

GLENN COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2015

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2015/023

April 30, 2015

TO COUNTY ASSESSORS:

**GLENN COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Glenn 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 Sheryl Thur, Glenn County Assessor/Recorder/Clerk, 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 Glenn County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from November through December 2013. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

Sincerely,

/s/ John K. Thompson for

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK: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 Glenn County Assessor/Recorder/Clerk's Office.¹

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 Glenn County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Sheryl Thur, Glenn County Assessor/Recorder/Clerk, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

¹ This report covers only the assessment functions of this office.

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."² The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

The objective of the survey program is to promote statewide uniformity and consistency in property tax assessment, review each county's property assessment practices and procedures once every five years, and publish an assessment practices survey report. Every assessor is required to identify and assess all properties located within the county – unless specifically exempt – and maintain a database or "roll" of the properties and their assessed values. If the assessor's roll meets state requirements, the county is allowed to recapture some administrative costs.

SCOPE AND METHODOLOGY

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.

Pursuant to Revenue and Taxation Code³ 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.

This survey included an assessment sample of the 2013-14 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.⁴

² Government Code section 15642.

³ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

⁴ For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>.

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

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf>.

We conducted reviews of the following areas:

- Administration

We reviewed the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, staff property and activities, assessment appeals, disaster relief, and exemptions.

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include change in ownership, new construction assessments, decline in value assessments, and certain properties subject to special assessment procedures, such as California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property.

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, and vessel assessments.

Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

EXECUTIVE SUMMARY

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.

In the area of administration, the assessor is effectively managing staffing and assessment appeals. However, we made recommendations for improvement in the workload, staff property and activities, disaster relief, and exemptions programs.

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

In the area of personal property and fixtures assessment, the assessor is effectively managing the assessment of manufactured homes. However, we made recommendations for improvement in the audit, business property statement, business equipment valuation, and vessels programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly, and that the overall quality of the assessment roll meets state standards.

The Glenn County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2013-14 assessment roll indicated an average assessment ratio of 100.33 percent, and the sum of the absolute differences from the required assessment level was 1.74 percent. Accordingly, the BOE certifies that Glenn County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF GLENN COUNTY

Glenn County is located in northwest California. The county encompasses an area of 1,327 square miles, consisting of 1,314 square miles of land area and 13 square miles of water area. Created in 1891, Glenn County was formed from the northern part of Colusa County. Glenn County is bordered by Tehama County to the north, Butte County to the east, Colusa County to the south, and Mendocino and Lake Counties to the west.



As of 2013, Glenn County had a population of 27,940. Glenn County has two incorporated cities: Willows and Orland. The county seat is Willows.

Glenn County is primarily an agricultural community. The total gross production value of agricultural commodities in 2013 was valued at \$792 million. Rice was the leading commodity at \$176 million.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Glenn County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

RECOMMENDATION 1:	Improve the workload program by: (1) reporting statistics as requested by the BOE pursuant to section 407, and (2) storing confidential records in a secure location.	9
RECOMMENDATION 2:	Improve the staff property and activities program by expanding the written procedures for conflicts of interest and the assessment of staff-owned property.	10
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RECOMMENDATION 4:	Grant the welfare exemption only to qualifying properties.	13
RECOMMENDATION 5:	Improve the LEOP program by: (1) reassessing all properties owned by legal entities that have undergone a change in control or ownership, and (2) applying appropriate penalties as required by section 482(b).	15
RECOMMENDATION 6:	Value construction in progress at its fair market value on the lien date as required by section 71.	16
RECOMMENDATION 7:	Improve the declines in value program by including all required information on the value change notice in accordance with section 619.	17
RECOMMENDATION 8:	Improve the CLCA property program by: (1) correctly assessing homesites on restricted land, and (2) including all potential income available to the property when determining the value.	18

RECOMMENDATION 9: Improve the assessment of taxable possessory interests by: (1) using proper methods to develop the income stream to be capitalized when using the direct income approach to value taxable possessory interests, (2) using proper methods to develop the appropriate capitalization rate when valuing taxable possessory interests, (3) obtaining copies of all current lease agreements or permits for taxable possessory interests, and (4) assessing all taxable possessory interests.....19

RECOMMENDATION 10: Improve the petroleum assessment program by: (1) properly measuring decline rates, and (2) adjusting base year value reserves to reconcile with current market value reserves.23

RECOMMENDATION 11: Measure declines in value for mining properties using the entire appraisal unit as required by Rule 469.....24

RECOMMENDATION 12: Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, (2) developing an audit tracking schedule, (3) using a comprehensive audit checklist as a standard component of all audits, and (4) sending a *Notice of Proposed Escape Assessment* as required by section 531.8.....26

RECOMMENDATION 13: Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.....28

RECOMMENDATION 14: Improve the BPS program by: (1) conducting an audit or field review when property owners fail to file a BPS for three or more consecutive years, and (2) ensuring that a certified appraiser reviews all business property assessments prepared by non-certified staff.29

RECOMMENDATION 15: Improve the business equipment valuation program by: (1) utilizing Board-recommended valuation tables when valuing computer equipment, and (2) properly classifying and assessing fixtures on the assessment roll.30

RECOMMENDATION 16: Ensure that a certified appraiser reviews all vessel valuations prepared by non-certified staff.31

ADMINISTRATION

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable real property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.⁵

During our review, we found areas in need of improvement in the assessor's workload program.

RECOMMENDATION 1: Improve the workload program by: (1) reporting statistics as requested by the BOE pursuant to section 407, and (2) storing confidential records in a secure location.

Report statistics as requested by the BOE pursuant to section 407.

During the survey, we requested statistics from the assessor for various topics, since the assessor had not reported requested statistics to the BOE for the annual publication *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for the last several years.

Section 407 provides that the assessor shall transmit a statistical statement to the BOE annually, on the second Monday in July, supplying any statistical information which the BOE may require, and shall supply from time to time any other information required by the BOE.

By not reporting statistics to the BOE, the assessor is not in compliance with current statute. Also, the assessor may not be tracking statistics for in-house use, which may keep her from making accurate decisions in regards to staff, workload, and the budget needed to complete the roll in a timely and efficient manner.

Store confidential records in a secure location.

We found the assessor stores confidential property records in an unsecured manner in a public hallway just off the assessor's public lobby. The hallway provides access to public restrooms and a stairway that leads out of the back of the building. Some of the confidential records stored in

⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Workload*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/workload_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

the hallway include preliminary change of ownership reports, change in ownership statements, new construction questionnaires, and correspondence between the assessor and assessees.

Section 408(a) provides that, except as otherwise provided, any information and records in the assessor's office that are not required by law to be kept or prepared by the assessor, disabled veterans' exemption claims, and homeowners' exemption claims, are not public documents and shall not be open to public inspection.

The assessor's practice of storing confidential records in a public hallway presents an inappropriate risk that documents not open to public inspection could be accessed by members of the public, thus compromising her duty to maintain the security of the records.

Staff Property and Activities

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.⁶

We reviewed the assessor's procedures and policies involving staff-owned property, and we reviewed several staff-owned property record files. We found an area in the assessor's staff property and activities program in need of improvement.

RECOMMENDATION 2: Improve the staff property and activities program by expanding the written procedures for conflicts of interest and the assessment of staff-owned property.

The assessor has limited written procedures and informal policies addressing conflicts of interest and the assessment of staff-owned property. While we did not find any problems with the assessor's handling of staff-owned properties, the assessor should expand the written procedures to fully address the assessment of real and personal property in which staff in the assessor's office holds an interest. In addition, the assessor's written procedures for conflicts of interest do not address outside employment activities. For example, employees are not required to report or receive prior approval for participating in outside employment activities. The assessor does not track and document outside employment activities.

Converting informal policies to written policies and expanding existing written procedures are sound business practices. Written procedures are preferred because they are more easily tracked, can be referenced when questions arise, and commonly result in a greater degree of compliance. Letter To Assessors (LTA) No. 2008/058 was issued as a guide to assist assessors in establishing procedures relating to the assessment of staff-owned property. Written procedures addressing the

⁶ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Staff Property and Activities*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/staffproperty_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

assessment of not only staff-owned property, but also property owned by a spouse, a family member, or a dependent child, is considered sound management and is recommended.

The procedures for the assessment of staff-owned property need not be lengthy or complicated, but should be formalized in a written format and provided to all staff. The procedures adopted by the assessor should:

- Clearly define the assessor's policies and procedures,
- Establish staff's responsibilities,
- Create a file or listing of all staff-owned property in the county,
- Contain well-defined review procedures, and
- Accurately track and document all events with potential assessment implications.

Expansion of the written procedures for assessment of staff-owned property to include the above bulleted practices is recommended. In addition, expanding or amending the assessor's existing written procedures addressing conflicts of interest related to outside employment activities by staff is also recommended. The written procedures should provide staff with clearly established procedures and might include requiring prior approval for participating in outside employment, and tracking and documenting outside employment activities by staff. Such written procedures will help ensure that staff is aware of and follows office policy.

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 \$10,000.⁷

Glenn County has a disaster relief ordinance. We reviewed the assessor's procedures and policies involving disaster relief, and we reviewed property record files where a calamity occurred. We found an area in the assessor's disaster relief program in need of improvement.

RECOMMENDATION 3: Expand written procedures to ensure that disaster relief claims are processed in accordance with section 170.

The assessor has limited written procedures for the processing of disaster relief claims. Without clearly defined written procedures, uniformity and consistency in processing disaster relief claims is difficult to achieve. Consequently, we found other areas of concern regarding disaster relief:

⁷ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Disaster Relief*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/disaster_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

- The assessor does not always require a taxpayer to submit an application before granting the benefits of this tax relief program. We found that some property records were processed without an application or approval from the board of supervisors. Section 170(a) and Glenn County Ordinance No. 1169, both specify that an application for tax relief, executed under penalty of perjury, must be filed with the assessor. While section 170(a) provides that a board of supervisors may specify in its ordinance that the assessor has the authority to initiate the reassessment without an application, the Glenn County Board of Supervisors did not incorporate this provision in Ordinance No. 1169. Additionally, section 170(l) provides that if the assessor does not have the general authority pursuant to subdivision (a) to initiate reassessments and determines a property has suffered a calamity for which no application has been received, the assessor may, with the approval of the board of supervisors, reassess the property.
- We found one instance where an application was not filed timely, yet the assessor granted the tax relief. Section 170(a)(3) provides that the application for reassessment may be filed within the time specified in the ordinance or within 12 months of the misfortune or calamity, whichever is later. Glenn County Ordinance No. 1169 does not specify a timeframe. In cases where the assessor becomes aware of a calamity and forwards an application to the property owner, section 170(d)(1) provides the property owner shall file the completed application within 12 months after the occurrence of said damage.
- The assessor does not add value to the assessment for partially completed reconstruction on the lien date. Instead, the assessor waits until the restoration or reconstruction is complete before adding any value back onto the assessment roll. Section 170(g) provides that if partial reconstruction, restoration, or repair has occurred on any subsequent lien date, the taxable value shall be increased by an amount determined by multiplying the difference between its factored base year value immediately before the calamity and its assessed value in its damaged condition by the percentage of the repair, reconstruction, or restoration completed on that lien date.
- The assessor removes value from the assessment roll for property that was not damaged or destroyed. In some instances, the assessor removed 100 percent of the value for a single-family dwelling that suffered a calamity, even though the foundation, underground utilities, and/or concrete flatwork remained and still had utility. In each case, we confirmed with the building department that the foundation remained and was reused in the reconstruction. Section 170(b) provides that the assessor shall reduce the values appearing on the assessment roll by the percentages of damage or destruction computed pursuant to this subdivision. Thus, the taxpayer may only receive property tax relief for the value of property that was damaged or destroyed.
- The assessor does not adequately document in the property records, the logic or calculations used to determine the value deducted due to the calamity. We also did not find an adequate description of the damaged property, the extent of the damage, or a clear record of what was restored or reconstructed.

The expansion of clearly defined written procedures would help improve uniformity and consistency in processing disaster relief claims, thus eliminating some of the issues listed above, and bringing office practices into fuller compliance with section 170.

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.⁸

Our review of the assessor's exemptions program included the church and religious, welfare, and disabled veterans' exemptions.

Welfare Exemption

We reviewed a variety of welfare exemption claims and found an area in need of improvement.

RECOMMENDATION 4: Grant the welfare exemption only to qualifying properties.

We found a thrift store that is improperly being granted a welfare exemption. To the knowledge of the assessor, while proceeds from this thrift store are used for a senior nutrition program, it is not operating as part of a planned rehabilitation program. In addition, we found no evidence of a BOE-267-R, *Welfare Exemption Supplemental Affidavit, Rehabilitation-Living Quarters*, having been filed with the assessor, initially or annually.

Generally, property used for thrift stores is not exempt because it is used for fundraising purposes. However, thrift stores may qualify for the welfare exemption under section 214 if they are part of a formal, planned rehabilitation program operated by the qualifying organization in which persons are rehabilitated through training and employment and leave to become gainfully employed elsewhere. For example, merely providing permanent employment to a disabled person would not make a thrift store exempt.

By improperly granting this thrift store the welfare exemption, the assessor is not in compliance with section 214.

⁸ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Exemptions*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

ASSESSMENT OF REAL PROPERTY

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 a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.⁹

We examined several recorded documents and found that the assessor has an effective program for the discovery and determination of reappraisable events. In addition, we reviewed several property records having recently experienced a change in ownership and found that the assessor is following proper valuation procedures and has an efficient valuation program in place for reappraising properties having undergone a change in ownership. However, we found areas in need of improvement.

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the

⁹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

We reviewed several records involving legal entities having experienced a change in control or a change in ownership. We found areas in need of improvement.

RECOMMENDATION 5: Improve the LEOP program by: (1) reassessing all properties owned by legal entities that have undergone a change in control or ownership, and (2) applying appropriate penalties as required by section 482(b).

Reassess all properties owned by legal entities that have undergone a change in control or ownership.

We found properties owned by legal entities having undergone a change in control or ownership that had not been reassessed, even though the assessor had been notified of the change by the BOE's LEOP Section.

Section 64(c)(1) provides that when a person or a legal entity acquires controlling interest of another legal entity by obtaining more than 50 percent of the voting stock or a majority ownership interest in that legal entity, there is a change in ownership of the real property owned by the legal entity being acquired. Section 64(d) provides that a change in ownership occurs when cumulatively more than 50 percent of the original co-owners' interest in the legal entity is transferred through one or more transactions, and the property that was previously excluded under section 62(a)(2) shall be reappraised.

By not reassessing properties owned by legal entities identified as having undergone a change in control or ownership, the assessor may be enrolling incorrect assessments for those properties.

Apply appropriate penalties as required by section 482(b).

The BOE generates LEOP reports that are sent monthly to assessors indicating legal entities which have undergone a change in control or ownership, and identifying due dates and actual filing dates of the BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, for each entity. We found the assessor is not applying the appropriate penalties when legal entities fail to file a timely form BOE-100-B when a change in control or ownership has occurred.

Sections 480.1 and 480.2 require the filing of a signed BOE-100-B whenever a legal entity has undergone a change in control or ownership. Section 482(b) provides that if a person or legal entity failed to file a BOE-100-B within 90 days of a change in control or ownership or within 90 days of a written request from the BOE, whichever occurred earlier, they are subject to a 10 percent penalty.

The BOE provides the assessor with several reports, as well as copies of BOE-100-Bs, indicating whether a penalty applies. The assessor should review these reports and the BOE-100-Bs to identify entities with late-filings or failures to file and apply penalties accordingly. By failing to apply the required section 482(b) penalty, the assessor is not following statutory requirements and is not treating all taxpayers equitably.

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.¹⁰

We reviewed several property record files involving recent new construction and found an area in need of improvement.

RECOMMENDATION 6: Value construction in progress at its fair market value on the lien date as required by section 71.

We found the assessor does not consistently enroll value for construction in progress as of the lien date.

Section 71 states new construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property that is newly constructed shall be reappraised at its full value to determine the new base year value for the portion of newly constructed property.

The assessor's practice of not valuing construction in progress on the lien date is not in compliance with section 71 and results in inaccurate assessments.

Declines in Value

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

¹⁰ For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/newconstruction_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.¹¹

We reviewed several decline-in-value assessments and found that value determinations were well supported and the property records were appropriately documented. However, we found an area in need of improvement.

RECOMMENDATION 7: Improve the declines in value program by including all required information on the value change notice in accordance with section 619.

In Glenn County, it is the assessor's practice to use the annual tax bill as the official notice to property owners of decline-in-value properties that have been fully or partially restored to their FBYVs. The tax bill does not include the property's FBYV or an explanation of the stipulation process. The assessor sends a letter to the taxpayer in situations where a property is determined to have experienced a decline in value and the assessor has not received a request for review from the taxpayer. However, the letter does not include information regarding filing an assessment appeal or an explanation of the stipulation process.

Section 619(a) requires the assessor to inform each assessee of real property on the local secured roll whose property's full value has increased over its full value from the prior year as it shall appear on the completed local roll. Section 619(b) provides that the information given by the assessor to the assessee shall include a notification of hearings by the county board of equalization, which shall include the period during which assessment appeals will be accepted and the place where they may be filed. The information shall also include an explanation of the stipulation procedure set forth in section 1607. Section 619(c) provides that in the case of an increase in a property's full value over the property's full value determined for the prior year in accordance with section 51, the information shall also include the property's FBYV.

By not including all required information on the value change notice, being used to notify taxpayers of a change to their assessed values, the assessor is not in compliance with current statute and taxpayers are not being provided with all the information they are entitled to receive.

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, for

¹¹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Declines in Value*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/declinesinvalue_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

example, hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.¹²

We reviewed several CLCA assessments and found that the assessor properly issues supplemental assessments on unrestricted portions of CLCA properties that undergo changes in ownership or have completed new construction. Pursuant to section 75.14 and section 52(a), supplemental assessments are not issued for restricted land or living improvements. In addition, the assessor properly values properties in nonrenewal status in accordance with section 426. However, we found areas in need of improvement.

RECOMMENDATION 8: Improve the CLCA property program by: (1) correctly assessing homesites on restricted land, and (2) including all potential income available to the property when determining the value.

Correctly assess homesites on restricted land.

We found the assessor treats some homesites as restricted land. Examples were found where the Farmland Security Zone percentage reduction was applied to land on which a home is located.

Pursuant to section 428, the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), page II-51, provides that:

Even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner.

In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite. The handbook also states that in determining the value of the residence and homesite, the comparative sales approach is the best method.

By restricting the value of the land set aside for residential use on an otherwise restricted property, the assessor is not in compliance with section 428.

Include all potential income available to the property when determining the value.

We found the assessor is not recognizing all of the potential income available to the property. For example, we found the assessor is not recognizing income related to cell towers on enforceably restricted property.

¹² For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/clca_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Section 423(a)(3) and AH 521 provide that the gross income to be capitalized in valuing enforceably restricted property includes not only income from agricultural production, but also income from any compatible uses.

By not including income from compatible uses in the valuation process, the assessor is undervaluing properties subject to open-space restrictions that have additional income from approved uses.

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.¹³

In Glenn County, the assessor enrolled 119 taxable possessory interests for the 2013-14 roll year, with a total assessed value of \$2,675,951. These taxable possessory interests are located on property owned by 20 public agencies. The majority of the taxable possessory interests enrolled in Glenn County are for airport hangars at both the Willows-Glenn Airport and the Orland-Haigh Airport. Other types of possessory interests in Glenn County include, but are not limited to, video franchises, employee housing, grazing permits, and cabins on United States Forest Service land.

We reviewed the property record files of several taxable possessory interests and found areas in need of improvement.

RECOMMENDATION 9: Improve the assessment of taxable possessory interests by: (1) using proper methods to develop the income stream to be capitalized when using the direct income approach to value taxable possessory interests, (2) using proper methods to develop the appropriate capitalization rate when valuing taxable possessory interests, (3) obtaining copies of all current lease agreements or permits for taxable possessory interests, and (4) assessing all taxable possessory interests.

Use proper methods to develop the income stream to be capitalized when using the direct income approach to value taxable possessory interests.

We found the assessor does not always use the net economic (market) rent as the income to be capitalized when determining the value of a taxable possessory interest. In addition, we found

¹³ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

that the assessor does not make a deduction from the gross rent for management and other operating expenses incurred by the public owner.

According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), the income to be capitalized when valuing a taxable possessory interest is the "net return" to the public owner attributable to the taxable possessory interest, which is "gross return" less "gross outgo." Rule 8(c) defines gross return as any money or money's worth that the taxable property will produce. Gross outgo means any outlay of money or money's worth required to develop and maintain the estimated income. Gross outgo is also commonly referred to as allowed expenses.

The income to be capitalized may be based on either rental or operating income; when rental income is used, the income should reflect the estimated net economic (market) rent. When estimating the income to be capitalized, allowed expenses paid by the public owner should be deducted from the estimated gross economic rent. Rule 21(e)(3)(C) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return," which is defined in Rule 8(c).

If rental income is used to determine the income to be capitalized, the appraiser may estimate the economic rent as of the valuation date using any of the following potential indicators or evidence of market rent:

- The contract rent for the subject taxable possessory interest.
- Contract rents for comparable taxable possessory interests.
- Contract rents for leasehold interests in comparable real property held in fee.
- Contract rents for other comparable interests in real property.

Contract rents should be negotiated in a competitive market involving real property reasonably comparable to the taxable possessory interest being valued in terms of physical attributes, location, legally enforceable restrictions on the property's use, term of possession, and risk of cancellation of the taxable possessory interest by the public owner. In addition, the contract rents should have been negotiated close in time to the valuation date of the subject to better reflect economic rent as of the valuation date.

By not properly developing the income stream to be capitalized to value taxable possessory interests, the assessor may be enrolling incorrect assessments.

Use proper methods to develop the appropriate capitalization rate when valuing taxable possessory interests.

Several components are used by the assessor to develop a capitalization rate when valuing taxable possessory interests. The assessor applies the annual open-space land interest component recommended by the BOE for restricted land valuation, and then adds a component for risk and a component for property taxes, regardless of whether the landlord or the tenant pays the property

taxes. In addition, the assessor, when valuing a taxable possessory interest with an escalating rent, not only includes the percent increase to the rent each year, but also adds the same percentage to the capitalization rate.

According to AH 510, and consistent with Rule 8, a capitalization rate for valuing a taxable possessory interest may be developed using any of the following methods:

- By comparing the anticipated net incomes from comparable taxable possessory interests with their sale prices stated in cash or its equivalent and adjusted as described in Rule 21(e)(1)(A).
- By comparing anticipated net incomes of comparable fee simple absolute interests in real property with their sale prices stated in cash or its equivalent, provided the comparable fee properties are not expected to produce significantly higher net incomes subsequent to the subject taxable possessory interest's term of possession than during it.
- By deriving a weighted average of the capitalization rates for debt and equity capital appropriate for the subject taxable possessory interest, weighting the separate rates of debt and equity by the relative amounts of debt and equity capital expected to be used by a typical purchaser of the subject taxable possessory interest.

Also consistent with Rule 8(f), the capitalization rate should include a component for property taxes, where applicable. According to AH 510, when the landlord (lessor) is responsible for paying the property taxes, the capitalization rate should include a component for property taxes. However, if the tenant is responsible for paying the property taxes in addition to rent, the capitalization rate should not include a component for property taxes. With most taxable possessory interests, the possessory interest tax is paid by the tenant (lessee or possessor) in addition to rent and, therefore, the capitalization rate typically should not include a component for property taxes.

Using improper methodology to develop a capitalization rate when valuing taxable possessory interests may cause the assessor to apply an inappropriate capitalization rate and enroll incorrect assessments.

Obtain copies of all current lease agreements or permits for taxable possessory interests.

The assessor does not consistently obtain copies of current leases or permits for taxable possessory interests. The assessor primarily relies on tenant lists, historical information, or information obtained from the public agencies.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Rule 21(d)(1) explains that the stated term of possession for the valuation of taxable possessory interests is deemed to be the reasonably anticipated term of possession except in limited situations. Rule 21(e)(3)(C) explains how to determine the net operating income for capitalization purposes.

The steps in the valuation process cannot be properly completed if the contract conveying the taxable possessory interest is not reviewed. For example, the assessor may have information

relating to the initial lease term, but may not know of renewal options contained in the lease or the allocation of operating expenses between the public owner and possessor. A review of the lease is necessary in order to determine the proper valuation variables.

By not obtaining copies of current leases or permits, the assessor may lack the information needed to accurately value taxable possessory interests.

Assess all taxable possessory interests.

We discovered the assessor is not assessing any taxable possessory interests at the Glenn County Fairgrounds. We contacted the management at the Glenn County Fair and obtained preliminary data that indicates at least one potential taxable possessory interest. Glenn County has an ordinance exempting all property having a full value of two thousand dollars or less. Based on the flat rate charged for concession space at the Glenn County Fair, it appears that the use of space for concessions for the four day fair event probably would not constitute a taxable interest. However, based on the information provided from the fair management, the carnival operation would have a full value above the low-value threshold.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide a private benefit. The carnival interest appears to meet these tests.

Failure to assess all taxable possessory interests that meet statutory requirements result in escaped assessments.

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.¹⁴

Glenn County has assessable mineral properties, both petroleum (natural gas) and mining properties. There are no assessable high temperature geothermal properties located in Glenn County. A senior appraiser appraises the mineral properties in the county.

¹⁴ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Petroleum Property

After reviewing the assessor's petroleum property program, we have the following recommendations:

RECOMMENDATION 10: Improve the petroleum assessment program by:

- (1) properly measuring decline rates, and
- (2) adjusting base year value reserves to reconcile with current market value reserves.

Properly measure decline rates.

Reviewing the production history of a well and determining the production decline can assist in the forecast of natural gas reserves. In Glenn County, we found the senior appraiser calculates the annual decline based on the calendar year and then averages the decline rate for the last five years to arrive at the decline rate used to forecast future production. This is contrary to general petroleum engineering practice, which is to examine the decline trend regardless of the calendar and determine the best-fit straight-line portion of the plot.

Over time, all natural gas wells exhibit a decline. The decline is a function of the characteristics of the well itself and the petro-physical properties of the reservoir. Use of a predetermined date interval for estimating the rate of production decline may fail to account for rework activity on the well to improve production or address production efficiency issues. This may explain some of the negative decline rates estimated by the senior appraiser and used in his analysis.

In general, the decline rates used by the assessor were higher than those estimated in our review of the petroleum properties, which resulted in lower estimates of reserves for the properties and lower valuations. Decline rates and property valuations have an inverse relationship. All else being equal, a higher decline rate results in a lower valuation.

Not measuring the decline rate properly may result in inaccurate assessments.

Adjust base year value reserves to reconcile with current market value reserves.

We found that the volume of reserves determined from the current market value estimate and the volume of reserves used in the adjusted base year value calculation did not reconcile. This is contrary to recommended assessment practices.

The volume of base year reserves should be adjusted every year to reconcile with the estimate of the volume of reserves used in the current market value estimate, according to the procedure described in Rule 468(c)(2) and Rule 468(c)(4)(D).

Failure to reconcile estimates of the volume of reserves can lead to an incorrect estimate of the adjusted base year value, resulting in an error that can carry forward several years.

Mining Property

After reviewing the assessor's mining property program, we have the following recommendation:

RECOMMENDATION 11: Measure declines in value for mining properties using the entire appraisal unit as required by Rule 469.

We found that when measuring for declines in value for mineral properties, the assessor does not combine the values for mineral rights, improvements (including fixtures), and land into a single appraisal unit value when determining whether to enroll the adjusted base year value or the current market value. Instead, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value. This procedure conflicts with the intent of Rule 469(e)(2)(C).

Under article XIII A, all real property receives a base year value and, on each lien date, the taxable value of the real property unit should be the lesser of its adjusted base year value or current market value. Section 105 defines fixtures as a type of improvement and, hence, as real property.

For most properties, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value. Mineral properties, however, are treated differently. Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land, improvements including fixtures, and reserves. The assessor should use this unit for measuring a possible decline in value.

In order for the assessor to determine which value to enroll, the assessor should determine the current market value of the entire appraisal unit and compare it to the adjusted base year value of the entire appraisal unit, enrolling the lower of the two values. To properly determine the adjusted base year value of the appraisal unit, the adjusted base year value of the fixtures needs to be tracked and added to the adjusted base year value of the other components of the appraisal unit.

Failure to properly determine the decline in value of a mineral property by not comparing the adjusted base year value of the entire appraisal unit to the current market value of the entire appraisal unit is contrary to statute and may cause the assessor to enroll incorrect assessments.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.¹⁵

Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to LTA No. 2009/049, the amended statute requires the assessor to complete a minimum of four significant audits per year, of which two audits are to be from the pool of taxpayers with the largest assessments and two audits are to be from the pool of all other taxpayers. The assessor has only completed a total of five audits over the last five years.

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.

We reviewed all five audits that the assessor has completed over the last five years. We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. We also found that the assessor correctly processes roll corrections to enroll escape assessments and separately enrolls roll corrections for each year of the audit period in which there was a changed assessment due to escaped property pursuant to section 531. Further, for escape assessments the assessor properly sends the property owner a *Notice of Enrollment of Escape Assessment*. However, we found areas in need of improvement.

¹⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

RECOMMENDATION 12: Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, (2) developing an audit tracking schedule, (3) using a comprehensive audit checklist as a standard component of all audits, and (4) sending a *Notice of Proposed Escape Assessment* as required by section 531.8.

Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found that the assessor has completed a total of only five audits in the last five years, leaving the assessor out of compliance with the minimum audit workload requirements of four per year, as indicated by section 469. The assessor completed one audit for the 2011-12 roll year and three audits for 2012-13 roll year. At the time of our survey, only one audit had been completed for the 2013-14 roll year.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well-managed assessment program.

By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

Develop an audit tracking schedule.

The assessor has not developed an audit tracking schedule to assist in tracking the significant number of audits.

An effective audit program includes an audit tracking schedule. An audit tracking schedule assists the assessor in identifying and monitoring the "significant number of audits" as specified in section 469(a)(1). The audit tracking schedule also provides the auditor-appraiser with a snapshot of the required audit workload, and helps to identify completed and pending audits. An effective tracking schedule can aid in the planning of future audits.

Without an audit tracking schedule, the assessor may not be able to easily determine if she is in compliance with section 469 and Rule 192.

Use a comprehensive audit checklist as a standard component of all audits.

In Glenn County, the assessor's procedures require a supervisory review of all audits. However, we found that the audits do not include a checklist.

Per Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, the minimum contents of an audit should include an audit checklist. An audit checklist can serve to remind auditor-appraisers of the various issues to research as well as the procedures to follow during an audit, including the assessor's written audit procedures. An audit checklist also provides an outline of topics and pertinent issues to be covered in the audit. Furthermore, it serves as a useful research tool when preparing for subsequent audits of the same entity.

Without a comprehensive audit checklist, it is difficult for a reviewer to know what topics were covered during the course of the audit and whether the findings were sufficiently supported.

Send a *Notice of Proposed Escape Assessment* as required by section 531.8.

The assessor does not give advance notice to taxpayers when preparing to enroll an escape assessment. The only notice a taxpayer receives from the assessor relating to an escape assessment is the *Notice of Enrollment of Escape Assessment*. The assessor believes that Resolution No. 2002-73, which provides that the tax bill can be used as the value notice to the taxpayer, excuses the mailing of the *Notice of Proposed Escape Assessment*. Although the tax bill provides taxpayers with the new assessed values, it does not satisfy the requirements of section 531.8.

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 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 current audit findings notification process does not comply with section 531.8 and does not provide the taxpayer with proper notice of the escape assessment.

Statute of Limitations

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

RECOMMENDATION 13: Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.

We reviewed the assessor's policies and procedures for enforcement of section 532, and found instances where the assessor did not obtain a waiver of the statute of limitations when an audit could not be completed within the statutory period as defined by section 532.

As stated previously, section 532 provides that assessments must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment, and if the assessor cannot complete an audit within that time, the assessor may request a waiver of the statute of limitations from the taxpayer to allow for an extension. Further, section 532.1 provides that if, before the expiration of the period specified in section 532 for making an escape assessment, the taxpayer and the assessor have agreed in writing to extend the time for making an assessment, correction, or claim for refund, the assessment may be made at any time prior to the expiration of the period agreed upon.

A waiver of this nature protects the taxpayer during the audit process should an overassessment be discovered and allows the assessor to enroll an escape assessment if a reporting deficiency is found. By failing to obtain waivers, the assessor may allow taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit, resulting in a loss of revenue. Conversely, if the audit finds overassessments, refunds may not be processed.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program.¹⁶

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, application of penalties, coordination with the real property division, and record storage and retention. In addition, we reviewed several recently processed BPSs. We found that in all cases observed, BPSs accepted by the assessor evidenced the proper usage of Board-prescribed forms, were completed in sufficient detail, and were properly signed.

Overall, the assessor's BPS processing program is effectively managed. However, we found areas in need of improvement.

¹⁶ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Property Statement Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

RECOMMENDATION 14: Improve the BPS program by: (1) conducting an audit or field review when property owners fail to file a BPS for three or more consecutive years, and (2) ensuring that a certified appraiser reviews all business property assessments prepared by non-certified staff.

Conduct an audit or field review when property owners fail to file a BPS for three or more consecutive years.

We found the assessor sets no formal limits on the number of consecutive years a business property owner may fail to file a BPS before the assessor either visits the location of the taxable property or conducts an audit.

Section 501 requires the assessor to estimate the value of business property belonging to anyone who does not comply with the reporting requirements. If a property statement was received for the previous year, it is usually reasonable to use this as a basis for estimating the current year's value. However, when allowing estimated assessments to continue for several years without any new information, the values become increasingly susceptible to error.

The assessor's practice can lead to inaccurate assessments and loss of tax revenue due to the expiration of the statute of limitations for possible escape assessments. Therefore, estimated assessments based on prior years' reporting should be limited to three consecutive roll years.

Ensure that a certified appraiser reviews all business property assessments prepared by non-certified staff.

We found that non-certified staff processes all routine BPSs except problem accounts which are referred to the auditor-appraiser. For the more routine assessments, there is no systematic review by a certified appraiser of the value indicators prepared.

Section 670(a) provides that no person shall perform the duties or exercise the authority of an appraiser for property tax purposes, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificate issued by the BOE. In addition, LTA No. 2011/013, dated March 25, 2011, provides that while assistants may input the year of acquisition and cost information from source documents and select and apply full value and percent good factors, such actions are subject to instruction and review by a certified appraiser.

By allowing non-certified staff to value property without review by a certified appraiser, the assessor is allowing unqualified persons to exercise the authority of an appraiser, which is contrary to the provisions of section 670(a).

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while

other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.¹⁷

We reviewed the assessor's valuation procedures, as well as the assessor's application of valuation factor tables to ensure that they were accurate and applied consistently. We found the assessor's valuation factor coding system to be comprehensive and well managed. We also found the assessor's valuation procedures to be well documented and appropriately implemented. We reviewed the assessor's valuation tables and a number of processed BPSs. We found the assessor's application of Board-recommended valuation tables, for the most part, to be both consistently and accurately applied. However, we found areas in need of improvement.

RECOMMENDATION 15: Improve the business equipment valuation program by:
(1) utilizing Board-recommended valuation tables when valuing computer equipment, and (2) properly classifying and assessing fixtures on the assessment roll.

Utilize Board-recommended valuation tables when valuing computer equipment.

We found the assessor used a 10 percent minimum percent good factor for computer equipment acquired during and prior to the year 2008 on assessments made for the 2013 lien date. No evidence was found supporting the assessor's use of this percent good factor.

Table 7 of the 2013 version of Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581) provides valuation factors specifically for the valuation of computer equipment. Table 7 suggests a valuation factor of 2 percent for personal computer equipment acquired during or prior to the year 2005, 4 percent for acquisitions in 2006, and 6 percent for acquisitions in 2007. Pursuant to section 401.20, values determined by use of the valuation factors contained in Table 7 are rebuttably presumed to be the full cash value or fair market value for non-production computer equipment. A county assessor or taxpayer has the right to present evidence supporting a value different from those determined by use of Table 7 in an attempt to overcome the presumption.

The assessor's use of an unsupported 10 percent minimum valuation factor has resulted in an overassessment of personal computer equipment.

Properly classify and assess fixtures on the assessment roll.

We found the assessor classifies ATMs, bank vault doors, gasoline storage tanks and pumps, and billboards as structural improvements on the secured roll rather than as fixtures.

Rule 122.5 and the AH 581 clearly describe these improvements as fixtures. Although both fixtures and structures are improvements, there are important differences between assessment

¹⁷ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

practices for these two classifications. It is, therefore, important to properly classify these improvements. Differences occur in several areas: (1) fixtures are valued differently than structural improvements; (2) fixtures constitute a separate appraisal unit when measuring declines in value; (3) fixtures are generally not subject to supplemental assessment, but structural improvements must be supplementally assessed when appropriate; and (4) the full value of both fixtures and personal property must be considered when determining whether a business property account is subject to mandatory audit.

Structural improvements on the secured roll are factored up each year by the inflation factor, while fixtures are not. If fixtures are mistakenly classified as improvements, they will be over assessed due to the application of the inflation factor each year. This will not occur if they are correctly classified as fixtures.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles, 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.¹⁸

RECOMMENDATION 16: Ensure that a certified appraiser reviews all vessel valuations prepared by non-certified staff.

We found non-certified staff prepares and processes all vessel valuations. These duties include receiving vessel property statements, reviewing the statements for completeness, and estimating the full cash value of the reported vessels. This staff also enrolls the estimated values and processes any necessary roll corrections.

Section 670(a) provides that no person shall perform the duties or exercise the authority of an appraiser for property tax purposes, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificate issued by the BOE. In addition, LTA No. 2011/013, dated March 25, 2011, provides that while assistants may aid in the valuation of vessels and aircraft by selecting and applying information from a valuation guide, an appraiser must first verify that the items are properly described and assessable, and an appraiser must review the resulting value estimate.

By allowing non-certified staff to value property without review by a certified appraiser, the assessor is allowing unqualified persons to exercise the authority of an appraiser, which is contrary to the provisions of section 670(a).

¹⁸ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Vessels*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/vessels_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2013-14 assessment roll:¹⁹

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$1,034,383,094
	Improvements	\$1,299,355,838
	Personal Property	\$171,226,974
	Total Secured	\$2,504,965,906
Unsecured Roll	Land	\$979,870
	Improvements	\$6,958,391
	Personal Property	\$121,873,946
	Total Unsecured	\$129,812,207
Exemptions²⁰		(\$56,375,490)
	Total Assessment Roll	\$2,578,402,623

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:²¹

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2013-14	\$2,578,403,000	3.3%	4.3%
2012-13	\$2,497,114,000	0.2%	1.4%
2011-12	\$2,492,281,000	-1.5%	0.1%
2010-11	\$2,530,146,000	-2.0%	-1.9%
2009-10	\$2,581,593,000	2.3%	-2.4%

¹⁹ Statistics provided by BOE-822, *Report of Assessed Values By City*, 11 Glenn County for year 2013.

²⁰ The value of the Homeowners' Exemption is excluded from the exemptions total.

²¹ State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has increased from \$828,496 in 2009-10 to \$903,047 in 2013-14.

As of the date of our survey, the assessor had 8 budgeted permanent positions. This included the assessor, 1 assistant assessor, 1 administrative assistant, 3 appraisers, and 2 office technicians.²²

The following table identifies the assessor's budget and staffing over recent years:²³

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2013-14	\$903,047	-0.5%	8
2012-13	\$907,584	12.5%	8
2011-12	\$806,717	0.4%	8
2010-11	\$803,199	-3.1%	8
2009-10	\$828,496	-20.4%	9

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:²⁴

YEAR	ASSESSMENT APPEALS FILED
2012-13	20
2011-12	9
2010-11	5
2009-10	49
2008-09	106

²² Information is from the Glenn County Assessor/Recorder/Clerk Organizational Chart provided by the assessor.

²³ Statistics for the Gross Budget are from the County of Glenn *Detail of Financing Sources and Financing Uses Governmental Funds* for years 2009-10 through 2013-14. Statistics for Permanent Staff are from the County of Glenn budget report *Position Allocation List* for years 2009-10 through 2013-14.

²⁴ Statistics provided by the assessor.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:²⁵

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2013-14	37	\$37,666,426
2012-13	37	\$34,382,921
2011-12	37	\$27,120,105
2010-11	35	\$23,721,899
2009-10	35	\$22,890,239

Table 6: Change in Ownership

The following table shows the total number of reappraisable transfers due to changes in ownership processed in recent years:²⁶

YEAR	REAPPRAISABLE TRANSFERS
2012-13	568
2011-12	584
2010-11	526
2009-10	527
2008-09	467

²⁵ Statistics provided by BOE-802, *Report on Exemptions*, for years 2009 through 2013.

²⁶ Statistics provided by the assessor.

Table 7: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years.²⁷

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2012-13	2,100
2011-12	1,988
2010-11	1,331
2009-10	1,210
2008-09	806

²⁷ Statistics provided by the assessor.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Glenn County

Acting Chief

Benjamin Tang

Survey Program Director:

Mike Harris

Manager, Property Tax

Survey Team Supervisor:

Sally Boeck

Supervisor, Property Tax

Survey Team Leader:

Andrew Austin

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Gary Coates

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Nancy Le

Tax Auditor

Dany Lunetta

Associate Governmental Program Analyst

Evan Becker

Tax Technician I

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	
<i>Government Code</i>	
§15640	Survey by board of county assessment procedures.
§15641	Audit of records; appraisal data not public.
§15642	Research by board employees.
§15643	When surveys to be made.
§15644	Recommendations by board.
§15645	Survey report; final survey report; assessor's report.
§15646	Copies of final survey reports to be filed with local officials.
<i>Revenue and Taxation Code</i>	
§75.60	Allocation for administration.
<i>Title 18, California Code of Regulations</i>	
Rule 370	Random selection of counties for representative sampling.
Rule 371	Significant assessment problems.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

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



COUNTY OF GLENN

ASSESSOR'S OFFICE
COURT HOUSE COMPLEX
516 West Sycamore Street, 2nd Floor
Willows, California 95988
Willows Telephone (530) 934-6402
Orland Telephone (530) 865-1184
Fax: (530) 934-6571



Sheryl Thur
County Assessor / Clerk Recorder

March 4, 2015

RECEIVED

MAR 06 2015

County-Assessed Properties Division
State Board of Equalization

State Board of Equalization
Property and Special Taxes Department
P O Box 942879
Sacramento, CA 95279-0064

Attn: Mr. Benjamin Tang, Acting Chief

Dear Mr. Tang:

Pursuant to Section 15645 of the California Government Code, I am providing our written response to the Assessment Practices Survey of the 2013-14 Assessment Roll. Please incorporate my response in your final Assessment Practices Survey Report.

I want to express my appreciation to the survey/sample team for the professional manner in which the survey/sample was conducted. The survey/sample of the Assessors' Assessment Practices is a valuable tool and serves as essential checks and balances on the proper administration of California's Property Tax System.

In reviewing my responses, you will note that we agree with most of the recommendations and have already implemented or are planning to implement the changes necessary to achieve compliance. I am pleased to note that the recommendations are minor technical matters that do not involve or affect the major duties and functions of the department.

Most importantly, I want to thank my staff for their hard work, professionalism and dedication to serving the property owners and citizens of Glenn County. It was only through their commitment that this overall outstanding practices survey/sample was made possible.

Sincerely,

Sheryl Thur
Glenn County Assessor/Clerk/Recorder

SJT/sjt

GLENN COUNTY ASSESSOR'S RESPONSE
TO
STATE BOARD OF EQUALIZATION ASSESSMENT PRACTICE SURVEY
March 4, 2015

Recommendation 1: (1) Improve the budget and staffing program by reporting statistics as requested by the BOE pursuant to Section 407; (2) storing confidential records in a secured location.

Response: (1) We concur, will do as time permits. With the staffing/budget level we are experiencing we will do this as time permits; (2) Records are being stored in a hallway that is very seldom used by anyone but staff. We will consider our options.

Recommendation 2: Improve the staff property and activities program by expanding the written procedures for conflicts of interest and the assessment of staff-owned property.

Response: We concur.

Recommendation 3: Expand written procedures to ensure that disaster relief claims are processed in accordance with section 170,

Response: Revised procedures are currently being prepared and implemented.

Recommendation 4: Grant the welfare exemption only to qualifying properties.

Response: We agree and procedures will be implemented.

Recommendation 5: Improve the LEOP program by: (1) reassessing all properties owned by legal entities that have undergone a change in control or ownership, and (2) applying appropriate penalties as required by section 482(b).

Response: 1) We agree.

Recommendation 6: Value construction in progress at its fair market value on the lien date as required by section 71.

Response: We concur.

Recommendation 7: Improve the declines in value program by including all required information on the value change notice in accordance with section 619.

Response: We concur. The appropriate changes have been made.

Recommendation 8: Improve the CLCA property program by: (1) correctly assessing homesites on restricted land, and (2) including all potential income available to the property when determining the value.

Response: We agree.

Recommendation 9: Improve the assessment of taxable possessory interests by: (1) using proper methods to develop the income stream to be capitalized when using the direct income approach to value taxable possessory interest, (2) using proper methods to develop the appropriate capitalization rate when valuing taxable possessory interests, (3) obtaining copies of all current lease agreements or permits for taxable possessory interests, and (4) assessing all possessory interests.

Response: (1) We agree. We will revise our procedures. (2) Recommended methods for estimating capitalization rates are generally impractical and/or impossible given the demographics of Glenn County. (3) We will obtain copies of all current lease agreements when possible. (4) Most transitory use possessory interests are exempt from assessment per Section 155.20 of the Revenue and Taxation Code, and per Glenn County Resolution #99-13.

Recommendation 10: Improve the petroleum assessment program by: (1) properly measuring decline rates, and (2) adjusting base year value reserves to reconcile with the current market value reserves.

Response: (1) We concur. Procedures are being implemented. (2) We agree. New procedures are being implemented.

Recommendation 11: Measure declines in value for mining properties using the entire appraisal unit as required by Rule 469.

Response: We concur.

Recommendation 12: Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, (2) developing an audit tracking schedule, (3) using comprehensive audit checklist as a standard component of all audits, and (4) sending a Notice of Proposed Escaped Assessment as required by section 531.8.

Response: (1-4) We have not had the luxury of having an Auditor/Appraiser on staff for quite some time. Recently we were able to hire an appraiser that also has accounting background. We did get him certified as an Auditor/Appraiser through Board of Equalization and plan to start performing audits as budget and time permits.

Recommendation 13: Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.

Response: We agree.

Recommendation 14: Improve the BPS program by: (1) conducting an audit or field review when property owners fail to file a BPS for three or more consecutive years, and (2) ensuring that a certified appraiser reviews all business property assessments prepared by non-certified staff.

Response: We agree and procedures have been implemented.

Recommendation 15: Improve the business equipment valuation program by: (1) utilizing Board-recommended valuation tables when valuing computer equipment, and (2) properly classify and assessing fixtures on the assessment roll.

Response: We agree and procedures have been implemented.

Recommendation 16: Ensure that a certified appraiser reviews all vessel valuations prepared by non-certified staff.

Response: We agree and procedures have been implemented.