations, which establish future audit workloads as well as recent audit production, and found the assessor will likely meet his newly established production obligation. During the 2008-09 assessment year, the assessor completed 38 audits. According to the assessor's calculations, the amended statute requires the assessor to complete 22 audits per year hereafter. Therefore, it appears the assessor will complete the newly defined number of audits required by section 469.

Audit Quality

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

We found the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment. We sampled several recently completed audits and found in all cases mandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

Business Property Statements

Section 441 requires each person, owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more, to annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. BPSs 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.

Workload

The following table displays the assessor's current secured and unsecured business property for the 2009-10 roll year:

CATEGORY	SECURED	UNSECURED	TOTAL
General Business	1,953	4,643	6,596
Agricultural	205	93	298
Vessels	0	3,896	3,896
General Aircraft	0	381	381
Certificated Aircraft	0	71	71
TOTAL	2,158	9,084	11,242

General Statement Processing

BPS processing begins with assessment technicians reviewing the BPSs for completeness and making any changes needed to the owner's name, the name under which the business is conducted, or the situs or mailing address. The technician also updates values in the property system after a certified auditor-appraiser prepares and completes the valuation worksheets.

We reviewed the BPS program, including processing procedures, use of BOE-prescribed forms, processing by noncertified staff, completeness of the BPS, authorized signatures, application of penalties, and record storage and retention.

Discovery

The assessor utilizes a wide range of tools for discovering taxable business property. For example, city and county business licenses, fictitious business name filings, real property appraiser referrals, and business directory services are reviewed. We found the assessor employs effective methods for discovering business personal property.

Filing Procedures

Under section 441.5, in lieu of completing the BPS, information required of the taxpayer may be furnished to the assessor as attachments to the BPS provided the attachments are in the format specified by the assessor and a copy of the actual BPS is signed by the taxpayer and carries appropriate references to the data attached. The assessor allows taxpayers to submit attachments in lieu of completing a BPS as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits the signed original of the BPS.

Our review included verifying the assessor's procedures for processing late-filed and non-filed BPSs. We found the assessor properly applies the late filing penalty as required by section 463.

Habitual non-filers are contacted in an attempt to collect accurate assessment information. If no information is available, the assessor will add a penalty to the prior year's value.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a BPS. The assessor establishes an initial value and continues it for several years. A BPS is sent to the participating business every four years to update assessment information. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings.

The assessor maintained a direct billing program with 95 participating accounts for the 2009 lien date. The program is well regulated and appropriate controls are in place to reduce the chance of escape assessments.

Overall, we found the assessor's BPS processing program to be effectively administered. The procedures in place are well structured and compliant with existing law.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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).

The assessor uses a codification system to identify and designate the use of specific valuation tables for business property accounts in the computer system. The application of the codified tables is determined and established each year by the assessor with the preparation of a "Valuation Guide" schedule.

Section 401.16(b) prohibits the assessor from using minimum percent good factors determined in an unsupported manner. The California Assessors' Association (CAA) recommends the use of specific minimum percent good factors to recognize property that has a minimum fair market value. The minimum factors recommended for most commercial and industrial equipment are based on the study by *Marshall Valuation Services*. The *Marshall Valuation Services* study indicated an average nine percent minimum percent good factor for all industrial property and an average ten percent minimum percent good factor for all commercial property.

During the survey, we found that, while it is the assessor's policy to use the CAA recommended valuation tables; he has deviated from this practice in several instances.

RECOMMENDATION 11: Use AH 581 as intended by: (1) using minimum percent good factors that are supportable as provided in section 401.16(b), and (2) discontinuing the use of the economic downturn adjustment factor without a supporting study to justify the adjustment.

Use minimum percent good factors that are supportable as provided in section 401.16(b).

The assessor is utilizing valuation tables whose minimum percent good factors are not supported by market evidence. The assessor uses minimum percent good factors ranging from 12 to 28 percent of cost for commercial, industrial, agricultural, and construction equipment. Index factors in AH 581 recognize price changes and the effects of technological progress, and they are intended to reflect the price of a replacement. The percent good factors in AH 581 are also intended to reflect the average loss in value suffered by specific types of properties over their expected service lives. When valuing business property, it is necessary for the auditor-appraisers to analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the index or percent good factor to reflect the deviation. However, arbitrarily establishing minimum values that are not supported by market evidence is not in compliance with section 401.16(b), and can lead to erroneous value conclusions.

Discontinue the use of the economic downturn adjustment factor without a supporting study to justify the adjustment.

The assessor has adopted the price indices and percent good factors recommended by the 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. Although the assessor has adopted the CAA tables, he has also made an arbitrary adjustment of between five and ten percent for "economic downturn." The assessor has no documentation to support this reduction. This "economic downturn" adjustment factor also tends to undervalue certain categories of equipment.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbor masters' reports, and field canvassing.

The following table shows the number assessed and total assessed values of vessels in El Dorado County in recent years:

ROLL YEAR	VESSELS	ASSESSED VALUE
2009-10	3,898	\$74,185,227
2008-09	4,048	\$75,895,813
2007-08	3,904	\$70,190,709
2006-07	3,602	\$59,347,040

Vessels are discovered through DMV reports, marina reports, field canvassing, and referrals from other counties. The supervising auditor-appraiser prepares vessel assessments utilizing information from DMV or Vessel Owner's Reports. The assessment is supported by the *National Automobile Dealers' Association Marine Appraisal Guide* (NADA) or other data. The assessor does not adjust for sales and use tax and freight charges because he believes the NADA range of value includes these charges. A postcard is sent to the taxpayer annually; a return is requested only if corrections are necessary. Vessels are reviewed if a returned postcard indicates a change; otherwise, vessels are depreciated using the assessor's depreciation schedule instead of BOE depreciation factors. For purposes of California property taxation, vessels should be valued at their fair market value every year as of the lien date. Sections 401 and 401.3 require the assessor to assess vessels at market value each year.

RECOMMENDATION 12: Revise vessel assessment procedures by: (1) discontinuing the use of unsupported depreciation adjustments and (2) including sales tax as a component of market value when appraising vessels.

Discontinue the use of unsupported depreciation adjustments.

The assessor annually applies a fixed depreciation adjustment to all vessel assessments. The practice of using a fixed depreciation adjustment simplifies the assessment process for the auditor-appraiser responsible for valuing vessels. However, using a fixed depreciation adjustment for each vessel may or may not reflect market value. Although the assessor has categorized vessels into seven groups (sailboat, runabout, raft, cruiser, pontoon/houseboat, ski vessel, and personal watercraft), he has no market study to back up his vessel factor tables. We recommend the assessor annually assess vessels at market value by using the value guides (e.g., ABOS, BUC, or NADA), deriving trend factors from the market, or adopting the BOE's "Vessel Depreciation Factors" schedule.

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

The assessor initially values vessels by referring to NADA and depreciates them over time. Because this guide is intended for use on a nationwide basis, it does not include the sales and use tax in the values it lists. Although we found the assessor selects the proper values listed in the

NADA, he fails to add a sales tax component. Sales tax is a recognized component of market value and should be added to the values listed in the NADA when determining market values (*Xerox Corp. v. Orange County* (1977) 66 Cal.App.3d 746). Since sales tax has not been included in the vessel appraisals, vessels may be assessed at less than market value.

APPENDIXES

A. County-Assessed Properties Division Survey Group

El Dorado 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

Charles Matura

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Julie Warren

Associate Property Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Michael Nicholas

Tax Auditor

Paul Stueber

Tax Technician

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁸ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁹

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

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

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

⁸ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁹ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? Was there a decline in value?

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

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

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

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

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may 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 recommendation in the survey report. The survey report, the assessor's response, and the Board's comments on the assessor's response, if any, constitute the final survey report.

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



COUNTY OF EL DORADO
OFFICE OF THE ASSESSOR Karl Weiland, Assessor

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RECEIVED

June 22, 2011

JUN 24 2011

County-Assessed Properties Division
State Board of Equalization

Dean R. Kinnee, Chief
Property & Special Taxes Department
County Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

Dear Mr. Kinnee:

Pursuant to §15645 of the California Government Code, I have prepared and included a response to the 2011 State Board of Equalization Assessment Practices Survey.

Retired assessor Tim Holcomb and I would like to thank Pamela Bowens and her team for the courteous manner in which they performed their duties.

The results of this survey reflect the professionalism and dedication of the staff in the El Dorado County Assessor's Office and I thank them for their hard work and commitment.

I am grateful for the recognition of the many improvements we have made to our processes since the last survey. This survey did find and make recommendations that we have or will implement as noted in the attached response.

I am concerned with the continued loss of staffing due to budget reductions in Assessor Offices across the state. When the housing markets recover and workloads increase, the state and local governments will once again experience lagging property tax revenues as backlogs overwhelm depleted staff resources. This will most certainly be reflected in survey results and I would encourage readers of this survey to advocate for a soundly funded property tax administration program at all levels.

Sincerely,


Karl Weiland
Assessor



COUNTY OF EL DORADO OFFICE OF THE ASSESSOR

Karl Weiland, Assessor

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EL DORADO COUNTY **RESPONSE TO RECOMENDATIONS**

RECOMMENDATION 1:

Notify the BOE when certified appraisers terminate employment with the assessor's office.

Response: *We concur and have implemented procedures to insure compliance.*

RECOMMENDATION 2:

Improve assessment roll changes procedures by:

- (1) Revising the *Notice of Proposed Escape Assessment* to comply with section 531.8;
- (2) Enrolling an escape assessment no fewer than ten days after sending the *Notice of Proposed Escape Assessment*;
- (3) Sending a *Notice of Enrollment of Escape Assessment* as required by section 534

Response: *We concur with the recommendation and have already implemented procedures to insure compliance*

- (4) Ensuring both penalty and interest are added to escape assessments.

Response: *This recommendation only relates to the imposition of the penalty and interest applied under the provisions of §531.6. Revised assessment roll change procedures have already been implemented to correct this issue.*

RECOMMENDATION 3:

Improve the assessment forms program by:

- (1) Submitting property tax form checklists to the BOE as required by Rules 101 and 171; and
- (2) Using BOE-Prescribed form in place of county-generated forms as required by Government Code section 15606.

Response: *We appreciate the survey team identification of this administrative oversight and have already implemented corrective procedures.*

RECOMMENDATION 4:

Apply the section 482 penalty for failure to file the Change of Ownership Statement.

Response: *We will develop and implement a solution.*

RECOMMENDATION 5:

Annually review the assessment of timeshares in decline-in-value status as required by section 51(e).

Response: *We concur with the recommendation and have already implemented a review process.*

RECOMMENDATION 6:

Revise CLCA assessment procedures by:

- (1) Annually calculating restricted values for CLCA properties as required by section 423; and
- (2) Appraising each CLCA property as an appraisal unit.

Response: *As noted in the report, the Assessor is developing an automated valuation tool which will assist appraisers in accomplishing the required annual valuation.*

RECOMMENDATION 7:

Assess taxable government-owned property at the lowest of current market value, restricted value, or factored base year value.

Response: *We will establish and develop processes to properly enroll the lowest of the three values.*

RECOMMENDATION 8:

Improve the taxable possessory interest program by:

- (1) Not revaluing taxable possessory interests prior to the expiration of the reasonably anticipated term possession;
- (2) Periodically reviewing all taxable possessory interests with stated terms of possession for declines in value and enrolling the values consistently

Response: *We concur and will establish policies and controls to insure compliance.*

- (3) Issuing supplemental assessments for changes in ownership or new construction of qualifying taxable possessory interests assessed on the unsecured roll

Response: *Issuing supplemental assessments on the unsecured roll will entail substantive program modifications which will be developed as resources permit.*

- (4) Adding the present worth of unpaid rents to the nominal sales price as required by Rule 21.

Response: *We respectfully disagree with the recommendation. The Assessor has consistently provided survey teams with paired sales analysis that conclusively demonstrate this recommendation would result in the enrollment of base year values that violate the provisions of §2(a) of Article XIII A and §110.1 of the Revenue & Taxation Code.*

RECOMMENDATION 9:

Issue supplemental assessment for structural leasehold improvements on the unsecured roll.

Response: *We concur and will develop and implement a solution.*

RECOMMENDATION 10:

Determine the current market value of mineral properties for purposes of measuring declines in value by appraising mineral properties as a unit.

Response: *We concur and will implement this recommendation as resources permit.*

RECOMMENDATION 11:

Use AH 581 as intended by:

- (1) Using minimum percent good factors that are supportable as provided in section 401.16(b); and
- (2) Discontinuing the use of the economic downturn adjustment factor without a supporting study to justify the adjustment.

Response: *No comment*

RECOMMENDATION 12:

Revise vessel assessment procedures by:

- (1) Discontinuing the use of unsupported depreciation adjustments; and
- (2) Including sales tax as a component of market value when appraising vessels.

Response: *No comment*