

INYO COUNTY ASSESSMENT PRACTICES SURVEY

SEPTEMBER 2012

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September 19, 2012

TO COUNTY ASSESSORS:

No. 2012/040

INYO COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Inyo 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 Thomas W. Lanshaw, Inyo County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Inyo County Board of Supervisors and Grand Jury.

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

Mr. Lanshaw and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:dcl
Enclosure

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INTRODUCTION

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and the Inyo 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 Thomas W. Lanshaw, Inyo County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

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

Our survey of the Inyo County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Inyo County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2010-11 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

EXECUTIVE SUMMARY

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

During our recent survey, we noted that the assessor has revised his website to include commonly used property tax forms. This allows taxpayers to obtain forms online rather than traveling to the assessor's office or requesting forms by mail.

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

In our review of the assessor's administration programs, we noted the assessor is doing a satisfactory job handling staffing, workload, appraiser certification, assessment appeals, and assessment forms programs. However, we did note that improvement is needed in the staff property and activities program, as well as in the exemptions program.

In the area of real property assessment, the assessor has effective programs for the enrollment of declines in value and taxable government-owned property. However, we noted deficiencies in the change in ownership program, as well as in the assessment of new construction, taxable possessory interests, and mineral properties.

In the assessment of personal property and fixtures, the assessor has effective programs for processing business property statements, as well as valuing business equipment, aircraft, and vessels. However, improvement is needed in the areas of conducting audits and assessing manufactured homes.

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

The Inyo County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2010-11 assessment roll indicated an average assessment ratio of 100.09 percent, and the sum of the absolute differences from the required assessment level was 0.12 percent. Accordingly, the BOE certifies that Inyo County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1:	Develop written procedures for the assessment of staff-owned property.....	11
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RECOMMENDATION 2: Improve the church and religious exemption programs by: (1) requiring that the exempt organization file the church exemption claim, (2) granting the church exemption only to property used exclusively for worship, and (3) not imposing late-filing penalties for the annual renewal of the religious exemption.....14

RECOMMENDATION 3: Grant the welfare exemption for qualifying living quarters.16

RECOMMENDATION 4: Terminate the disabled veterans' exemption as of the date the property is no longer eligible.17

RECOMMENDATION 5: Consistently apply penalties in accordance with section 482(a).....20

RECOMMENDATION 6: Improve the new construction program by: (1) classifying wells as land pursuant to Rule 124, and (2) granting new construction exclusions for claims for disabled access improvements only upon compliance with sections 74.3 and 74.6.....26

RECOMMENDATION 7: Improve the taxable possessory interest program by: (1) assessing all taxable possessory interests at the fairgrounds that do not meet the requirements of the low-value property exemption, and (2) deducting allowed expenses from gross income when valuing taxable possessory interests by the direct income approach.30

RECOMMENDATION 8: Determine and measure declines in value for settling ponds on all mining operations.32

RECOMMENDATION 9: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.34

RECOMMENDATION 10: Obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.....34

RECOMMENDATION 11: Periodically review manufactured home assessments for declines in value.....38

OVERVIEW OF INYO COUNTY

Inyo County lies along the eastern edge of California in the Eastern Sierra Nevada region. The county has approximately 10,203 square miles of land and 24 square miles of water for a total area of 10,227 square miles. Inyo County is bordered by San Bernardino and Kern Counties to the south, Mono County to the north, Tulare and Fresno Counties to the west, and the state of Nevada to the east.

Inyo County is known for its extraordinary geological formations. Along the county's western border one can find Mount Whitney, the highest point in the contiguous United States. In the eastern part of Inyo County is the Badwater Basin in Death Valley National Park, which is the lowest point in North America. The county is also home to 13 of California's 15 peaks which exceed 14,000 feet in elevation. Also located in Inyo County is the Palisade Glacier, the largest glacier in the Sierra Nevada, and it is the southernmost glacier in North America. The Alabama Hills in Inyo County have been a popular filming location since the 1920's, due to its outstanding features and striking scenery.

Inyo County was founded in 1866 and the county seat is Independence. As of 2009, Inyo County had a population of approximately 17,293. The city of Bishop is the only incorporated city within the county and home to the majority of the county's residents. The vast majority of land in the county is government-owned, with only 1.7 percent of the land held in private ownership.

The following table sets forth information pertinent to the 2010-11 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$2,221,503,878
	Improvements	\$911,082,278
	Fixtures	\$78,377,812
	Personal Property	\$41,253,209
	Total Secured	\$3,252,217,177
Unsecured Roll	Land	\$430,178,621
	Improvements	\$302,491,449
	Fixtures	\$28,814,553
	Personal Property	\$69,894,133
	Total Unsecured	\$831,378,756
Exemptions²		(\$70,452,186)
	Total Assessment Roll	\$4,013,143,747

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

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2010-11	\$4,013,144,000	-3.9%	-1.9%
2009-10	\$4,175,817,000	-6.2%	-2.4%
2008-09	\$4,453,115,000	29.4%	4.7%
2007-08	\$3,441,705,000	6.1%	9.6%
2006-07	\$3,243,700,000	8.7%	12.3%

² The Homeowners' Exemption value is not included in the exemption value noted in this table.

ADMINISTRATION

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

Budget and Staffing

The following table shows the assessor's budget levels over recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2010-11	\$712,398	-32.2%	8.6
2009-10	\$784,645 ³	43.4%	8.6
2008-09	\$733,048	-14.9%	8.6
2007-08	\$860,940	22.1%	8.6
2006-07	\$704,859	-9.8%	7.6

The number of assessor's staff has remained fairly consistent over recent years. At the time of the survey, the number of employees totaled nine and included two real property appraisers (including the assessor), one auditor-appraiser, one mapping technician, one appraiser aide, three full-time support staff, and one part-time support staff.

Workload

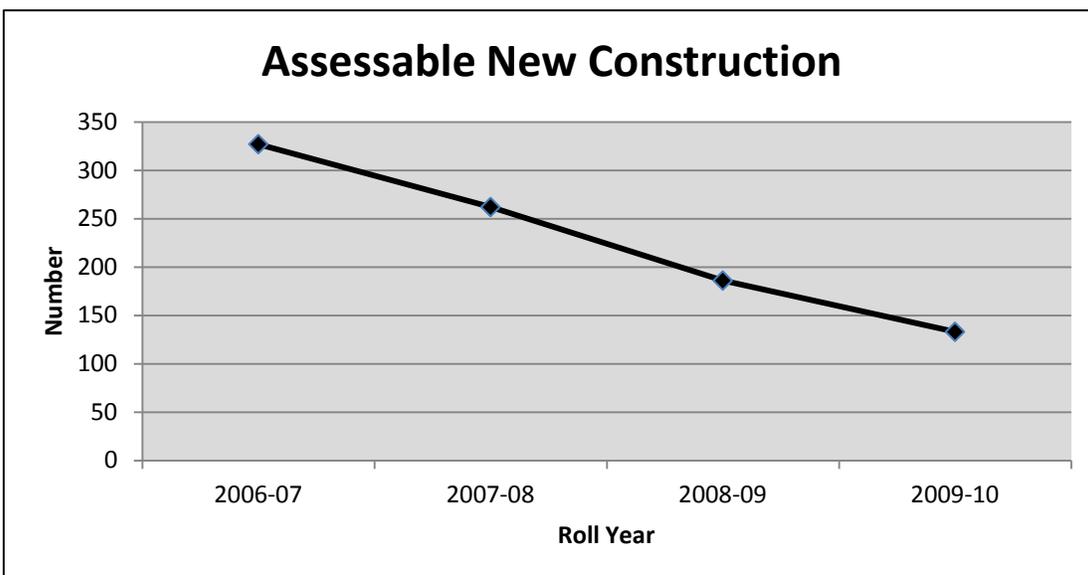
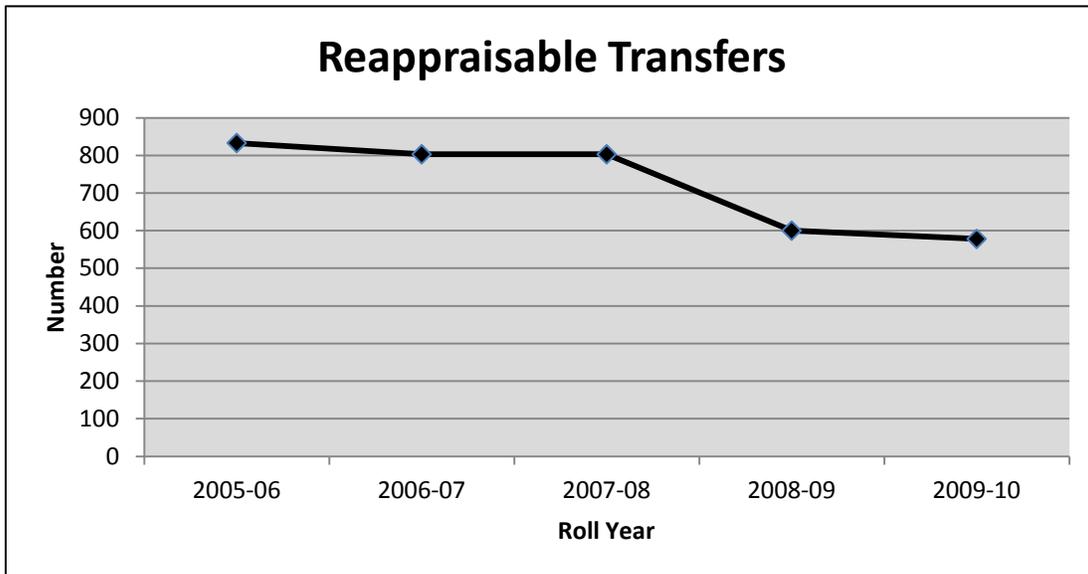
Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable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

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

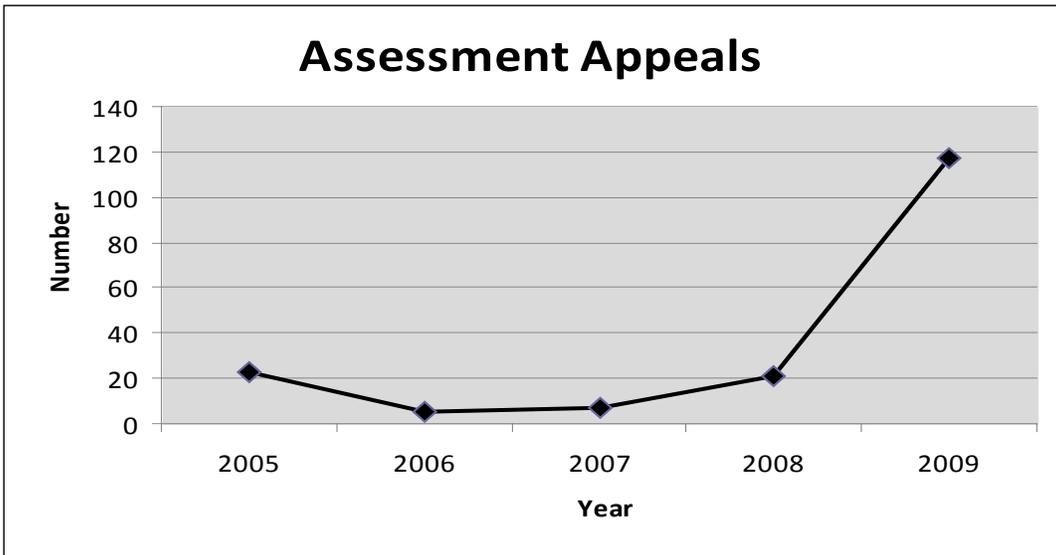
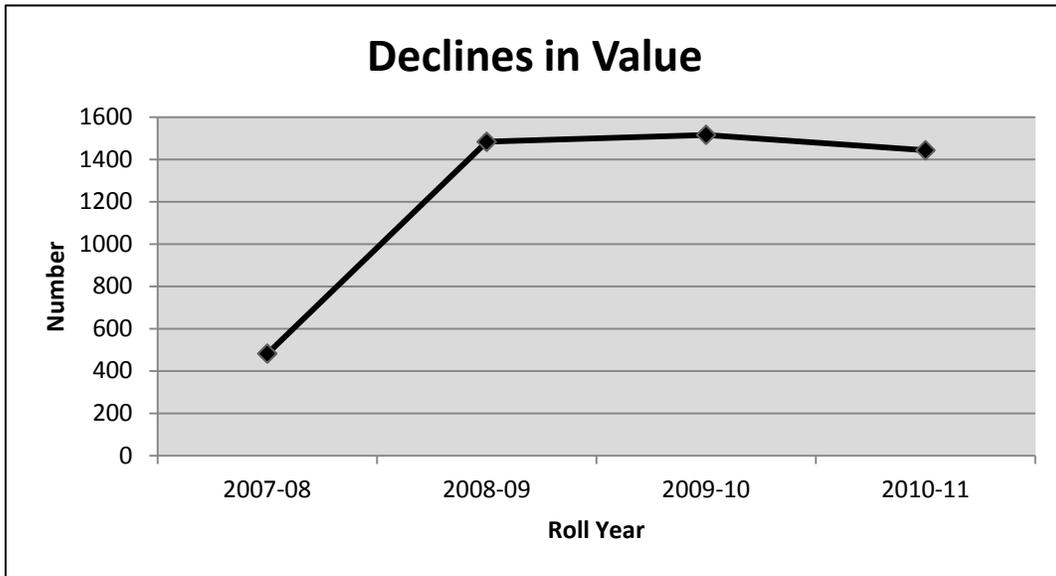
³ The assessor incorrectly reported \$1,050,921 for the total gross budget on *A Report on Budgets, Workloads, and Assessment Appeals Activities* for year 2009-10. The correct number should be \$784,645 per Ivonne Bunn at the Assessor's Office, per phone call on 4/10/2012. Also confirmed by *County of Inyo Budget to Actual Compare Income Groupings* for fiscal year 2009-10, Salaries and Benefits reported.

certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

According to the prior two tables, the gross budget has decreased three of the last five years, most recently showing a decrease, while the total roll value has increased three of the last five years, most recently showing a decrease. The assessor's workload has fluctuated over recent years reflecting volatile market conditions. The number of reappraisable transfers due to changes in ownership and the number of permits issued resulting in assessable new construction has been declining over the last several years. The following charts illustrate these changes:



The decrease in workload for reappraisable transfers due to changes in ownership and assessable new construction was replaced by significant workload increases in the areas of declines in value and assessment appeals. The following charts illustrate these changes:



Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of three certified appraisers on staff, including the assessor; two hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraiser performing audits meets the requirements referenced in section 670(d). The assessor contracts with an appraisal company to value mineral properties in the county. All appraisers under this contract hold valid and current certificates.

In Inyo County, the assessor oversees the training and certification program. Although appraisers are encouraged to take the necessary courses to obtain their advanced certificate, Inyo County does not offer any financial incentive for advanced certification. According to the BOE's report on training hours for Inyo County, no appraisers were deficient as of June 30, 2010.

There is one appraiser aide on the assessor's staff. The aide does not hold a temporary or permanent certificate from the BOE. We reviewed the work performed by the appraiser aide and found that the work is in compliance with the restrictions placed on noncertified staff in Letter To Assessors No. 2003/068. We have no recommendations for the assessor's appraiser certification program.

Staff Property and Activities

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

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, *Statement of Economic Interests* (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

The Inyo County Assessor's Office is small and informal communication between employees is often used. As such, the assessor has not formalized written procedures for the treatment of staff-owned properties. The assessor monitors property owned by his staff and the staff is aware that any assessment activity for their property is to be reported to the assessor, so that it can be assigned to another impartial staff member in the office. The assessor personally reviews every assessment change, making it unlikely that a change in staff-owned property would go undetected. The assistant assessor and the contract appraiser do not own property in Inyo County.

In order to avoid conflicts of interest arising from employees' activities outside of the assessor's office, employees are advised not to engage in activities that are incompatible with their duties.

The assessor's staff is made aware that they are not to conduct appraisal activity within Inyo County that is not related to their official assignments. The assessor, with the guidance of county counsel, is responsible for determining what sort of activities are to be prohibited. The assessor is also responsible for monitoring the outside activities of his staff.

We reviewed the assessment records for staff-owned property in Inyo County and, while we found no problems with any assessments, we do have a recommendation for improvement in the staff property and activities program.

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

We found that the assessor does not have written procedures to address the assessment of real and personal property in which staff in the assessor's office holds an interest.

Written procedures addressing the 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. Development of and adherence to written procedures promotes an acceptable level of oversight regarding the assessment of staff-owned property. The lack of written procedures could invite the risk that staff-owned property could be assessed by the staff owner and could result in an appearance of impropriety.

Assessment Appeals

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

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

In Inyo County, the five-member board of supervisors serves as the local board of equalization for assessment appeals, and hears all assessment appeals cases for changes in value affecting properties on the secured and unsecured rolls. There are no hearing officers. The regular filing period for assessment appeals is July 2nd through September 15th for the assessment year in question.

The following table summarizes the assessment appeals workload in recent years:

CALENDAR YEAR	2009	2008	2007	2006	2005
Appeals Filed	117	21	7	5	23
Appeals Carried Over From Prior Year	4	5	0	19	0
Total Appeals Workload	121	26	7	24	23
Resolution:					
Withdrawn	13	8	0	22	2
Stipulation	4	10	0	0	0
Appeals Reduced	1	0	0	2	1
Appeals Upheld	5	4	2	0	1
Appeals Increased	0	0	0	0	0
Total Resolved	23	22	2	24	4
To Be Carried Over*	98	4	5	0	19

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

The increase in the number of appeals filed in recent years reflects the overall decline in real estate values.

Property owners may call or write the assessor requesting an informal review of their assessment. Consequently, many valuation questions are resolved in the assessor's office without the need for an appeal. The property owner is not required to provide any comparable sales information with their request for assessment review.

If after consultation with the assessor's office the property owner decides to file a formal assessment appeal, it is the clerk who is responsible for providing applications for changed assessment to the public. The clerk of the board receives the application, stamps it with the date received, reviews it for completeness and timely filing, tracks the appeal in the computer on a spreadsheet, provides a copy of the application to the assessor, and schedules the appeal for hearing. In compliance with section 1605.6, the clerk sends a letter to the applicant with notification of the time, date, and place of the hearing.

The assessor personally assumes the responsibility of preparing and presenting all assessment appeals. If an appeal involves a business property audit, the chief auditor-appraiser prepares the case and accompanies the assessor to the assessment appeals hearing. The assessor receives a copy of the appeal application and any supporting documentation the applicant may have provided to the clerk. He then attempts to contact the applicant prior to the hearing in an effort to resolve the issue. If an agreement is reached, the applicant may withdraw the appeal or agree to a stipulation. If an applicant decides to withdraw their appeal, they are instructed to send their withdrawal letter directly to the clerk. A stipulation is created when the applicant and the assessor agree to a changed value. The stipulation will outline the details of the agreement. Both

parties sign the stipulation and, after the appeals board reviews and approves the stipulation, the assessor enrolls the agreed upon value. If no agreement can be reached, the appeal process continues and a hearing takes place.

We attended one scheduled assessment appeals hearing. We reviewed the appeal packet presented by the assessor and found it complete and well organized, with documentation supporting the assessor's opinion of value. The appeals board ruled in favor of the assessor and denied the applicant's request for reduction in value.

During our survey, we reviewed several records involving assessment appeals. We found them to be well documented and complete. Most appeals were resolved within the required two-year time frame and waivers were obtained for those that were not. We found no problems with the assessor's assessment appeals program.

Exemptions

The Inyo County survey included a review of all church, religious, welfare, and disabled veterans' exemptions. The exemptions program in Inyo County is administered by the supervisor of Fiscal Services who relies on guidance from Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267), BOE Publication 48, *Property Tax Exemptions for Religious Organizations*, and the exemptions manual compiled by the California Assessors' Association's Education Committee.

It is the assessor's policy to field-inspect all first-filings for exemption and to use BOE-267-FIR, *Welfare Exemption Assessor's Field Inspection Report*, to report findings. Thereafter, the assessor sends annual exemption claims prior to the lien date, as required by statute.

The assessor maintains a detailed list of exemption codes that are entered on the system to identify various exemptions, greatly assisting the office in completing the annual BOE-802, *Report on Exemptions*.

Church and Religious Exemptions

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

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually

mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

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

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2010-11	28	\$12,805,658	9	\$1,066,809
2009-10	30	\$12,407,455	8	\$1,039,916
2008-09	29	\$13,649,608	8	\$1,011,182
2007-08	29	\$13,449,549	8	\$943,224
2006-07	28	\$11,506,099	9	\$878,252

RECOMMENDATION 2: Improve the church and religious exemption programs by: (1) requiring that the exempt organization file the church exemption claim, (2) granting the church exemption only to property used exclusively for worship, and (3) not imposing late-filing penalties for the annual renewal of the religious exemption.

Require that the exempt organization file the church exemption claim.

The assessor allows a lessor to file the church exemption claim for portions of its property used by a religious organization.

The church exemption is available for owned or leased real and personal property used exclusively for worship and all real property that is necessarily and reasonably required for the parking of automobiles of persons who are attending worship services. However, the church exemption claim must be filed by the exempt religious organization itself, rather than the lessor. AH 267 and Publication 48 states that, in the case of leased property, the church or religious organization leasing the property may file a church exemption claim or the owner/lessor may file a lessor's exemption and have the religious organization/lessee file an affidavit that the property is used exclusively for exempt purposes.

Granting a church exemption that has not been claimed by the religious organization is contrary to statutory guidelines. More importantly, the possibility exists that a lessor could file a claim and take advantage of the exemption without a benefit to the exempt entity.

Grant the church exemption only to property used exclusively for worship.

A review of church exemptions revealed one claim stating that the property was being used for a parsonage and another claim stating that the property was being used for meetings and living quarters for visiting ministers.

As noted above, the church exemption is available to property used for worship and qualifying associated exempt activity. The use of property for living quarters does not qualify under the church exemption, but may qualify under the welfare exemption provision.

By allowing the exemption of living quarters under the church exemption, the assessor is granting the church exemption on property used outside the scope of the statute.

Do not impose late-filing penalties for the annual renewal of the religious exemption.

As is statutorily mandated, the assessor mails BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, to claimants of the religious exemption. If the claimant does not respond, however, the assessor mails a letter informing the organization that late-filing penalties will result in a 90 percent exemption if filed after February 15, but before December 10. The assessor acts on the warning, and those penalties are then imposed on claimants returning the notice after February 15.

There is no requirement for annual filing for the religious exemption. The only penalties for claimants of the religious exemption are imposed against late-filed first filing of the claim per section 270.

The legislative intent for the religious exemption was to provide a streamlined filing process for religious organizations that formerly were required to file both church and welfare exemption claims. AH 267 states, "The religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption." The purpose of the annual change in eligibility or termination notice is to inform the assessor whether the property continues to be eligible for the exemption. The notice itself states that failure to return the card does not of itself constitute a waiver of exemption, but may result in an onsite inspection. It does not reference penalties for failure to return the notice to the assessor by February 15.

The imposition of penalties is not supported by statute and unfairly burdens exempt organizations. The assessor should cease imposing annual late-filing penalties for claimants of the religious exemption and perform roll corrections to reverse the penalties already assessed.

Welfare Exemption

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

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

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

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

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

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2010-11	28	\$10,154,016
2009-10	24	\$10,547,847
2008-09	23	\$9,046,880
2007-08	37	\$6,708,966

RECOMMENDATION 3: Grant the welfare exemption for qualifying living quarters.

Our review of the exemptions program revealed that the assessor does not grant the welfare exemption for housing for religious personnel.

Section 214(i) provides, in part, that, "Property used exclusively for housing and related facilities for employees... shall be deemed to be within the exemption... to the extent the residential use of the property is institutionally necessary for the operation of the organization." Rule 137 provides a single uniform statewide standard for determining qualification for the welfare exemption as it applies to housing and related facilities for employees and provides guidance for applying the welfare exemption to such properties. AH 267 states, in part, "... the use of the property by the owner organization solely for a residence for a member of the clergy to provide respite is an exempt purpose where that use is in furtherance of the religious purposes of the organization as set forth in the organization's tenets."

Denying the exemption for housing that is incidental to and reasonably necessary for the accomplishment of the organization's exempt activity is contrary to statute and Rule 137. Further, it adversely impacts the organization's ability to conduct its exempt activity.

Disabled Veterans' Exemption

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of

exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both of these amounts are adjusted annually by a cost of living index.

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

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

ROLL YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2010-11	12	\$999,475
2009-10	12	\$1,098,130
2008-09	14	\$1,287,756
2007-08	12	\$1,098,466
2006-07	10	\$851,549

RECOMMENDATION 4: Terminate the disabled veterans' exemption as of the date the property is no longer eligible.

The review of the assessor's disabled veterans' exemption program revealed that the assessor does not terminate the exemption as of the date the property no longer qualifies. In one case, a property was foreclosed upon, and in another case, the claimant died and the property was acquired by the claimant's daughter. In both cases, the exemption continued through the end of the following year.

Section 276.3(a) states that if property receiving the exemption is sold or otherwise transferred to a person who is not eligible for that exemption, the exemption shall cease to apply on the date of that sale or transfer. Section 276.3(b) further states, "In the event that property receiving a disabled veterans' exemption as described in Section 205.5 is no longer used by a claimant as his or her principal place of residence, the exemption shall cease to apply on the date the claimant terminates his or her residency at that location." Finally, section 276.3(c) concludes with, "Termination of the exemption under this section shall result in an escape assessment of the property pursuant to Section 531.1." The statute clearly requires that the assessor terminate the exemption on the property and prepare escape assessments for the prorated denied exemption.

Our review indicates the assessor has continued the disabled veterans' exemption after the property no longer qualifies for the exemption. In the two cases noted above, the property received an exemption it was not entitled to and the county experienced a revenue loss.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.⁴ Generally, the assessor may not change, add to, or

⁴ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

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

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

During our review of the assessment forms program, we noted that the assessor has revised his website to include commonly used property tax forms. Taxpayers may now obtain forms online rather than traveling to the assessor's office or requesting forms by mail.

Our review of the forms used by the Inyo County Assessor's Office for the year 2010 revealed the following:

- The assessor used 44 of the 82 Board-prescribed forms.
- The assessor does not rearrange any BOE forms.
- The assessor has timely provided the BOE with copies of rearranged forms, final prints, and forms checklists.

We have no recommendations for this program.

ASSESSMENT OF REAL PROPERTY

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

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

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

Change in Ownership

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

Document Processing

The assessor receives copies of all recorded documents electronically on a daily basis from the recorder's office. There is no local ordinance requiring the parcel number on transfer documents. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, to accompany documents submitted for recordation for the transfer of ownership of real property. If a transfer document is received without a PCOR, the recorder's office will add a \$20 charge to the recording fee. PCORs are available at both the assessor's and recorder's offices. Once recorded documents have been received from the recorder's office, the parcel number and the chain of title is verified. The percentage of interest transferred is determined and each document is identified as a reappraisable or non-reappraisable event. The transfer clerk processes and uploads the documents into the assessor's computer database. Additional correspondence is mailed out to the property owner if it appears that an exclusion from reassessment may apply.

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

ROLL YEAR	REAPPRAISABLE TRANSFERS
2009-10	578
2008-09	600
2007-08	803
2006-07	803
2005-06	833

Penalties

When a transfer document is received from the recorder without a PCOR, the transfer clerk will attempt to contact property owners to obtain additional information by mailing out BOE-502-AH, *Change in Ownership Statement (COS)*. The transfer clerk maintains an electronic log book to record the mailings of the COS, allowing the property owner 45 days to return the completed form. However, our review indicates that penalties are not consistently applied when the property owner does not complete and return the COS within 45 days.

RECOMMENDATION 5: Consistently apply penalties in accordance with section 482(a).

The assessor does not consistently apply the penalty required under section 482(a) when a taxpayer fails to return the COS within 45 days.⁵ During our review, we found several instances where penalties for late or non-filing of the COS were not applied.

Section 480(a) states that whenever there is a change in ownership of real property or of a manufactured home that is subject to local property taxation, the transferee shall file a signed change in ownership statement in the county the property is located. At the time of our survey, section 482(a) provided that if a person or legal entity required to file a statement described in section 480 failed to do so within 45 days (90 days effective 1/1/2012) from the date of a written request by the assessor, a specific penalty would be applied.

The information contained in a properly completed COS assists the assessor in making an accurate assessment. By not consistently applying the penalty for failure to file the COS timely and allowing some taxpayers to avoid penalty while others are required to comply, the assessor is not treating all taxpayers equally and this practice is contrary to the specific statutory provisions of section 482(a).

⁵ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

Section 408.1 Transfer Lists

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

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 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.⁶ 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 found that the assessor reviews the reports provided by the BOE's LEOP unit to confirm if any of the entities listed own property in Inyo County. Once the assessor confirms that an entity on the list owns property in Inyo County, he ensures that all of the entity's real property is identified and reassessed by running a name search in the assessor's computer system to identify all properties with the same ownership.

⁶ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

Change in Ownership Exclusions – Section 63.1

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

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

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

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions. The following table sets forth approved section 63.1 claims in Inyo County in recent years:

ROLL YEAR	APPROVED SECTION 63.1 CLAIMS
2010-11	34
2009-10	61
2008-09	85
2007-08	80
2006-07	110

The assessor reviews all section 63.1 applications and determines if the exclusion will be accepted or denied. If a PCOR indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, a claim form and cover letter are sent to the taxpayer advising of a possible exclusion from reassessment. When a *Report of Transferors Exceeding \$1,000,000* is received from the BOE, it is reviewed by the assessor. If any transfers exceed the limit, it is the assessor's policy to contact other counties and/or the claimant to clarify information and determine which property to exclude and which to reappraise. However, the assessor has stated that he has not received any transfers that exceed the limit.

Pursuant to section 63.1(i), to protect property owner confidentiality, the assessor keeps all claim forms in a secure area and the information is not accessible to the public.

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

Change in Ownership Exclusions – Section 69.5

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

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

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

Inyo County does not have an ordinance in place to accept base year value transfers from other counties. Section 69.5 claims involving base year value transfers within the county are reviewed for acceptance and tracked on a spreadsheet. As required, the assessor reports to the BOE, on a quarterly basis, any approved section 69.5 exclusions.

The following table sets forth approved section 69.5 claims in recent years:

ROLL YEAR	APPROVED SECTION 69.5 CLAIMS
2010-11	1
2009-10	0
2008-09	2
2007-08	1
2006-07	3

When the assessor receives a *Duplicate SSN Report* from the BOE, the report is reviewed in order to determine if any claims made in Inyo County duplicate any claims made in another county. This is in an effort to avoid duplicate filings of section 69.5 claims.

Pursuant to section 69.5(n), to protect property owner confidentiality, the assessor keeps all claim forms in a secure area and the information is not accessible to the public.

We found the assessor processes section 69.5 claims effectively.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different

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

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

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

Discovery

Building permits are the assessor's primary means of discovering new construction. The assessor receives building permits from three permit-issuing agencies: the Inyo County Environmental Health Department, the Inyo County Public Works Department, and the City of Bishop. The Inyo County Environmental Health Department is responsible for issuing well and septic permits. The Inyo County Public Works Department issues all building permits for property located outside the city of Bishop.

Manufactured home installation and accessory permits are received from the Department of Housing and Community Development (HCD). Other methods used to discover new construction include field inspections, reports from members of the public, aerial photography, and reviews of properties listed for sale.

The following table sets forth the number of building permits received and the number of permits that resulted in new assessments in recent years:

ROLL YEAR	BUILDING PERMITS	NEW ASSESSMENTS
2009-10	289	133
2008-09	317	186
2007-08	595	262
2006-07	686	327

Permit Processing

Permits are received in the assessor's office in hard copy form from the permit issuing agencies, along with building plans. The clerical staff date-stamp the permits received, and review the address and parcel information for accuracy. The permits are forwarded to the assessor, who reviews them and notes any that do not add value, such as permits for repair and maintenance. Permits for assessable work are coded with an "A," while permits that do not add value are coded with an "N." All permits are then given to the cadastral technician who enters the permit data

into the computer system. Permit data is also entered into a spreadsheet for tracking purposes. After the data is entered into the system, all permits are given to the appraiser assigned to the area in which the construction is to be completed. Even permits that do not add value are kept in the parcel file. Once the assigned appraiser values the new construction, or portions thereof, they enter the new value and other pertinent data into the computer system.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The appraiser determines the completion status of new construction through field checks, contact with the building department, new construction questionnaire data, and the recorded date of occupancy. Appraisers rely primarily on the cost and comparative sales approaches to value new construction, but may utilize the income approach to value when applicable. The assessor's primary sources of cost data are Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), and Assessors' Handbook Section 534, *Rural Building Costs* (AH 534), for residential and rural construction, and the *Marshall Valuation Service* for commercial and industrial construction. The assessor also considers the owner's reported costs when developing a cost indicator of value. It is the assessor's practice to field inspect all property with new construction activity.

Appraisers can elect to send a *Construction Form* to the property owner in an effort to gather information to assist in the valuation. Generally, these forms are sent if the appraiser is unable to gather enough information via field inspection or if the new construction is particularly complex. The form requests such information as type of new construction, name of the contractor, construction costs, and the date of completion.

Construction in Progress

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. The appraiser must determine the completion status of new construction at each lien date and estimate a value based upon the percent complete. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We reviewed property records and found the assessor is correctly valuing new construction in progress by determining the market value using published costs, reported costs, and market analysis.

Overall, we found the assessor's program for the assessment of new construction to be thorough and values reasonable; however, there are some areas where improvements can be made.

RECOMMENDATION 6: Improve the new construction program by: (1) classifying wells as land pursuant to Rule 124, and (2) granting new construction exclusions for claims for disabled access improvements only upon compliance with sections 74.3 and 74.6.

Classify wells as land pursuant to Rule 124.

It is the assessor's policy to classify wells as structural improvements. According to Rule 124(b)(1), wells are classified as land. By classifying and assessing wells as structural improvements, the assessor is underassessing the land, while overassessing the structural improvements. This may also result in incorrect special assessments.

Grant new construction exclusions for claims for disabled access improvements only upon compliance with sections 74.3 and 74.6.

The assessor excludes new construction performed for the purpose of making a dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling without the information required by section 74.3. The assessor also excludes new construction for the purpose of making a building or structure more accessible to, or more usable by, a disabled person without the information required by section 74.6.

If the permit description indicates it is for a disabled person to have access to an improvement, the permit is considered to add no value and is coded with an "N." The permit data is entered into the system and the permit is filed in the parcel folder. The assessor does not request the property owner to file BOE-63, *Disabled Persons Claim for Exclusion of New Construction*, or BOE-63-A, *Claim for Disabled Accessibility Construction Exclusion from Assessment*, and no reassessment is made.

According to section 74.3(a), "newly constructed" does not include the construction, installation, or modification of any portion or structural component of an existing single- or multiple-family dwelling that is eligible for the homeowner's exemption as described in section 218, if the construction, installation, or modification is for the purpose of making the dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling. For this exclusion to apply, the following must be met: (1) the construction, installation, or modification of an existing dwelling must be completed on or after June 6, 1990, (2) the dwelling must be occupied by the owner and, therefore, eligible for the homeowner's exemption, and (3) the work performed must be for the purpose of making the dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling.

To receive the exclusion, the disabled person, their spouse, or their legal guardian must submit to the assessor the following: (1) a statement signed by a licensed physician or surgeon, of appropriate specialty, certifying that the person is severely and permanently disabled as defined in section 74.3(b), and identifying specific disability-related reasons why the accessibility improvements or features are needed, and (2) a statement by the claimant identifying the

construction, installation, or modification necessary to make the dwelling more accessible to the disabled resident.

For buildings other than owner-occupied dwellings, section 74.6 excludes from the terms "newly constructed" and "new construction" the construction, installation, removal, or modification of any portion or structural component of an existing building or structure to the extent that it is made for the purpose of creating a building or structure more accessible to, or more usable by, a disabled person. For this exclusion to apply, the following must be met: (1) the new construction to an existing building must be completed on or after June 7, 1994, (2) the new construction must be for the purpose of making the building more accessible to, or more usable by, disabled persons, and (3) the new construction must not qualify for the construction exclusion provided by section 74.3.

To receive the exclusion, the property owner must submit to the assessor the following: (1) notice prior to, or within 30 days of, the completion of the project that they intend to claim the exclusion for improvements making the building or structure more accessible to, or usable by, a disabled person, (2) a statement by the property owner, primary contractor, civil engineer, or architect identifying the portions of the project making the building more accessible to, or usable by, a disabled person, and (3) all documents necessary to support the exclusion must be supplied no later than six months after the completion of the project.

The use of BOE-63 and BOE-63-A gives the assessor the necessary statements and certifications to provide the exclusions. Failure to obtain the necessary information required by sections 74.3 and 74.6 may cause the assessor to exclude new construction that would otherwise be taxable.

Declines in Value

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

In order to discover property whose market value has declined below its FBYV, the assessor relies on his appraisal staff's knowledge of current property value trends within their assigned geographic areas, taxpayers' requests for value reviews, and assessment appeals. The assessor also discovers declines in value by reviewing current listings of properties for sale in Inyo County on websites, such as Coldwell Banker's "Bishop Real Estate," Owens Valley Realty, and LoopNet, Inc. These services provide the assessor with valuable information on current real estate trends in the county. In addition, the assessor has systematically reviewed all property assessments made for transfers and new construction since 2004 for possible declines in value.

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

ROLL YEAR	DECLINE-IN-VALUE ASSESSMENTS
2010-11	1,443
2009-10	1,516
2008-09	1,483
2007-08	482

The 1,443 properties currently in decline-in-value status are approximately 11 percent of Inyo County's 13,335 taxable parcels and represent a total assessment reduction of \$66,248,330.

Property owners may call or write the assessor requesting informal reviews of their assessed values. They are not required to provide comparable sales information with their requests for assessment reviews. In the event the property owner disagrees with the results of the assessor's review, they may obtain BOE-305-AH, *Application for Changed Assessment*, from the Inyo County Clerk of the Board and file a formal assessment appeal.

Inyo County has only a few small subdivisions or homogeneous tracts. Most of the parcels are rural homesites. When a decline in value is discovered, the appraiser will review and lower the property value in question. If other properties in the area have similar features and dates of sale, the appraiser will review their assessments to determine if declines in value have occurred to those surrounding properties, as well. If it is apparent that a downward value adjustment is warranted, such adjustments are made without requiring the taxpayer to request an informal review.

Value notices are sent to property owners when the assessed value has changed due to a decline in value, if the previously declined value remains unchanged on the roll for the current assessment year, or if the decline in value has been partially or fully restored. The notice meets the requirements of section 619.

Each decline in value property is coded "Prop8" in the assessor's computer system, which prevents the annual inflation factor from being applied and allows the assessor to annually provide a list to his appraisers of all decline-in-value properties to be reviewed. Each property's current market value is compared to its FBV and the lower of the two values is enrolled. To determine current market values, the assessor relies primarily on the comparative sales approach and income approach for commercial properties, and the comparative sales approach and cost approach for residential or rural properties.

Our review of property records with decline-in-value assessments shows that pursuant to section 51(e), the assessor does not apply the annual inflation factor to decline-in-value properties until the properties have been restored to their FBV. We found comparable sales and income analyses included in the records, and the appraisals were well documented with reasonable and well supported valuations. We have no recommendations for this program.

Taxable Government-Owned Property

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

For the 2010-11 roll year, the assessor enrolled 1,412 parcels of taxable government-owned property for a total taxable value of \$1,608,987,789. The Los Angeles Department of Water and Power (LADWP) owns 1,404 parcels valued at \$1,607,676,395, which represents 99.9 percent of the county's total taxable government-owned property value and 40 percent of the county's total enrolled value. As a result, when the LADWP leases taxable land to schools or universities, or exchanges taxable land for non-taxable land with the Federal Bureau of Land Management or other exempt federal agencies, it can have a significant effect on the assessment roll.

In Inyo County, taxable government-owned property is calculated by applying the appropriate Phillips factor to the 1966 enrolled value for those parcels that were taxable when acquired. The Inyo County Assessor is not required to compare the restricted Phillips factored value to the market value or the factored base year value of the property when valuing taxable government-owned property. The assessor simply enrolls the restricted Phillips factored value.

We compared parcel tax rate area (TRA) codes against the TRA index of exempt government-owned properties to verify whether any listed exempt government agencies owned properties that were located outside their district boundaries. We found no evidence of taxable government-owned property escaping assessment. In addition, we found the taxable government-owned property assessments are made correctly and that the assessor's program for assessing these properties is effective.

Overall, we found no problems with the assessor's program for tracking and valuing taxable government-owned properties.

Taxable Possessory Interests

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

The assessor enrolled 1,241 taxable possessory interests for the 2010-11 roll year, with a total assessed value of \$463,964,380. The enrollment value of all taxable possessory interest properties represents 11.6 percent of the assessor's total enrolled value for the 2010-11 roll year.

The assessor annually contacts 12 public agencies by letter to request updated listings of tenants and lease terms related to taxable possessory interests. The letter includes an attachment that lists all current information the assessor has for the agency's leases. Changes to these leases are noted by the agency and returned to the assessor. Upon receipt, the assessor reviews the information and determines if any new valuations need to be made.

A large portion of the taxable possessory interest property in Inyo County is located on taxable government-owned land (section 11). The Los Angeles Department of Water and Power (LADWP) owns the majority of these section 11 properties in Inyo County.

We reviewed several taxable possessory interest properties with month-to-month terms of possession, including LADWP employee housing in Bishop, BLM employee housing in Death Valley, hangars and tie-downs at the airports, and office uses. In determining the reasonably anticipated term of possession for these types of properties, the assessor considers the history, customs, and practices of the private possessor and the public owners, including the actions of the parties and the histories of their relationships. We looked at properties with three, five, and ten year anticipated terms. Our examination indicates that the assessor is properly assessing these properties as required by section 61(b)(2).

We looked at several other taxable possessory interests in land owned by Inyo County, the United States Forest Service, and the Bureau of Land Management. These lands are used mainly for grazing cattle. We found the assessor annually requests, reviews, and updates lessee information.

After reviewing several taxable possessory interest files, we found that the assessor has a well administered and effective taxable possessory interest program in place. However, we found some areas in need of improvement.

RECOMMENDATION 7: Improve the taxable possessory interest program by:
(1) assessing all taxable possessory interests at the fairgrounds that do not meet the requirements of the low-value property exemption, and (2) deducting allowed expenses from gross income when valuing taxable possessory interests by the direct income approach.

Assess all taxable possessory interests at the fairgrounds that do not meet the requirements of the low-value property exemption.

During our review, we found the assessor is not tracking potential taxable possessory interests at the fairgrounds. In October 2002, the Inyo County Board of Supervisors adopted Resolution 2002-57, which is a \$50,000 or less low-value property exemption for any possessory interest located within a publicly owned fairground facility or publicly owned convention center as provided for in section 155.20. However, we found two vendors that appear to hold taxable possessory interests that may be valued above the \$50,000 low-value ordinance based on their income contribution to the fairgrounds. Since the assessor does not track any potential taxable possessory interests at the fairgrounds, he is unable to determine if the possessory interests fall within the low-value ordinance.

The assessor's practice of not tracking potential taxable possessory interests at the fairgrounds may result in escaped assessments and lost revenue for the county.

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

When valuing taxable possessory interests by the direct income approach, the assessor is not making deductions from the gross rent for management and other operating expenses incurred by the public lessor.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Rule 21(e)(3)(C) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return" (as defined in subsection (c) of Rule 8) attributable to the taxable possessory interest.

A public owner will incur at least some management expense with each possessory interest. Some lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By not recognizing these allowable expenses and subtracting them from the gross income to be capitalized, the assessor may be overstating the value of these taxable possessory interests.

Mineral Property

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

There are no assessable petroleum properties located in Inyo County.

Inyo County has one large geothermal property commonly known as the COSO Geothermal Field. The total assessed value of this geothermal property is approximately \$785,690,000. It is located near the city of Ridgecrest. The property has been producing since 1987 and has gone through several changes in ownership. The most recent was in 2007.

The geothermal field is operated as three separate projects. The county contracts with a mineral appraisal consultant to value the property. Properties are valued using an income approach based on the revenues generated from the sale of electricity. After reviewing the consultant's appraisal report, there are no recommendations regarding the assessment of geothermal properties.

Mining Property

There are 13 active mining properties located in Inyo County according to information from the United States Geological Survey (USGS) and the assessor's records. A wide range of mineral commodities is produced, including gold, silver, talc, boron, and volcanic minerals. There are

also unpatented mining claims located in the county. The nature of mining properties requires attention to specific details not common with other types of industrial property.

RECOMMENDATION 8: Determine and measure declines in value for settling ponds on all mining operations.

There are several properties located in Inyo County that have either settling ponds or leach pads associated with their operation. The assessor has determined the current market value and the base year value for the leach pads and settling ponds associated with the gold mine, but has not done so with the settling ponds associated with some of the gravel operations. Settling ponds and leach pads for all mining property must have a base year value separate from the mineral appraisal unit.

Leach pads are typically associated with gold mines or other operations where mineral content has to be extracted from the ore. The Briggs Mine operations plan discusses the use of leach pads for gold extraction.

Aerial photos of active quarry locations in Inyo County show some quarry properties have settling ponds. These ponds are typically used to collect water used for washing the gravel to provide a clean product that meets customers' specifications and needs. The wash water is then collected to allow the small particulate matter to settle before the water is recycled in the operation.

Section 53.5 requires that each settling pond be considered a separate appraisal unit with a separate base year value for purposes of determining its taxable value. Failure to treat the settling ponds in this manner is a violation of the statute. Failure to properly account for the decline in the value of the leach pads, settling ponds, or tailings facilities could result in overassessment of the property.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In Inyo County, the assistant assessor is the only auditor-appraiser on the assessor's staff. The assistant assessor works with the assessor, the appraiser, and the clerical staff to ensure that the correct classification and allocation of real and personal property items are being assessed to businesses.

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

Audit Program

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

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

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

assessors now have some flexibility in determining which accounts will comprise this mandated workload.

As noted previously, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 12 audits per year. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. For the 2009-10 roll year, the assessor completed only seven audits.

RECOMMENDATION 9: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

The assessor continues to be in arrears in completing the minimum number of audits required by section 469. During the 2009-10 roll year, the assessor performed a total of seven audits of the required 12 audits pursuant to section 469.

An audit program is an essential component of any equitably administered assessment program. A weak audit program can render a business property assessment program with no means of either 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 also 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.

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.

Due to staffing and resource limitations in recent years, the assessor has not been requesting waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner.

RECOMMENDATION 10: Obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

The assessor has not sought waivers of the statute of limitations on all scheduled audits that were not completed within the statutory period defined by section 532.

Section 532 provides that when the assessor discovers 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, 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.

A signed waiver 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 signed waivers, the assessor may allow taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit. Consequently, revenue could be permanently lost.

Audit Quality

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

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

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. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

General Statement Processing

Statements are date stamped and reviewed by an auditor-appraiser for completeness and the inclusion of legally acceptable information. During the preliminary screening, all BPSs with current cost data on Schedule B in columns 1, 3, and 4 are routinely forwarded to the real property section.

Discovery

The assessor has efficient discovery programs, which include reviewing business permits, fictitious business name filings, newspaper articles, advertisements, telephone directories, landlord report of tenants, referrals from other counties, BOE-600-B filings, and the internet. We found that the assessor employs effective methods for discovering business personal property.

Direct Billing

Many assessors utilize an assessment procedure known as "direct billing" or "direct assessment." It is a method of assessing qualified low-value business accounts without the annual filing of a BPS. The assessor establishes an initial value and continues the value for several years. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff, which increases the time available for the auditor-appraisers to perform other required duties.

There are currently 45 accounts in Inyo County that qualify for direct billing. In our review of several direct billing accounts, we found that the assessor's office sends a BPS to direct-billed taxpayers once every four years to determine if there have been any substantial changes in business property.

Overall, due to effectively managed processing procedures, we found no problems with the assessor's BPS processing program.

Business Equipment Valuation

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

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

The assessor's business equipment valuation tables are derived from equipment reproduction cost indices and percent good factors prescribed by the BOE and published in AH 581. The assessor also consistently uses equipment service lives recommended by the California Assessors' Association (CAA).

We reviewed the valuation of business equipment and fixtures reported on various types of accounts, such as farming, apartment properties, residential care homes, convalescent facilities,

and service stations. We found that the factors were applied consistently within industries and supplies were estimated when not reported. Additionally, we found that a trade level adjustment is applied to the assessment of propane tanks when appropriate. We have no recommendations for the assessor's business equipment valuation program.

Manufactured Homes

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

General Program Elements

The assessor enrolled a total of 2,196 manufactured homes for the 2010-11 roll year, with a total assessed value of \$94,642,185. Of the 2,196 manufactured homes, 1,239 are located in 52 mobilehome parks, 461 are on permanent foundations, 77 are on rented lots, and 419 are situated on land owned in fee.

Manufactured homes in Inyo County are shown on the tax bill as improvements on the secured roll. Manufactured home accessories, such as decking, awnings, and skirting, are also classified and assessed as real property. The auditor-controller's computer system identifies all manufactured homes by use code in order to exclude flat rate special assessments and bonds as necessary.

Manufactured homes situated on land owned in fee are assessed on the same assessor's parcel number as the real property. Manufactured homes in the mobilehome parks may either be assigned their own parcel number or assigned the same parcel number as the park with an additional two-digit suffix appended to the end of the parcel number. In the latter case, the suffix identifies the space the manufactured home occupies. The two-digit suffix may also be used to designate a manufactured home located on leased land outside of a park.

Discovery and Valuation

The assessor's office discovers taxable manufactured homes in the county by periodic Department of Housing and Community Development (HCD) reports, building permits, annual park reports, dealer reports of sale, and appraiser canvassing. Taxable manufactured home accessories are typically discovered by building permits or canvassing. Appraisers value all manufactured homes located within their geographic area of responsibility.

For manufactured homes on leased or rented land, the assessor uses Assessors' Handbook Section 531.35, *Residential Building Costs – Manufactured Housing* (AH 531.35), to determine the full cash value when a change in ownership occurs. Data from AH 531.35 is updated annually in the assessor's Property Assessment Management System (PAMSpro). PAMSpro automatically generates a valuation report using the updated cost factors, the quality class, square

footage, and accessories data already present in the system, and applies a depreciation factor when necessary. If necessary, the appraiser may override these system-generated values. Overall condition and age are also considered in the cost analysis. The assessor may list comparable sales for informational purposes, but does not use the sale price or comparable sales to determine value.

Manufactured homes located on land owned in fee or on permanent foundations are valued using the sales comparison approach when possible. If comparable sales are not available, the assessor may use AH 531.35 to determine the value.

The assessor requires that a manufactured home affixed to a permanent foundation meet the conditions of Health and Safety Code section 18551. The assessor keeps a copy of the building permit and recorded HCD form 433A, *Notice of Manufactured Home (Mobilehome) or Commercial Coach Installation on a Foundation System*, in the appraisal file. Once a manufactured home has met the conditions, the use code is changed to indicate to the auditor that special assessments and bonds should be applied to the parcel in the future.

We reviewed a number of manufactured home assessments. We found the assessor processes transfers and new construction efficiently and correctly. The assessor correctly applies supplemental assessments to new and transferred manufactured homes. However, we did find one area in need of improvement.

RECOMMENDATION 11: Periodically review manufactured home assessments for declines in value.

The assessor typically discovers declines in value of manufactured homes when a taxpayer requests a review of the assessment. However, the assessor does not have a periodic review program to discover declines in value of manufactured homes. The assessor uses AH 531.35 to initially value manufactured homes when there is a change in ownership and the inflation factor is applied to the value for subsequent years thereafter. However, most price guides suggest manufactured homes depreciate in value over time.

Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its full cash value, as defined in section 5803, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value.

Although not required to review every manufactured home annually, the assessor should be more proactive in discovering properties declining in value. As a consequence of not periodically reviewing manufactured homes for declines in value, the assessor is not in compliance with statute and may be incorrectly assessing manufactured homes.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business, but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires

the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2010-11 roll year, the assessor enrolled 91 general aircraft, with a total assessed value of \$6,033,976. The assessor discovers taxable aircraft through Airport Operator Reports, field canvassing, referrals from other counties, and Federal Aviation Administration reports.

An aircraft property statement is mailed every year to the known owner of each aircraft in the county. The aircraft property statement requests the owner to report the year built, make, model, and tail number of the aircraft, as well as installed avionics, engine air hours since last major overhaul, date of last overhaul, overall condition, air worthiness status, cost, and transfer information if the aircraft has been sold since the last lien date.

In Inyo County, the assistant assessor administers the aircraft program. We reviewed a sample of aircraft property statements and found that the assessor properly makes adjustments for condition, engine hours, added equipment, sales tax, and the Board-directed 10 percent downward adjustment for average condition. We confirmed that the values were within the value range, date-stamped when received, and penalties were properly applied for late or non-filed statements. Our review indicated the appraisals were adequate and well documented.

Fractionally Owned Aircraft

Fractionally owned aircraft are fleets of aircraft managed and maintained by an operating company where ownership is distributed on a fractional basis similar to a timeshare in real property. The management company handles all operating requirements of the aircraft, including availability, maintenance, billings, shareowner usage, training, and flight crews.

Pursuant to section 1161, fractionally owned aircraft are assessed on a fleet-wide basis to the manager in control of the fleet. Like certificated aircraft, fractionally owned aircraft are assessed on an allocated basis using an "allocation factor." This allocation factor is a fraction, the numerator of which is the total number of landings and departures made by the fleet type in the county during the previous calendar year, and the denominator of which is the total number of landings and departures made by the fleet type worldwide during the previous calendar year.

Section 1162 contains a provision for the appointment of a lead county assessor's office to facilitate property reporting, allocation calculations, the transmittal of allocated values to other jurisdictions where situs has been established, and provide for coordinated multi-county audits.

Inyo County had three fractional aircraft management assessments in the county for the 2010-11 roll year, with an allocated value of \$261,090. We reviewed all the fractional aircraft records and found that the assessor is using Board-approved forms. Property statements filed showed that allocated values were accurately calculated based on arrivals and departures in the county in accordance with section 1161. We found that the assessor correctly values fractional aircraft.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time, and the number of arrivals and departures during a representative period (designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

For the 2010-11 roll year, Inyo County had two certificated aircraft, with a total value of \$194,742. We reviewed the records for these aircraft and found the assessor appropriately used the recommended worksheet and the California Assessors' Association Aircraft Subcommittee values in processing the assessments of these certificated aircraft.

Historical Aircraft

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

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

Inyo County had eight historical aircraft on the 2010-11 roll year, with a total value of \$437,505. We reviewed all the historical aircraft records and found the assessor verified that the aircraft met the historic aircraft criteria, received the \$35 filing fee upon initial application, obtained a signed affidavit, confirmed the aircraft was available for public display, properly valued these aircraft, and applied the exemption. We have no recommendations for this program.

Vessels

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

For the 2010-11 roll year, Inyo County enrolled 677 vessels, with a total assessed value of approximately \$2,530,440. Vessel discovery sources include DMV, field canvassing, and referrals from other counties. The valuation process is administered by certified staff that

reference the *ABOS Marine Blue Book* to establish an initial value and, thereafter, applies trend information provided by the BOE to value vessels.

The assessor does not have his own written policies and procedures manual, but instead uses the state guidelines outlined in Assessors' Handbooks and Letters To Assessors.

We reviewed a sampling of vessel statements and found that the vessel valuations were within the appropriate value range, penalties were correctly applied to late or non-filed statements, sales tax was correctly applied, and statements were appropriately signed. The sampling did not include either documented vessels or vessels over \$100,000 in cost, because Inyo County did not have either of these types of vessels in the county on the lien date. We have no recommendations for the vessel program.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Inyo County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

David Dodson

Supervising Property Appraiser

Survey Team Leader:

Paula Eagleman

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Michael Ash

Associate Property Appraiser

Bryan Bagood

Associate Property Appraiser

Charles Matura

Associate Property Appraiser

Jennifer Prince

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Catherine Houlihan

Associate Property Auditor-Appraiser

Ardeshir Noroozkhani

Associate Property Auditor-Appraiser

Paul Stueber

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁷ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁸

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

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

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

⁷ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁸ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code**75.60. Allocation for administration.**

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

(b) For purposes of this section:

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

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

Rule 371. Significant assessment problems.

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

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the Board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting audits in accordance with Revenue and Taxation Code section 469.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.

- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



THOMAS W LANSHAW
ASSESSOR

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July 31, 2012

Mr. Dean Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

RECEIVED

AUG 06 2012

**County-Assessed Properties Division
State Board of Equalization**

Dear Mr. Kinnee,

Pursuant to Section 15645 of the California Government Code, we provide the Assessor's Response to the State Board of Equalization's 2012 Assessment Practices Survey of Inyo County.

I wish to thank you and the members of your staff who conducted the survey in a professional, instructional and courteous manner.

In addition, I would like to acknowledge my staff's outstanding effort and dedication towards their work, enabling us to provide a high quality assessment program.

Sincerely,

Thomas W. Lanshaw
Assessor

RECOMMENDATION 1: Develop written procedures for the assessment of staff owned property.

Response: We agree and will compile a list of staff owned property and rules.

RECOMMENDATION 2: Improve the church and religious exemption programs by: (1) requiring that the exempt organization file the church exemption claim, (2) granting the church exemption only to property used exclusively for worship, and (3) not imposing late-filing penalties for the annual renewal of the religious exemption.

Response: We agree.

RECOMMENDATION 3: Grant the welfare exemption for qualifying living quarters.

Response: We will grant the exemption when we receive the required documentation.

RECOMMENDATION 4: Terminate the disabled veterans' exemption as of the date the property is no longer eligible.

Response: We agree.

RECOMMENDATION 5: Consistently apply penalties in accordance with section 482(a).

Response: We agree.

RECOMMENDATION 6: Improve the new construction program by: (1) classifying wells as land pursuant to Rule 124, and (2) granting new construction exclusions for claims for disabled access improvements only upon compliance with sections 74.3 and 74.6.

Response: (1) Historically we have classified construction to land as land if the land improvement had an unlimited expected life similar to land or as a structure if the land improvement had an expected life similar to the other structures it serviced. (2) We agree.

RECOMMENDATION 7: Improve the taxable possessory interest program by: (1) assessing all taxable possessory interests at the fairgrounds that do not meet the requirements of the low-value property exemption, and (2) deducting allowed expenses from gross income when valuing taxable possessory interests by the direct income approach.

Response: (1) Our fairgrounds are located on taxable City of Los Angeles land (section 11). Section 11 PIs are limited to the difference between the market value and the section 11 taxable value. It is our position that the current section 11 value exceeds the current market value so there is no PI value available for even the largest user of the fairgrounds. (2) we agree

RECOMMENDATION 8: Determine and measure declines in value for settling ponds.

Response: We agree.

RECOMMENDATION 9: Perform the minimum number of audits of professions, trades, and business pursuant to section 469.

Response: We agree.

RECOMMENDATION 10: Obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

Response: We agree.

RECOMMENDATION 11: Periodically review manufactured home assessments for a decline in value.

Response: We agree.

BOE COMMENTS TO ASSESSOR'S RESPONSE

RECOMMENDATION 7: Improve the taxable possessory interest program by: (1) assessing all taxable possessory interests at the fairgrounds that do not meet the requirements of the low-value property exemption, and (2) deducting allowed expenses from gross income when valuing taxable possessory interests by the direct income approach.

ASSESSOR'S RESPONSE: (1) Our fairgrounds are located on taxable City of Los Angeles land (section 11). Section 11 PIs are limited to the difference between the market value and the section 11 taxable value. It is our position that the current section 11 value exceeds the current market value so there is no PI value available for even the largest user of the fairgrounds. (2) We agree.

BOE COMMENTS: It is the BOE's position that the fair market value of the section 11 property exceeds the section 11 assessed value and certain taxable possessory interests at the fairgrounds should be assessed. There are improvements that were constructed after the land was acquired by the Los Angeles Department of Water and Power (LADWP) that did not replace existing improvements. For example, the fairgrounds contain a 6,000 square foot home economics building, a 150 square foot patio building, the 14,000 square foot Charles Brown Auditorium, the Mike Boothe Memorial Arena, 42 RV spaces with water, electric, and sewer, and an 88 stall horse boarding facility. Because these improvements were constructed after the land was acquired by LADWP and do not replace existing improvements, they are not taxable to LADWP pursuant to section 11 of article XIII of the California Constitution. As such, the fair market value of these improvements and the fair market value of the fairgrounds land is greater than the section 11 assessed value to LADWP.