

# LASSEN COUNTY ASSESSMENT PRACTICES SURVEY

**MAY 2010**

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No. 2010/029

May 28, 2010

TO COUNTY ASSESSORS:

LASSEN COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the Lassen 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 Kenneth Bunch, Lassen 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 Lassen County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2008. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Bunch 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:ps  
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 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 Lassen County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly, and to the Lassen County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Kenneth Bunch, Lassen 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 Code<sup>1</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.<sup>2</sup>

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.

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

<sup>2</sup> All rule references are to sections of the California Code of Regulations, Title 18, Public Revenues.

## EXECUTIVE SUMMARY

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

In the area of administration, we found the programs to be effectively administered. The assessor's programs for training and disaster relief are well managed. Additionally, we noted several positive aspects with the assessor's administration of his office:

- The assessor maintains a good working relationship with the auditor, tax collector, county clerk recorder, and members of their staff.
- The assessor's office continues to expand its use of geographic information systems to increase the efficiency and accuracy of its property tax administration.

In the area of real property assessment, the assessor has effective programs for processing changes in ownership and assessing new construction, leasehold improvements, and properties that have declined in value. However, we noted a need for improvement in the assessor's programs for assessing California Land Conservation Act (CLCA) properties and taxable possessory interests. The most significant deficiencies involve the assessment of taxable possessory interests; specifically, the assessor does not periodically review for decline-in-value purposes all taxable possessory interests having stated terms of possession, and he has not been revaluing taxable possessory interests at the end of their reasonably anticipated terms of possession.

In the assessment of personal property and fixtures, the assessor has effective programs for the auditing of personal property, processing of business property statements, and valuing business equipment, manufactured homes, and vessels.

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

We found no significant assessment problems as defined in Rule 371. Since Lassen County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Lassen County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Revise the valuation and assessment procedures for CLCA properties by establishing the appropriate FBVVs of FSZ properties pursuant to section 423.4. ....21

**RECOMMENDATION 2:** Improve the possessory interest program by: (1) assessing all taxable possessory interests at the county fairgrounds; (2) reviewing taxable possessory interests with stated terms of possession for declines in value; and (3) revaluing taxable possessory interests at the end of the anticipated term of possession. ....22

## OVERVIEW OF LASSEN COUNTY

Lassen County is located approximately 220 miles northeast of Sacramento. It was organized by an act of the State Legislature on April 1, 1864. The county has a population of approximately 34,000 inhabitants, about one-half of whom live in the county seat of Susanville.<sup>3</sup> Lassen County encompasses approximately 4,547 square miles.<sup>4</sup> The county is bordered on the east by the State of Nevada, on the south by Plumas and Sierra counties, on the west by Shasta County, and on the north by Modoc County.

The following table displays information pertinent to the 2008-09 assessment roll:<sup>5</sup>

	<b>PROPERTY TYPE</b>	<b>NUMBER OF ASSESSMENTS</b>
<b>Secured Roll</b>	Residential	12,296
	Commercial/Industrial	934
	Agricultural	10,592
	Other Secured	47
	Total Secured	23,869
<b>Unsecured Roll</b>	Personal Property & Fixtures	1,381
	<b>Total Assessment Roll</b>	25,250

The next table illustrates the growth in assessed values over recent years:<sup>6</sup>

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>INCREASE</b>	<b>STATEWIDE INCREASE</b>
2008-09	\$2,112,552,000	6.3%	4.7%
2007-08	\$1,987,549,000	7.8 %	9.6%
2006-07	\$1,843,906,000	10.4 %	12.3%
2005-06	\$1,670,875,000	7.2 %	11.1%
2004-05	\$1,558,382,000	5.3 %	8.3%

<sup>3</sup> *Lassen County Visitors Guide, 2004 – 2005.*

<sup>4</sup> *Shasta Cascade Visitor, volume five, 2004.*

<sup>5</sup> Information provided by assessor's office.

<sup>6</sup> Information from State Board of Equalization Annual Report, Table 7

## ADMINISTRATION

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

### **Budget and Staffing**

At the time the survey was conducted, the Lassen County Assessor's Office had ten full-time equivalent employees and one part-time employee. The staff included the assessor, the chief appraiser, two senior real property appraisers, one real property appraiser, one senior auditor-appraiser, two assessment technicians, one full-time clerical staff, two part-time clerical staff, and one part-time "extra help" clerical position.

The assessor's budget has grown from \$648,129 in 2004-05 to \$796,391 in 2008-09. The following chart shows the assessor's budget over this period of time:

FISCAL YEAR	GROSS BUDGET	PERCENT INCREASE
2008-09	\$796,391	2.0%
2007-08	\$780,514	8.2%
2006-07	\$721,122	5.8%
2005-06	\$681,316	5.1%
2004-05	\$648,129	N/A

### **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. At the time the survey was conducted, Lassen County had six certified appraisers on staff, including the assessor; five held advanced appraiser's certificates. We found that the assessor and his staff possessed the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Lassen County, the assessor and the chief appraiser coordinate the training and certification program for appraisers. They use the annual BOE report of training hours to track courses taken by the appraisal staff. Appraisers are encouraged to take the necessary courses to obtain their advanced certification, which is required for advancement to senior appraiser. Appraisers are also required to take advanced courses in their areas of expertise.

Overall, the assessor has an efficient and well managed training and certification program.

## **Assessment Appeals**

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

Lassen County Ordinance No. 518 provides for the creation of and defines the duties of the county's assessment appeals board. There is one appeals board consisting of three members with one alternate member. At the time the survey was conducted, all members of the county's assessment appeals board had completed the mandatory training required by section 1624.01.

The clerk of the board is responsible for providing applications for changed assessment to the public, receiving completed applications, and providing a copy of the completed applications to the assessor. The assessor's staff reviews all incoming appeals and contacts the taxpayer in an attempt to resolve the disagreement. If no agreement is reached, a hearing is scheduled. The assessor reviews each case prior to staff presentation at an appeals hearing. If an appeal involves a business property audit, the auditor-appraiser prepares the case and accompanies the assessor to the hearing.

The assessor's office and the clerk of the board track the status of each appeal with a database system. The database is used to ensure appeals are resolved in a timely manner.

The following table illustrates the appeal workload over recent years:

Assessment Roll <sup>7</sup>	2007-08	2006-07	2005-06	2004-05	2003-04
Appeals Filed	7	16	11	9	2
Appeals Carried Over From Prior Year	40	27	16	9	8
<b>Total Appeals Workload</b>		43	27	18	10
<b>Resolutions</b>					
Hearing reduced	1				
Hearing increased					
Hearing upheld					
No show		1			
Stipulation	29				
Withdrawn		2		2	1
Other Determination					
<b>Total Resolved</b>	30	3	0	2	1
<b>Carried over to next year</b>	10	40	27	16	9

The appeals we reviewed were concise and well documented. We found the clerk of the board and the assessor's office cooperate as a team and communicate with each other effectively. We found the assessment appeals program fully complies with all statutory requirements.

### ***Disaster Relief***

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

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

<sup>7</sup> Information from Board of Equalization *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* Tables J and K.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Lassen County Board of Supervisors adopted disaster relief Ordinance No. 478 on March 25, 1986. This ordinance was amended by Ordinance 478-A on January 17, 2006, to conform to current statutory provisions of section 170. In our review of the amended disaster relief ordinance, we found the contents were written in general terms to reflect the current and to cover any future provisions of section 170.

Calamities are discovered by the assessor through review of building permits issued for repairs, field canvassing, taxpayer notification, radio and television reports, and newspaper articles. The assessor also sends out letters to local fire protection agencies to obtain fire reports.

The following table shows the number of disaster relief claims filed for recent years:

ROLL YEAR	CLAIMS FILED
2007-08	12
2006-07	10
2005-06	4
2004-05	9
2003-04	8

Upon discovery of a calamity, the assessor mails an application to the property owner. Returned applications are date stamped and placed in a binder for historical reference. The application is reviewed, and if it warrants further investigation and/or assessment, the application is copied and assigned to an appraiser according to the geographical area of the property.

We reviewed records of properties suffering a calamity and determined that the assessor verified the damage occurred, noted the damage amount on the records, and reduced the assessment where appropriate. We also verified that the assessor sent proper notification to property owners advising them of the calamity relief and their appeal rights.

Overall, the assessor's disaster relief program is well administered and we found no issues or concerns.

**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.

There have been no church exemption claims filed in Lassen County for the past four years. The assessor, however, processed 46 religious exemption claims for the 2008-09 assessment roll.

The following table illustrates religious exemption data for recent years:<sup>8</sup>

<b>ROLL YEAR</b>	<b>RELIGIOUS EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2008-09	46	\$13,714,954
2007-08	45	\$12,954,751
2006-07	46	\$11,328,466
2005-06	48	\$11,279,505
2004-05	47	\$10,965,319

The assessor properly processes religious exemption claim filings. We found no problems with the assessor's church and religious exemption program.

### 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

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<sup>8</sup> Data compiled from the assessors form BOE-802 submission to the BOE.

and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which has 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.

In Lassen County, the assessor processed 37 welfare exemption claims for the 2008-09 assessment roll.

The following table illustrates welfare exemptions data for recent years:<sup>9</sup>

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPTED VALUE
2008-09	37	\$36,636,416
2007-08	35	\$33,013,492
2006-07	40	\$39,529,479
2005-06	39	\$36,036,417
2004-05	38	\$30,832,357

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We also inspected claims for low-income housing property, including properties owned by a limited partnership holding an SCC. Our review indicated that the assessor is properly administering the welfare exemption. Accordingly, we have no recommendations in this area.

### Homeowners' and Disabled Veterans' Exemptions

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

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

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<sup>9</sup> Data compiled from the assessors form BOE-802 submission to the BOE.

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

In Lassen County, the assessor processed 5,853 homeowners' exemption claims and 54 disabled veterans' exemption claims for the 2008-09 assessment roll.

The following table illustrates homeowners' and disabled veterans' exemption data for recent years:<sup>10</sup>

ROLL YEAR	HOMEOWNERS'		DISABLED VETERANS'	
	Number	Exempted Value	Number	Exempted Value
2008-09	5,853	\$40,907,000	54	\$5,567,828
2007-08	5,897	\$41,200,000	53	\$4,898,750
2006-07	5,900	\$41,224,000	49	\$4,200,626
2005-06	5,863	\$40,972,000	43	\$3,505,721
2004-05	5,841	\$40,807,000	36	\$2,830,759

Our review of homeowners' and disabled veterans' exemption records indicated that the assessor is properly processing these exemptions. Accordingly, we have no recommendations in this area.

### **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.<sup>11</sup> Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

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

Review of the forms used by the Lassen County Assessor's Office for the 2008-09 roll year revealed the following:

- The assessor used 45 of the BOE-prescribed forms.
- Of the 45 forms used, the assessor rearranged three.
- The assessor timely provided the BOE with copies of all rearranged forms, final prints, and forms checklists.

<sup>10</sup> Data compiled from the assessors form BOE-802 submission to the BOE.

<sup>11</sup> Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

We have no recommendations for this program.

### ***Staff Property Procedures***

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from valuing their own property.

The assessor discovers employee-owned properties or businesses by using the State of California, Fair Political Practices Commission Form 700, *Statement of Economic Interests* (FPPC Form 700). Each year, the assessor requires all BOE-certified staff who are authorized to perform appraisals or audits, to complete and sign FPPC Form 700. The statement requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity. Other information requested includes the nature and the percentage of ownership interest.

The assessor also discovers employee-owned property through voluntary disclosure by the employee and name recognition on permits and deeds. Per office policy, employees are not allowed to value property they own in Lassen County. Appraisals on employee-owned properties are initially performed by the appraiser who is assigned that geographical area, unless the property is owned by that appraiser. The completed appraisal is reviewed by the chief appraiser before it is forwarded to the assessor for final review and approval.

We reviewed all employee-owned property appraisal files and found the records were well documented. Assessed values were properly supported with acceptable appraisal valuation methods, and the appraisals were reviewed by management prior to enrollment. We also performed field reviews on most of the employee-owned properties and found the assessor's records correctly reflected the existing improvements. Our review indicated all employee-owned properties were being properly assessed, and the assessor had effective controls in place to ensure employees do not value their own properties.

## ASSESSMENT OF REAL PROPERTY

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

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

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

### ***Change in Ownership***

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

### **Discovery and Document Processing**

The assessor's primary means of discovering properties having changed ownership is to review deeds and other documents recorded with the recorder's office. The recorder requires form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, accompany documents submitted for recordation that transfer the ownership of real property. The assessor reports that most recorded documents transferring the ownership of real property are accompanied by PCORs. In instances where a PCOR is not filed, a \$20 charge is added to the recording fee. PCORs are available to the public for filing purposes in both the recorder's office and the assessor's office.

After obtaining recorded documents from the recorder's office, a transfer analyst reviews all the recorded documents and copies those relating to change in ownership for the assessor's records. The transfer analyst determines whether or not the transfer is a reassessable change in ownership, and if so, the percentage of ownership transferred. Changes in ownership subject to reassessment are tracked in the computer system. The transfer documents and property records are forwarded

to the assigned appraiser. Completed appraisals are reviewed by the chief appraiser and assessor prior to enrolling the new assessed value.

The following table shows the total recorded documents reviewed and those determined to be reassessable events for recent years:

<b>ROLL YEAR</b>	<b>DOCUMENTS REVIEWED</b>	<b>REASSESSABLE EVENTS</b>
2008-09	1,870	918
2007-08	2,294	1,082
2006-07	2,719	1,160
2005-06	2,584	1,776
2004-05	2,616	1,835

The table illustrates that recordings have declined in recent years and that only about half of the recorded documents resulted in reassessable events.

## Valuation

We reviewed several change in ownership events and found the assessor's records are well documented and support the assessor's value conclusions. The assessor correctly values partial interest transfers and enrolls supplemental assessments for all change in ownership events.

## Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding 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 notice of changes in control of legal entities, and thus, no corresponding recorded notice of any real property transfers.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property that they own. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Although the assessor has neither discovered any transfers of ownership in a legal entity on his own, nor received any LEOP listings from the BOE since our last survey, we have determined in

past surveys the assessor processes LEOP notices properly and promptly revalues parcels having undergone a change of ownership.

### Change in Ownership Exclusions

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer, on or after November 6, 1986, of the principal residence and the first one-million dollars (\$1,000,000) of other real property between parents and children when a claim is timely filed. Subsequent amendments to section 63.1 also exclude certain transfers from grandparents to their grandchildren.

The following table represents approved section 63.1 claims for recent years:

<b>ROLL YEAR</b>	<b>APPROVED CLAIMS</b>
2008-09	129
2007-08	154
2006-07	185
2005-06	165
2004-05	175

While not mandatory, assessors are encouraged to notify the BOE on a quarterly basis of any approved Section 63.1 transfer applications. While assessors may choose not to notify the BOE of these approved section 63.1 applications, they are still required to track the \$1,000,000 limit on property transferred other than the principal residence. The Lassen County Assessor chooses not to report to the BOE approved section 63.1 transfers but tracks the \$1,000,000 limit on transferred property other than the principal residence.

### Base Year Value Transfer Exclusion

Section 69.5 allows qualified homeowners who are 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of their principal residence to a replacement dwelling purchased or newly constructed within the same county, on or after November 6, 1986, provided a claim is timely filed. Claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Subsequently, section 69.5 was amended to allow counties to adopt ordinances expanding the benefits to include intercounty transfers. Lassen County has not adopted such an ordinance. The assessor is also required to report to the BOE on a quarterly basis, any approved section 69.5 claims.

The following table represents approved section 69.5 claims for recent years:

<b>ROLL YEAR</b>	<b>APPROVED CLAIMS</b>
2008-09	3
2007-08	2
2006-07	4
2005-06	2
2004-05	6

To prevent duplication of claims for base year value, section 69.5(b)(7) requires the assessor to report quarterly to the BOE information regarding approved applications filed under section 69.5. This procedure is outlined in County Assessors Only (CAO) letter 99/23 dated December 6, 1999. Upon the initial discovery that the quarterly reports were not being filed with the BOE, the assessor has implemented a program to ensure compliance with the filing requirements.

### Improvement Bonds

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

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in the purchase price.

The Lassen County Assessor presumes the value of the improvements financed by the bonds is reflected in the purchase price paid for the property exclusive of the bond amount, and does not add the bonds to the purchase price. It is the assessor's policy not to add for improvement bonds unless the market indicates otherwise.

### **New Construction**

Section 70 defines newly constructed property, or new construction, as any addition to real property since the last lien date, or 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. 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), (d), and (e), and sections 73 through 74.7 address these exclusions.

The assessor discovers most new construction activity from building permits delivered weekly from two local permit-issuing agencies, the City of Susanville and the Lassen County Department of Community Development, Building Division. In addition, the assessor receives permits from the state agency, the Housing and Community Development (HCD). Other discovery methods used by the Lassen County Assessor include review of newspaper articles, business property statements, local multiple listing service, and field canvassing.

The following table illustrates the assessor's building permit activity for recent years:

ROLL YEAR	HCD	COUNTY	CITY	TOTAL
2007-08	15	707	327	1,049
2006-07	27	818	324	1,169
2005-06	N/A	932	414	1,346
2004-05	N/A	960	406	1,366
2003-04	N/A	994	425	1,419

### Permit Processing

An office assistant reviews and screens all permits received from the issuing agencies. Permits representing nonassessable new construction, such as re-roofing, replacement water heaters, temporary power poles, and other maintenance and repair items, are sent directly to the appraisers for review. The remaining permits are keyed into the computer system and forwarded to the appraisers to work.

The assessor sends cost questionnaires to taxpayers as needed to obtain new construction information. Permits for commercial or industrial properties are given to the senior appraisers who are responsible for all commercial and industrial properties in the county. The senior appraisers review these building permits for newly constructed leasehold improvements. If there are leasehold improvements, they consult with the auditor-appraiser to determine if the improvement should be assessed as real property or business property.

### Valuation

The assessor relies on Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Assessors' Handbook Section 534, *Rural Building Costs* (AH 534), and the comparative sales approach to value residential, rural, and agricultural new construction. The assessor uses cost factors from *Marshall Valuation Service* in valuing new construction of commercial and industrial properties as well as the income approach to value. The comparative sales approach to

value is generally of little use for commercial and industrial properties since there are very few of these properties within the county and even fewer comparable sales.

We found no problems in our review of the assessor's new construction program.

**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 factored base year value adjusted for inflation up to two percent.

The assessor identifies declines in value through his appraisal staff's knowledge of current property value trends, a current market study, Multiple Listing Service reports, taxpayer requests for value reviews, and assessment appeals. The following table shows the number of decline in value assessments processed for recent years:<sup>12</sup>

ROLL YEAR	DECLINE IN VALUE PROPERTIES
2007-08	544
2006-07	385
2005-06	390
2004-05	499
2003-04	578

Taxpayers may request a review of their property by calling or visiting the assessor's office and filling out a *Request for Proposition 8 Reappraisal* form. The forms are logged into the computer with a code, tracked for processing purposes, and given to the assigned appraiser for review. The appraiser may contact the taxpayer for additional information or may perform a field-inspection of the property. If it is determined that a reduction in taxable value is warranted, the assessor or the chief appraiser will review the final values before being enrolled. Although Lassen County does not have a large quantity of subdivisions or homogeneous tracts, when a decline in value is discovered in a tract the appraisers typically review the entire tract and may reduce values of the properties reviewed as appropriate.

Decline in value properties are identified in the computer system with a taxability code, which prevents application of the inflation factor to the prior year's taxable value and alerts appraisers of required annual reviews. In addition, the assessor annually compares the FBYV of properties with their current market values, and enrolls the lower of the two.

<sup>12</sup> Statistics from the Assessor and the BOE's Report on Budgets, Workloads, and Assessment Appeals Activities.

Our review of several decline in value properties found the assessor properly does not apply the annual inflation factor until the properties have been restored to their FBV, which meets the requirements of section 51(e).

Value notices are sent to property owners when the assessed value has changed due to a decline in value, when the decline in value remains on the roll for the current assessment year, and when the decline in value has been fully or partially restored. The notice meets the requirements of sections 619(a) and (c).

The assessor has developed a process for taxpayers to request a decline-in-value review (Proposition 8) of their property when they believe the market value of their property has declined below the property's FBV on the lien date. A *Request for Proposition 8 Reappraisal* form has been developed by the assessor and made available to taxpayers. The form is easy for taxpayers to understand, and the assessor is commended for being proactive in assisting taxpayers in the county. We found the assessor's decline-in-value program is effective and well administered.

### **California Land Conservation Act Property**

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

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

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

For the 2007-08 roll, Lassen County had 1,448 parcels encumbered by CLCA contracts, encompassing approximately 322,667 acres with a land and improvement value of \$45,977,385. Lassen County also had 68 parcels subject to Farmland Security Zone (FSZ) contracts (a more restrictive form of the CLCA), encompassing approximately 19,503 acres with a land and improvement value of \$2,656,574. The county has three contracts in nonrenewal status and two contracts have been cancelled.

Most of the rural property in Lassen County is devoted to agricultural use. The bulk of agricultural revenue generated in the county is derived from hay, livestock, timber, strawberry plants, and pastureland. The county surpassed \$65.6 million dollars in gross production value of agricultural commodities in 2007-08, which was down approximately 11 percent from 2006-07.

The marked decrease was primarily due to a \$7 million dollar reduction in the timber harvest and a decrease in planted strawberry acreage.

## Valuation

The assessor and the chief appraiser are responsible for the valuation of all CLCA properties in Lassen County. CLCA questionnaires are mailed out periodically, not annually, due a low response rate. The assessor prepares an annual Williamson Act Appraisal, which includes data from questionnaires, the annual *Lassen County Crop Report*, and information from other agricultural data, to determine the restricted values of all CLCA properties for the lien date. The information is then inputted into the computer system, which calculates the restricted values and the FBVVs for the CLCA properties. The assessment program does not calculate fair market value for the comparison process, nor does it automatically determine the lesser of the values to be enrolled. The assessor uses market trend analysis to determine whether fair market value is lower or higher than the restricted values and the FBVVs.

There are few CLCA properties within Lassen County having compatible uses, but we did find one with hunting rights, which was correctly valued by the assessor. We also found the assessor is correctly issuing supplemental assessments on the unrestricted portions of the contracted parcels, as well as correctly revaluing homesites and nonliving improvements at market value for recent transfers.

In developing the capitalization rate used in the valuation of CLCA and FSZ properties, the assessor uses the interest component provided annually by the BOE and includes a risk and tax component. Overall, the risk rate and tax rate are in conformance with the guidelines set forth in AH 521.

We reviewed the assessment of several CLCA and FSZ properties and found the assessor has an effective and comprehensive program in place to value these properties. However, we found one minor area where this program needs improvement.

**RECOMMENDATION 1:** Revise the valuation and assessment procedures for CLCA properties by establishing the appropriate FBVVs of FSZ properties pursuant to section 423.4.

When valuing FSZ properties, the assessor determines the restricted value and the FBV of the appraisal unit. Pursuant to section 423.4, the assessor compares 65 percent of the restricted land value to 65 percent of the FBV and enrolls the lower of the two values. However, when calculating 65 percent of the FBV, the assessor incorrectly applied this reduction to the homesite.

Section 428 provides the restricted value statutory provisions shall not apply to residences or residential sites (homesites) of a reasonable size. Since residences and homesites are not restricted, they are valued as a separate appraisal unit pursuant to article XIII A of the California Constitution (Proposition 13).

When the homesite value is included in the FBYV calculations at only 65 percent, the resulting FBYV is understated. Hence, the assessor is making an incorrect value comparison. However, in no instance did it result in an incorrect assessment.

### ***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 is responsible for discovering taxable possessory interests and valuing those interests upon their creation, renewal, extension, or assignment, and upon the construction of new improvements on the property.

The assessor's program for discovering taxable possessory interests includes annual polling of all government entities in the county to request information on agreements with private parties. The assessor contacts approximately 15 public agencies annually, by letter and/or by phone, requesting current information on new or changed tenancies and rents. A majority of the agencies contacted by the assessor complete a *Possessory Interests Annual Usage Report* form annually. For the 2008-09 assessment roll the assessor enrolled 284 taxable possessory interests with a total assessed value of approximately \$23.6 million.

The assessor is primarily responsible for the valuation and monitoring of taxable possessory interests with assistance from staff as needed. The senior appraiser is responsible for the valuation, tracking, and discovery of the possessory interests at the Susanville Municipal Airport, while the assessor handles all other possessory interests, such as grazing permits, cabins on forest service land, cable television, and employee housing.

We found several areas where this program needs improvement.

**RECOMMENDATION 2:** Improve the possessory interest program by: (1) assessing all taxable possessory interests at the county fairgrounds; (2) reviewing taxable possessory interests with stated terms of possession for declines in value; and (3) revaluing taxable possessory interests at the end of the anticipated term of possession.

### **Assess all taxable possessory interests at the county fairgrounds.**

In October 2000, the Lassen County board of supervisors adopted Resolution 00-061, 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. According to the assessor, his knowledge of the activities at the fairgrounds and

the low value ordinance adopted by the county eliminate the need to monitor any potential possessory interests at the fairgrounds.

We obtained a list of concessionaires from 2006 through 2008 as well as an event log from 2006 through 2008 from the Lassen County Fairgrounds. We found two concessionaires and events that appear to be 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 is not monitoring these potential taxable possessory interests, he is unable to determine if they fall within the low value ordinance or not.

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

**Review taxable possessory interests with stated terms of possession for declines in value.**

The assessor does not annually recalculate current market value for each taxable possessory interest with a stated term of possession in order to compare it to its FBYV when determining declines in value. According to the assessor, he performs periodic studies for each property type and keeps track of recent sales to determine if property values have declined. When it appears the property types have not declined in value, he makes no changes to the roll values, and the FBYVs continue to be increased by the inflation factor until the expiration of the contract term or a change in ownership occurs. If the property type does appear to decline in value, then he will review these properties. However, he does not decline the term of possession; instead, he uses a new anticipated term to revalue the possessory interest without regard to how many years remain on the stated contract term of possession.

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

**Revalue taxable possessory interests at the end of the reasonably anticipated term of possession.**

According to the assessor, he has a tracking system in place to revalue possessory interests at the end of their reasonably anticipated term of possession. After reviewing the possessory interest files, however, we found several possessory interests the assessor failed to revalue at the end of their reasonably anticipated term.

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

By not revaluing possessory interests at the end of their anticipated term as provided in Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, page 58 the assessor has been enrolling inaccurate assessments and not recognizing changes in ownership, which results in loss of revenue for the county.

### ***Leasehold Improvements***

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

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction. When real property is reported on form BOE-571-L, *Business Property Statement (BPS)*, coordination between the real property and business property staff of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance, and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

When new construction by a tenant adds value to a property, the assessor must review those changes and reflect them in a property's assessed value. Attempts to assess this new construction include identifying leasehold improvement construction permits, sending new construction questionnaires to tenants, examining rent rolls to look for tenant changes, and rent changes as a result of new construction. The BPS, an annual filing requirement for many business owners, is a useful source for discovering leasehold improvements.

A determination should be made as to whether or not the leasehold improvements are structure items, fixtures, or non-assessable expenses such as maintenance, repairs, or remodel. Proper classification of leasehold improvements as structure items or fixtures is important because fixtures are treated differently than structural improvements. Fixtures are a separate appraisal unit when measuring declines in value; in certain cases, fixtures are not subject to supplemental assessments.

We found the Lassen County Assessor properly classifies reported structural improvements on the secured roll and fixtures on the unsecured roll. The assessor's program for the assessment of leasehold improvements is in compliance with current statutes.

## 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 Lassen County, the real property appraiser works in conjunction with the auditor-appraiser to ensure the correct classification and allocation of real and personal property items assessed to businesses. This staffing mix maximizes the coordination of real property and business property assessments.

In this section of the survey report, we review the assessor's audit program, business property statement processing, business property valuation, leased equipment discovery and assessment programs, the assessment of manufactured homes 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, Revenue and Taxation Code section 469 required county assessors to audit, at least once every four years, the books and records of any taxpayer engaged in a profession, trade, or business, if the taxpayer has assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of Revenue and Taxation Code section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of 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% 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.

The following table shows the total number of audits completed over recent years:

<b>AUDIT YEAR</b>	<b>MANDATORY AUDITS</b>	<b>NONMANDATORY AUDITS</b>	<b>TOTAL AUDITS</b>
2007-08	6	75	81
2006-07	8	76	84
2005-06	5	76	81
2004-05	3	79	82
2003-04	7	67	74

Based on recent audit history, the assessor is in compliance with the number of audits mandated pursuant to section 469.

**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.

The assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. We found no problems with the assessor's audit program.

**Audit Quality**

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

We found audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. In addition, we found the assessor's audit procedures, audit review, and controls to be well structured and maintained. We commend the assessor for his excellent audit program.

## **Business Property Statement Program**

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

We reviewed the assessor's property statement processing procedures and files to ensure they conform to statutory and regulatory guidelines. A sampling of business property statements was reviewed to verify the use of BOE-prescribed forms, processing by certified staff, completeness of property statements and application of penalties, coordination with the real property division, and record storage and retention. We found the auditor-appraiser checks property statements for completeness and a valid signature. All statements are date-stamped when received. If a statement is unsigned, a copy is made and the original is returned to the taxpayer for signature. If a statement is received late, the date-stamped envelope is retained and a penalty is added as prescribed by section 463. If a statement reports any additions or deletions to real property items, those changes are referred to the real property division for review.

The assessor processed 1,247 property statements for the 2007-08 assessment roll with a secured roll value of \$91,477,350 and an unsecured roll value of \$65,149,667.

### **Discovery**

The discovery of taxable property is an essential function of the county assessor's office. It is a difficult but necessary task to maintain accurate and current listings of assessable business properties. Discovery sources include building permits, business licenses, business directories, telephone directories, Form BOE-600-B, *Report of Locally Assessable Equipment Leased to State Assesseees*, tenant information from landlords, and field canvassing.

We found no problems with the assessor's discovery process or any other portions of the business property statement program.

## **Business Equipment Valuation**

### **Commercial, Industrial, and Agricultural Equipment**

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) 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) which contains the index and percent good factors for assessors to use in valuing machinery and equipment.

The assessor primarily uses the AH 581 and California Assessors' Association (CAA) Business Assessment Factors to value assessable equipment. In some instances the assessor uses *Marshall and Swift* to value large propane storage tanks. The assessor uses acceptable methods of valuing business equipment. We have no recommendations for improving the valuation of business equipment in Lassen County.

### Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property. We found no problems in the classification of machinery and equipment.

### Computer Valuation

Pursuant to section 401.5, the BOE also issues valuation factors for computer equipment (see AH 581, "Table 7: Non-Production Computer Valuation Factors"). The assessor follows the BOE recommended AH 581 guidelines when valuing small, midrange, and large computers.

### **Manufactured Homes**

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

Manufactured homes can be found in 22 mobile home parks located throughout the county and on fee-owned land. Manufactured homes located in mobile home parks and under different ownership than the land on which they are situated are assigned a 999 assessment number. In compliance with sections 5801(b)(2) and 5803, the assessor enrolls manufactured homes as personal property on the secured roll. For the 2007-08 assessment year there were 854 manufactured homes enrolled with a total assessed value of \$18,683,548.

Each appraiser processes all assessments of manufactured homes located within his or her specifically assigned geographical area. The assessor discovers new and transferred manufactured homes in the county through Department of Housing and Community Development reports, building permits, dealer reports of sale, tax clearance certificates, Preliminary Change of Ownership Reports, and appraiser canvassing. Taxable manufactured home accessories are discovered through building permits and appraiser canvassing.

The assessor does not track manufactured homes affixed to permanent foundations. The home is considered an improvement and enrolled as real property. The assessor verifies the affixation pursuant to section 18551 of the Health and Safety Code and requires proof that the affixation has been recorded (HCD Form 433A). The Lassen County Recorder sends the recorded form to

the assessor. The form is processed through an assessment clerk along with a copy of the Department of Housing and Community Development Listings, and for new manufactured homes, the dealer report of sale. A Change in Ownership Statement is mailed to the taxpayer. Once complete, the paperwork is sent to the appraiser to be valued. The manufactured home remains on the roll as personal property until recordation is final. Once the manufactured home has been permanently affixed to an approved foundation, the assessor no longer enrolls the home as personal property.

Pursuant to section 5803, site value is not included in the manufactured home assessment. In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, considers sales prices listed in recognized value guides for manufactured homes. The assessor uses the selling price, local market cost data, and *N.A.D.A Manufactured Housing Guide* when considering the value of manufactured homes.

Manufactured home accessories are valued as part of the manufactured home. If the manufactured home has a fee parcel number, the accessories are assessed as improvements. Lassen County has a low value ordinance exempting from taxation manufactured home accessories not exceeding \$5,000.

The assessor correctly applies supplemental assessments to new and transferred manufactured homes. Exemptions are properly handled for the assessment of manufactured homes held in dealer inventory and those held or owned by financial institutions or insurance companies.

We reviewed several manufactured home assessments and determined that the assessor is proactive in finding declines in value for manufactured homes and determining market trends.

We found the assessor's manufactured home program comprehensive and his property files well documented. We found no problems with the manufactured home program.

## **Vessels**

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include the State Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

The assessor valued 446 vessels on the 2008-09 assessment roll with a total assessed value of approximately \$5,530,000. The assessor uses Form BOE-576-D, *Vessel Property Statement* (VPS), to elicit information from taxpayers regarding their vessels. The assessor properly charges section 463 penalties of ten percent for late filing or non-filing of the VPS when appropriate.

The auditor-appraiser and the assessor have joint responsibility for the appraisal and assessment of all vessels. A cadastral drafter keeps track of the vessels, including logging and entering appraisal data from the certified appraisers and maintaining archives of past vessel statements.

Appraisals of new vessels are based on values listed in the *National Automobile Dealer's Association* (NADA) valuation guide. Additionally, the appraiser makes adjustments for vessel

condition, motor and motor condition, accessories, deducts for trailers, and adds sales tax when appropriate.

For subsequent vessel assessments, the assessor annually develops a depreciation table based on a study of vessel sales in the county in the previous year. The study is documented and appears to be representative of the local used vessel market.

We found no problems with the assessor's vessel valuation practices or procedures.

## APPENDIXES

### A. County-Assessed Properties Division Survey Group

#### Lassen County

*Chief*

Dean Kinnee

*Survey Program Director:*

Benjamin Tang

Principal Property Appraiser

*Survey Team Supervisor:*

David Dodson

Supervising Property Appraiser

*Survey Team Leader:*

Charles Matura

Associate Property Appraiser

*Survey Team:*

Carlos Zaragoza

Senior Specialist Property Auditor-Appraiser

John Frank

Senior Specialist Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Patty Lumsden

Associate Property Appraiser

Deborah Scherer

Assistant Property Appraiser

Aaron Martinez

Tax Technician I

## **B. Relevant Statutes and Regulations**

### **Government Code**

#### **15640. Survey by board of county assessment procedures.**

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

#### **15641. Audit of records; appraisal data not public.**

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

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

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

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

**15642. Research by board employees.**

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

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

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

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

**15644. Recommendations by board.**

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

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

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

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

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

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

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

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

## **Revenue and Taxation Code**

### **75.60. Allocation for administration.**

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

(b) For purposes of this section:

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

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

### ***Title 18, California Code of Regulations***

#### **Rule 370. Random selection of counties for representative sampling.**

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

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

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

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

**Rule 371. Significant assessment problems.**

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

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
  - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
  - (8) Discovering and assessing property that has suffered a decline in value.
  - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

## **ASSESSOR'S RESPONSE TO BOE'S FINDINGS**

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

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



**KENNETH BUNCH, Assessor**  
Lassen County Courthouse  
220 South Lassen Street, Suite 4  
Susanville, CA 96130

RECEIVED

APR 19 2010

County-Assessed Properties Division  
State Board of Equalization

☎ (530) 251-8241  
FAX: (530) 251-8245

April 15, 2010

Mr. Dean Kinnee  
County Property Tax Division  
State Board of Equalization  
PO BOX 942879  
Sacramento, CA 94279-0062

Dear Mr. Kinnee,

Enclosed is my response to the two recommendations made in the recent Assessment Practices Survey. This response is submitted pursuant to section 15645 of the Revenue and Taxation Code.

The staff of the Lassen County Assessor's Office has again proven their professionalism and dedication. Without their hard work, the report would not have been so complimentary.

I commend your Board Survey Crew for doing a professional job and conducting themselves in a manner that reflects well on the County Property Tax Division of the State Board of Equalization.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth Bunch".

Kenneth Bunch  
Lassen County Assessor

**LASSEN COUNTY RESPONSE TO RECOMMENDATIONS  
ASSESSMENT PRACTICE SURVEY  
APRIL 2010**

**Recommendation 1:** Revise the valuation and assessment procedures for CLCA properties by establishing the appropriate FBYV's of FSZ properties pursuant to section 423.4.

**Response:** We concur. No inaccurate assessments were enrolled related to this recommendation.

**Recommendation 2:** Improve the possessory interest program by: (1) assessing all taxable possessory interests at the fairgrounds; (2) reviewing taxable possessory interests with stated terms of possession for declines in value; and (3) revaluing taxable possessory interests at the end of the anticipated term of possession.

**Response:** (1) We concur  
  
(2) Reviews are made that consider the total appraisal unit and the defensible estimate of anticipated remaining term..  
  
(3) We concur.