

# NAPA COUNTY ASSESSMENT PRACTICES SURVEY

**AUGUST 2013**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2013/038

August 16, 2013

TO COUNTY ASSESSORS:

NAPA COUNTY  
ASSESSMENT PRACTICES SURVEY

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from November through December 2011. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Tuteur 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 State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Napa County Assessor-Recorder-County Clerk's Office.<sup>1</sup>

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 Napa County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable John Tuteur, Napa County Assessor-Recorder-County Clerk, 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.

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<sup>1</sup> This review covers only the assessment functions of the office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, a 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>2</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.

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.

Government Code section 15643 requires the BOE to repeat or supplement each survey of a county's assessment practices at least once in five years. Our last full survey of Napa County was conducted in 2007, and published in 2008. The current survey will serve to supplement the work done during the last survey by: (1) revisiting the issues about which we then made recommendations for improvement, (2) evaluating anew certain major areas of the assessor's operation, and (3) determining, for purposes of Revenue and Taxation Code section 75.60, whether Napa County continues to be eligible to recover the costs associated with administering supplemental assessments.

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<sup>2</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

## 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.

We noted several innovations the assessor has put in place since our last survey. Many of these innovations involve linking information to the assessor's computer system, thereby allowing for immediate retrieval by assessor's staff. Some of the innovations include the following:

- Scanned and linked homeowners' exemption claims;
- Linked recorder images of recorded documents;
- Scanned and linked *Preliminary Change of Ownership Statements* (PCOR) beginning in 2008;
- Scanned and linked master property records with historic data prior to March 1, 1987;
- Linked geographic information systems (GIS) interface to the computer property record;
- Implemented the process to maintain new subdivision records in electronic format only;
- Added public search by aircraft tail number to the assessor's website;
- Obtained approval from the board of supervisors and implemented the process to make value notices available online; and
- Developed an in-house decline-in-value mass appraisal algorithm.

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

In our review of the assessor's administration programs, we noted that the assessor is satisfactorily handling the staffing, workload, assessment appeals, and tax rate area mapping programs. However, we noted improvement is needed in the staff property and activities program.

In the area of real property assessment, the assessor has effective programs for changes in ownership, new construction, and declines in value.

In the area of personal property and fixtures assessment, the assessor has effective programs for business property statements and business equipment valuation. However, we found improvement is needed in the audit program.

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

We found no significant assessment problems as defined in Rule 371. Since Napa 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, Napa 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 that they appear in the text.

- RECOMMENDATION 1:** Develop and adhere to written procedures for incompatible activities and the reporting of economic interests, and expand and adhere to written procedures for maintaining the integrity of staff-owned property assessments. ....13
  
- RECOMMENDATION 2:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469. ....29

## PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our August 2008 Assessment Practices Survey Report and the assessor's responses to each recommendation. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our survey fieldwork.

### ***Disaster Relief***

**RECOMMENDATION 1:** Revise the application for disaster relief.

#### **Assessor's Response:**

*We concur. The letter to property owners who suffer a calamity was revised in June 2007 with the following text:*

*It has come to our attention that you have recently sustained a property loss which may qualify for property tax relief. By filling out and returning the form on the reverse side of this letter, you will provide us with the information we need to determine if a calamity adjustment is justified. You have 60 days from the date shown on the form but no more than twelve months from the date of the calamity to return the form to us in order to be considered.*

#### **Current Status:**

The assessor has implemented this recommendation. However, the filing period included in the letter does not comply with section 170.

### ***Taxable Government-Owned Property***

**RECOMMENDATION 2:** Correctly establish base year values for all taxable government owned property.

#### **Assessor's Response:**

*We respectfully disagree. The Supreme Court's finding in City and County of San Francisco v. County of San Mateo et.al. (1995) 10 Cal.4th 554 affirms that the proper base year value is the 1975 appraised value for taxable government owned properties that were appraised for the 1975 lien date. Section 110.1(d) defines base year value as the appraised value for property that was appraised as a result of a periodic reappraisal pursuant to Section 405.5 for the 1975 lien date. For taxable government owned properties that were appraised for the 1975 lien date under Article XIII, Section 11, the appraised value was the lesser of full cash value or the Phillips Factor value.*

*The BOE recommendation relates to properties which 1) were not valued under Article XIII Section 11 for the 1975 lien date and 2) were acquired by a governmental agency outside its*

*boundaries after March 1, 1975 by a change of ownership. BOE guidelines (LTA 2000/037) wrongly provide that base year values of taxable government owned properties acquired after the 1975 lien date are established at the lesser of current market value as of the date of change in ownership, or the Phillips Factor value.*

*The method for establishing a base year value for properties acquired after March 1, 1975 by a government agency outside its boundaries is set forth in the California Constitution Article XIII A Sec. 2 (a) and Revenue and Taxation Code section 110.1(a)(2)(A). The "full cash value" means the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value" or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. LTA 2000/037 is in conflict with these constitutional and statutory provisions. An assessor who follows LTA 2000/037 requiring a comparison with the Phillips Factor is acting against constitutional and statutory direction and could establish a base year value that is less than fair market value.*

*There is no legal or logical basis for creating a new type of base year value for properties acquired by a government agency outside its boundaries after March 1, 1975. Letter To Assessors 2000/037 should be rewritten to describe the correct method, as set forth in the Constitution and statutes, of establishing a base year value for properties acquired by a government agency outside its boundaries after March 1, 1975 by determining the full cash value of the property as of the date of change of ownership.*

**Current Status:**

The assessor has not implemented this recommendation.

**Taxable Possessory Interests**

- RECOMMENDATION 3:** Improve the taxable possessory interest program by:
- (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and
  - (2) deducting allowed lessor expenses from gross income when valuing taxable possessory interests by the income approach.

**Assessor's Response:**

*(1) We respectfully disagree. We have done an annual review of possessory interests held by seven resorts in Federally owned land at Lake Berryessa. Those possessory interests have been reviewed for a decline in value for the last decade and many have been enrolled with a decline in value. Our study of other possessory interests confirm that renewal of the term of possession beyond the term stated in the contract is the norm and neither a review for decline in value nor a decline in value is warranted.*

*(2) We concur. We have modified our possessory interest procedures to deduct allowed Lessor expenses from gross income when valuing taxable possessory interests by the income approach.*

**Current Status:**

We found that the assessor has implemented part 1 of the recommendation and is now periodically reviewing taxable possessory interests with stated terms of possession for possible declines in value. However, the assessor has not implemented part 2 of the recommendation. We found that the assessor does not consistently deduct allowed lessor's expenses from the gross income when using the income approach to value taxable possessory interests.

**Water Company Property**

**RECOMMENDATION 4:** Improve the water company assessment program by:  
(1) assessing the real property of regulated water companies at the lower of the current market value or the factored base year value, and (2) periodically reviewing water source properties that are annually inspected by the State Department of Health Services to ensure correct assessment and enrollment.

**Assessor's Response:**

*(1) We concur. We valued our only regulated water company correctly when it changed ownership in 2004. We did not review the value for several years. We did review the value for the 2008-2009 roll and determined that the factored base year value is correctly enrolled as lower than the current market value which was also the case for the intervening years. We will review this water company each year in the future.*

*(2) We concur. We are reviewing the three small mutual water companies discovered by the survey team (with a total of 45 parcels for the three companies combined). We will review the improvements of these companies and enroll escape assessments if warranted for the parcels served by each company if improvement values were missed.*

**Current Status:**

This recommendation has not been implemented. Regarding part 1, we found the assessor does not annually determine the current market value of the regulated water company's real property, but enrolls the factored base year value. Regarding part 2, we found the assessor does not investigate water supply sources to ensure that all are appropriately enrolled.

**Audit Program**

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

**Assessor's Response:**

*We concur. Napa County used PTAP funds for several years to hire two Limited Term Auditor Appraisers to reduce the backlog. With the termination of this program we lost one of these positions. We are hoping to become current in our audit production in the near future.*

**Current Status:**

The assessor has not implemented this recommendation. We found the assessor has not completed the required audits in a timely manner.

**Manufactured Homes**

**RECOMMENDATION 6:** Annually review all manufactured homes that have experienced a decline in value as required by section 51(e).

**Assessor's Response:**

*We concur. We believe that our 2001 study still holds true that manufactured homes depreciate at a rate which equals the 2% maximum inflationary adjustment under Proposition 13. We agree that it would be better to compare the factored base year value to the current market value annually. Beginning with the 2009 assessment roll, our Megabyte property tax system will allow us to make an annual, automated comparison to the AH 531 cost information for each manufactured home which will replace the less accurate but still useful information developed by our 2001 study.*

**Current Status:**

The assessor has implemented this recommendation. Since our last survey, the assessor added a module to the computerized assessment system allowing an annual review of all manufactured homes experiencing a decline in value, using data from Assessors' Handbook 531, *Residential Building Costs*.

**Vessels**

**RECOMMENDATION 7:** Improve the assessment of vessels by ensuring a certified appraiser reviews vessel values.

**Assessor's Response:**

*We concur. A certified appraiser currently establishes the parameters for valuing all vessels using recognized value guides with appropriate market-derived factors and makes all complex vessel appraisals. As staffing and time permits we will attempt to have a certified appraiser review routine appraisals derived from value guides using the valuation guidelines established by a certified appraiser.*

**Current Status:**

The assessor has implemented this recommendation. Vessel assessments are now done by the Chief Appraiser.

## **OVERVIEW OF NAPA COUNTY**

Napa County is one of the three counties in the northern tier of the nine San Francisco Bay Area counties. Created in 1850, Napa County is one of California's original 27 counties. The county encompasses approximately 788 square miles, which consists of 754 square miles of land (96 percent) and 34 square miles of water (4 percent). Napa County is bordered by Lake County to the north, Yolo County to the north and east, Solano County to the east and south, and Sonoma County to the south and west.

Napa Valley is one of the premier wine-making regions of the world. A 45-year history of commitment to agricultural land preservation and managed growth has led to substantial growth in the farming of grapes and the production of fine wines, with concurrent growth in the hospitality industry.

As of the 2010 census, the population of Napa County was 136,484, a 9.8 percent increase over the 2000 census. There are five incorporated cities: American Canyon, Calistoga, Napa, St. Helena, and Yountville. The county seat is Napa.



The following table displays information pertinent to the 2011-12 assessment roll:

	<b>PROPERTY TYPE</b>	<b>ENROLLED VALUE</b>
<b>Secured Roll</b>	Land	\$11,078,089,481
	Improvements	\$14,857,069,568
	Fixtures	\$501,098,935
	Personal Property	\$522,801,725
	Total Secured	\$26,959,059,709
<b>Unsecured Roll</b>	Land	\$28,180,620
	Improvements	\$148,515,732
	Fixtures	\$386,478,576
	Personal Property	\$671,765,343
	Total Unsecured	\$1,234,940,271
<b>Exemptions<sup>3</sup></b>		(\$785,728,753)
	<b>Total Assessment Roll</b>	\$27,408,271,227

The next table sets forth the changes in assessed values over recent years:<sup>4</sup>

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>CHANGE</b>	<b>STATEWIDE CHANGE</b>
2011-12	\$27,408,271,000	1.0%	0.1%
2010-11	\$27,136,504,000	0.1%	-1.9%
2009-10	\$27,120,662,000	0.8%	-2.4%
2008-09	\$26,917,870,000	5.9%	4.7%
2007-08	\$25,406,463,000	9.4%	9.6%

<sup>3</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>4</sup> State Board of Equalization Annual Report, Table 7.

## ADMINISTRATION

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

### ***Budget and Staffing***

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

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2011-12	\$2,796,000	1.4%	23
2010-11	\$2,757,609	5.8%	23
2009-10	\$2,606,254	2.7%	23
2008-09	\$2,679,297	3.3%	24
2007-08	\$2,594,904	14.4%	26

The assessor's staff includes the assessor, assistant assessor, chief appraiser, supervising appraiser, supervising auditor-appraiser, mapping and title supervisor, seven appraisers, two auditor-appraisers, one appraiser aide, one mapping and title technician, two title technicians, and four assessment records assistants.

### ***Workload***

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

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

As shown in the two previous tables, the gross budget has increased four of the last five years, most recently showing an increase, and the total assessment roll value has increased each of the last five years. The assessor's workload, however, has fluctuated over recent years. The number

of reappraisable transfers due to changes in ownership is constantly changing, showing a decrease one year and then an increase the next, most recently showing an increase. The number of new construction assessments has decreased three of the last four years, most recently showing an increase, while the number of decline-in-value assessments has increased each of the last four years. The number of assessment appeals filed has increased three of the last four years, most recently showing a decrease.

These trends are shown in the following table:

<b>WORKLOAD DESCRIPTION</b>	<b>2010-11</b>	<b>2009-10</b>	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>
Reappraisable Transfers	3,273	2,675	2,726	2,359	2,718
New Construction Assessments	1,218	769	1,178	1,275	1,340
Decline-In-Value Assessments	10,557	10,335	5,387	389	105
Assessment Appeals Filed	351	516	295	143	94

**Staff Property and Activities**

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

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

While the list of governmental officials required to file Form 700 does not include county assessors, in Napa County, the assessor, assistant assessor, and chief appraiser annually file Form 700. Additionally, certified staff in the assessor's office annually complete BOE-121, *Statement of Financial Interest*. We found the assessor and his staff completed these reports for 2011, and that the assessor duly reported this to the BOE.

The assessor requires all staff in the assessor's office to sign, date, and return to the assessment records supervisor the assessor's conflict of interest memo, which outlines inconsistent, incompatible, and conflicting activities. This memo itemizes prohibited activities and the consequences of any violation; the consequences are disciplinary action up to and including dismissal. The memo also addresses sensitive activities. Section 1365 and Government Code section 1126 are attached to the assessor's memo and address these outside activities.

We reviewed the assessor's practices relating to the assessment of staff-owned property situated within the county. Written procedures had been drafted during the time of our survey, but were

still evolving and under review. Under the prior unwritten policy, staff were not permitted to appraise property they owned and appraisals of staff-owned property were to be reviewed by the supervising appraiser before enrollment. The new written procedures make staff-owned property ineligible for direct enrollment, requiring all staff-owned property to be manually appraised. In addition, the new procedures require the appraisal to be performed by an appraiser other than the property owner, and require the appraisal to be reviewed by the assistant assessor and the assessor. Appraisals for property owned by the supervising appraiser will be assigned to the chief appraiser for valuation, and if the property is owned by any of the management staff charged with the review process, the party owning the property will excuse themselves from the review process.

A policy instituted by the assessor to ensure the discovery of activity on staff-owned property requires staff to annually complete the assessor's *Employee Property Activity Report*. In completing this report, staff reports real and personal property owned in the county, recent changes in ownership, recent new construction, and recent requests for a decline-in-value review.

We reviewed property records and assessments for staff-owned properties. This included confirming factored base year values, and reviewing changes in ownership, new construction, and decline-in-value activities. We also reviewed sale transactions involving personal property. We found that all change in ownership and new construction activities reviewed had been assigned and worked by an appraiser other than the owner of the property; some assignments involved parent/child transfer exclusions and assessment roll changes. Most decline-in-value assessments are automated, as are assessments of vessels subsequent to the first year of enrollment. We found no evidence that any staff was directly involved in the assessment of their own property. However, we did note that most assessments were not reviewed by a supervisor or manager as provided for in earlier informal policies and in recently developed written procedures. We have the following recommendation for the staff property and activities program:

**RECOMMENDATION 1:** Develop and adhere to written procedures for incompatible activities and the reporting of economic interests, and expand and adhere to written procedures for maintaining the integrity of staff-owned property assessments.

We found that the assessor has only informal policies and no written procedures for addressing issues regarding staff's engagement in activities that are incompatible with their duties, or the requirement that staff report their economic interests. Even though there are no written procedures in place, we found that all staff had complied with the assessor's informal policy requiring the reporting of economic or financial interests. However, we found non-compliance with the assessor's informal policy against engaging in incompatible activities. As previously mentioned, the assessor has a policy requiring that staff receive a memo outlining inconsistent, incompatible, and conflicting activities; staff is required to sign and date the memo, acknowledging receipt. Upon our request, we obtained copies of the acknowledgements on file for all staff; however, three were dated subsequent to our request.

In addition, we found that the assessor's written procedures for the assessment of staff-owned property are limited and should be expanded to fully address related potential issues. Prior

informal policies and the recently developed written procedures call for the review of assessments of staff-owned property. However, we found that reviews are not consistently performed, and that automated assessments and sale prices enrolled pursuant to Rule 2 are not routinely reviewed.

Conversion of the informal policies to written procedures to formalize existing policies is good business practice. Written procedures are preferred because they are more easily tracked and can be referenced when questions arise; their existence commonly results in a greater degree of compliance. Letter To Assessors No. 2008/058 was issued as a guide to assist assessors in establishing procedures relative to the assessment of staff-owned property. Additionally, the issue of preventing conflicts of interest in assessors' offices has been statutorily addressed. Section 672 provides that certified employees must reveal their financial interests held in corporations and section 1365 prohibits assessors and their employees from engaging in remunerative employment that would involve a conflict of interest with their official activities.

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

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

An expansion or amendment of the assessor's existing procedures for the assessment of staff-owned property that includes these bulleted practices is recommended. Additionally, the creation of written procedures to address staff conflicts of interest and staff reporting of economic interests is recommended. The written procedures should provide staff with clearly established procedures, and should address obtaining acknowledgements of receipt of the procedures from staff and creating a tracking system to ensure staff is in compliance. Further development of the written procedures in these areas will help ensure that staff is aware of and follows office policy.

## **Assessment Appeals**

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

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

In Napa County, the five members of the board of supervisors sit as the county board of equalization for assessment appeals. There are no hearing officers. The filing period for assessment appeals in Napa County is July 2 through November 30 for the assessment year in question.

Assessment appeal applications are received by the clerk and reviewed for timely filing and completeness before a date-stamped copy of the application is forwarded to the assessor. BOE-305-AH, *Application for Changed Assessment*, is available at the clerk's office or on the county's website. The clerk will also send out applications to taxpayers who request them by telephone or by mail. Napa County does not currently accept electronically submitted applications for changed assessments. The clerk and the chief appraiser both track the progress of assessment appeals in an effort to resolve all appeals within the two-year time period. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

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

YEAR	2010-11	2009-10	2008-09	2007-08
Appeals Filed	351	516	295	143
Appeals Carried Over From Prior Year	65	40	0	0
<b>Total Appeals Workload</b>	<b>416</b>	<b>556</b>	<b>295</b>	<b>143</b>
Resolution:				
Withdrawn	30	344	141	90
Stipulation	0	126	91	34
Appeals Reduced	0	0	0	5
Appeals Upheld	26	16	15	12
Appeals Increased	0	0	0	0
Other Determination*	2	5	8	2
<b>Total Resolved</b>	<b>58</b>	<b>491</b>	<b>255</b>	<b>143</b>
To Be Carried Over**	358	65	40	0

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

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

Assessment appeals are generally assigned to the appraiser of the geographical area where the property is located. The appraiser will contact the applicant for information that supports the applicant's opinion of value. For non-residential properties, the appraiser sends a letter requesting information such as income and expense statements, rent rolls, copies of any recent appraisals, and any other data that would support the applicant's opinion of value. For residential properties, the appraiser contacts the applicant by phone and requests information such as comparable sales that support the applicant's opinion of value, copies of any recent appraisals, and any other market or property specific data that would support the applicant's opinion of value.

All reductions in value must be approved by the chief appraiser before notifying the applicant. If the applicant agrees with the value, a stipulation is prepared and sent to the applicant for a signature before it is submitted to the county board of equalization for approval. If an agreement cannot be reached, the assessor will request a hearing date for the appeal to be scheduled and presented before the board of equalization.

During the survey, we were not able to attend an assessment appeals hearing. However, we reviewed several records involving assessment appeals. We found the assessor's assessment appeals program to be well administered, and the records to be well documented and complete.

### ***Tax Rate Area Mapping***

Article XIII, section 14 of the California Constitution provides that all property taxed by local government shall be assessed in the county, city, and district in which it is situated. Section 95(g) provides for the definition of "tax rate area" as a specific geographic area all of which is within the jurisdiction of the same combination of local agencies and school entities for the current fiscal year.

The BOE's tax rate area system facilitates compliance with the constitutional requirement that all taxable property be assessed according to situs. The tax rate area system assigns a unique tax rate area number to every geographical area in the state that corresponds to a unique combination of overlapping tax levies made by local revenue districts, such as cities, school districts, and special districts. A general, countywide tax rate area number is also part of the system.

The tax rate area system is used for the assessment of property, and the collection and distribution of property tax revenue. The Tax Area Services Section (TASS) of the BOE is responsible for maintaining all property tax rate area maps and for maintaining special revenue district boundaries. TASS processes changes of jurisdictional boundaries based on the documents filed with BOE pursuant to Government Code sections 54900-54905, and issues change notices to the local taxing authorities. The tax rate area system does not reflect administrative boundaries of local, state, or federal government.

In Napa County, the responsibility for maintaining and keeping assessor's parcel map information up to date falls upon the mapping and title supervisor (supervisor) and the mapping and title technician (technician). To assist the mapping section in performing their duties, the assessor has written procedures for his mapping personnel to follow. When the assessor receives tax rate area change notifications from the BOE, the information, such as the old tax rate area number, new tax rate area number, and the assessor's parcel numbers (APN) affected by the change, is entered into a tracking log that is maintained by the mapping section to ensure that all tax rate area changes are properly processed. The assessor completes all tax rate area changes prior to the close of the roll, usually in April. The technician verifies that the information on the notifications is correct, and makes the necessary changes to the assessor's parcel maps and assessment roll to reflect the new tax rate areas. To ensure that changes made to the assessment roll are made correctly, the changes are reviewed by the supervisor.

Parcels of land that are situated in two or more revenue districts are separately assessed and are each assigned their own separate APN. The parcels are also coded "SFAP" that designates them as "Separated For Assessment Purposes."

We reviewed a number of notifications for tax rate area changes that the assessor received from the BOE's TASS section. We found that the new tax rate area boundaries were updated on the assessor's parcel maps, the new tax rate area number was noted on the map, and the date the map was revised was noted. Our review of the 2011-12 assessment roll showed that all necessary changes denoting new tax rate areas were made to the roll.

## 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.

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

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

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

### **Document Processing**

The assessor's primary means of discovering properties that have changed ownership is through the analysis of deeds and other recorded documents at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents submitted for recordation transferring ownership of real property. If a transfer document is received without a PCOR, a \$20 charge is applied to the recording fee. PCORs are available to the public at the assessor's and recorder's offices, as well as on the county's website. Napa County has a local ordinance requiring the assessor's parcel number to be indicated on all recorded documents involving real property.

In Napa County, the assessor also functions as the county recorder and county clerk. Recorded documents are electronically transmitted daily to the assessor's office based on codes established in the recorder's computer system. The transmitted recorded documents appear in the transfer queue of the assessor's computer system. Original PCORs are scanned daily by the assessor's staff using the recorder's scanning software and the scanned PCORs are attached to the assessor's transfer queue. Once the recorded documents and PCORs are transferred out of the transfer queue and processed, they are available for assessor's staff to view on the computer system in the image file of the applicable APN(s).

The following table shows the number of recorded documents received and the number of reappraisable transfers processed in recent years.

YEAR	RECORDED DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2010-11	8,027	3,273
2009-10	8,321	2,675
2008-09	8,328	2,726
2007-08	N/A	2,359
2006-07	N/A	2,718

Title technicians review the documents received and verify items such as correct names of the grantors, correct legal descriptions, and correct assessor's parcel numbers (APN). If an exclusion may apply, the assessment records assistant mails the applicable forms to the property owner. Map books and property records are updated on the assessor's computer system as transfer documents are worked. Existing homeowners' exemptions are flagged for deletion following a change in ownership and homeowners' exemption applications are mailed to new property owners that may qualify for the exemption. Once the title technician determines that a transfer has resulted in a reappraisable event, the transfer is sent electronically to the appropriate appraiser's work queue for valuation. Notations are made in the electronic appraisal record and the records are placed in the appraiser's queue.

For changes in ownership involving a manufactured home, the assessor sends a *Property Owner's Statement of Mobilehome for Mobilehomes Subject to Local Property Tax* to the property owner. This form is a county-developed form requesting transfer information and the physical characteristics of the manufactured home being transferred. If the property owner fails to respond to this request, the transfer is processed without the information and no penalty is imposed by the assessor.

At the time of our survey fieldwork, the average period for processing transfer documents was about two weeks, with three to four weeks being typical for transfers in need of additional documentation. We examined several recorded documents and found the assessor has an effective program for the discovery and determination of reappraisable events.

### Penalties

When a recorded document is received without a PCOR, or the PCOR is incomplete, the assessment records assistant sends BOE-502-AH, *Change in Ownership Statement (COS)*, to the property owner, along with a form letter requesting a response within 45 days.<sup>5</sup> If there is no response within 30 days, a certified letter with a return receipt is sent, along with a second COS,

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<sup>5</sup> Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable. At the time of our survey, section 482(a) allowed property owners only 45 days to return the COS.

requesting a response within 15 days. After the second request is sent and the COS is not returned within the time permitted, the assessor applies the penalty required by section 482(a).

### Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The public is able to view the transfer list at the assessor's public counter. In addition, the transfer list is available electronically to anyone who wishes to subscribe. For an annual fee of \$107, the subscriber receives monthly transfer lists.

As required by section 408.1(b), the transfer list is divided into geographical areas by APN and use code, and the list is revised quarterly. Pursuant to section 408.1(c), the transfer list contains the transferor and transferee, APN, address of the property, date of recording, recording reference number, and consideration paid.

### Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.<sup>6</sup> The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

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

The assessor discovers potential changes in control or ownership of legal entities from newspaper articles, business property statements, recorded documents, and monthly LEOP reports from the BOE.

When the assessor receives the monthly LEOP reports, a title technician reviews the effective date and what change has occurred. Parcels located within the county are identified and reviewed. The title technician also performs a name search to ensure that all of the entity's real property is reassessed. Once it has been determined that the transaction has resulted in an assessable event, the information is sent to an appropriate appraiser for valuation.

The assessor reviews the *Entities Indicating A Change in Control or Change in Ownership* report to determine if the assessor should apply penalties for late-filings of BOE-100-B. There have been no recent late-filings of BOE-100-B in Napa County.

We found the assessor processes LEOP notices properly, and promptly revalues parcels that have undergone a change in ownership.

**Change in Ownership Exclusions – Section 63.1**

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

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

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

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

<b>YEAR</b>	<b>SECTION 63.1 CLAIMS FILED</b>
2010-11	233
2009-10	208
2008-09	245
2007-08	317

The assessor is proactive in notifying interested parties of a possible exclusion when a PCOR or COS indicates that a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren). The assessment records assistant sends a claim form, along with a form letter, giving the property owner 15 days to return the completed form and explaining potential eligibility for the exclusion. The assessor gives the property owner a total of 30 days to respond before the property is coded for reappraisal and forwarded to an appraiser for valuation.

A title technician reviews all section 63.1 applications and determines if the exclusion will be granted or denied. If a claim is denied, the taxpayer is notified by receipt of the supplemental assessment notice.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property in Napa County has exceeded the limit. If multiple properties transfer within a short period, the assessor allows the property owner or representative to determine which properties to exclude and which to reassess. If parcels exceeding the limit are in counties other than Napa County and the transfer dates are the same or within a short period, the assessor contacts the other counties, and possibly the property owner, to determine how the excess property should be allocated and reassessed.

Pursuant to section 63.1(i), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a secure file not accessible to the public and only allowing authorized personnel to access the information.

#### Change in Ownership Exclusions – Section 69.5

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

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

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

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

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

YEAR	SECTION 69.5 CLAIMS FILED
2010-11	10
2009-10	8
2008-09	26
2007-08	23

If a PCOR or COS indicates that a transfer may involve a base year exclusion, the assessment records assistant sends interested parties a claim form along with a form letter. Upon receipt, a title technician reviews all submitted claims, and an appraiser estimates the fair market value of both the replacement and original properties to determine if the claim is valid and the base year value to be transferred. If the claim is denied, the assessor informs the taxpayer by sending a denial letter.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. When the assessor receives a *Duplicate SSN Report* from the BOE, the report is reviewed in order to determine if any claims made in Napa County duplicate any claims made in another county. This is in an effort to avoid duplicate filings of section 69.5 claims.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on the claim forms by keeping them in a secure file not accessible to the public and only allowing authorized personnel to access the information.

### Valuation

Once a transfer has been determined to be a reappraisable event, the information collected is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to confirm that the reported sale price accurately reflects market value; the sale price is not automatically enrolled. Appraisers are able to access and review various data on the assessor's computer system, such as recorded documents, homeowners' exemption claims, and geographical information related to the subject parcel. Residential properties undergoing changes in ownership are valued using the comparative sales approach, while commercial properties are valued using the comparative sales approach with secondary consideration given to the income approach. If the property is unique, the cost approach may be considered, as well. The assessor maintains a sales database to assist in the valuation of improved and unimproved properties. Field inspections are conducted at the appraiser's discretion. If details of the transfer, property record, and/or market comparables do not provide a clear indication of value, the appraiser is more likely to conduct a physical inspection.

We reviewed a number of transfers involving changes in ownership for residential, commercial, rural, and agricultural properties. We found the property records were well documented, supplemental assessments were properly issued, and the inflation factor was properly applied when appropriate. The assessor has an effective program for valuing property due to changes in ownership and we have no recommendations for this program.

## **New Construction**

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

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

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

## **Discovery**

In Napa County, the assessor's primary means of discovering assessable new construction is through reviewing building permits. The assessor receives building permits from six permit-issuing agencies: Napa County Building Division of the Conservation, Development & Planning Department, City of Napa Building Division of the Community Development Department, City of American Canyon Building Division of the Community Development Department, City of Calistoga Planning and Building Department, City of St. Helena Building Department, and the Town of Yountville Planning and Building Department. The permit-issuing agencies provide the assessor with all permits on a monthly basis. The permits are received by either email or downloaded from the issuing agency's website. The assessor also receives notices of completion and building plans from each of the permit-issuing agencies.

Building permits are tracked in the assessor's computer system. Clerical staff reviews all incoming permits and culls those permits that are for non-qualifying new construction according to established procedures. The remaining permits are entered into the computer system and a supplemental assessment number is automatically generated for each permit. Once the permits appear in the appropriate appraisers' work queue to be assessed, the appraisers further review the remaining permits and cull any permits that they deem to be non-assessable new construction. All remaining permits deemed assessable are valued and enrolled.

The assessor sends a new construction questionnaire to select permit applicants. The information received from the property owner is used as an additional source of information for valuation purposes. For complex projects, the appraiser gathers the necessary data through phone contact with the property owner or site inspections, as the questionnaire is typically not sufficient for gathering data for this type of property. In Napa County, the return rate for new construction questionnaires is low. Because of this, other means are used to gather pertinent data. Due to the

economic downturn and the decrease in the number of permits received, the appraisers are able to do a physical inspection for most new construction events.

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

<b>YEAR</b>	<b>PERMITS RECEIVED</b>	<b>NEW CONSTRUCTION ASSESSMENTS</b>
2010-11	1,513	1,218
2009-10	1,503	769
2008-09	2,034	1,178
2007-08	2,234	1,275
2006-07	2,586	1,340

The assessor does not have a formal program for discovery of unpermitted new construction. Unpermitted new construction is discovered each year through informal means, such as aerial photos, field canvassing, and taxpayer notification. The escaped new construction is enrolled as of the date of completion, which is determined by completion documentation, field inspection, or taxpayer notification. The assessor enrolls supplemental assessments, as allowed by law, for escaped new construction. The assessor has also instituted a program to discover and assess wine caves, which are unique structures becoming more common in wine producing areas such as Napa County.

## Valuation

The assessor values new construction by estimating the market value of the improvements as of the lien date for construction in progress, and as of the date of completion for completed new construction. Appraisers determine the status of new construction from notices of completion prepared by the permit-issuing agencies, information provided by taxpayers, or field reviews. As previously mentioned, most new construction permits are field reviewed.

The assessor uses the cost approach, comparative sales approach, and income approach to value new construction. In conducting the cost approach, the assessor uses a variety of sources to develop a cost indicator of value for new construction. These sources include Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Assessors' Handbook Section 534, *Rural Building Costs* (AH 534), the owner's reported costs, local costs, and *Marshall Valuation Service*. The unit cost source is documented on the property record. Electronic diagrams for all newly constructed buildings are included in the building record and are based on either actual field measurements or provided plans.

When valuing new construction for additions, the assessor uses the comparative sales approach. By using current sales of similar structures, the assessor is able to recognize the market effect of the new improvements on the total structure.

The assessor's records were well documented and showed construction in progress assessed as of the lien date, completed new construction assessed as of the date of completion, and appropriate

supplemental assessments based on the completion date. In addition, we found that newly constructed active solar energy systems are excluded from assessment for the original owner or initial purchaser in accordance with section 73, and fire sprinkler systems are only excluded when added to an existing building in accordance with section 74.

Overall, we found the assessor's program for the assessment of new construction to be thorough and the values to be reasonable. We have no recommendations for 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 FBYV.

Napa County has experienced notable decreases in property values in recent years. For the 2011-12 roll year, there were 10,227 properties in Napa County with assessed values below their FBYV.

The following table shows statistics for decline-in-value assessments over recent years:

<b>YEAR</b>	<b>NUMBER OF PROPERTIES REVIEWED</b>	<b>NUMBER OF PROPERTIES DECLINED</b>	<b>TOTAL VALUE OF ALL DECLINE-IN-VALUE ASSESSMENTS</b>
2011-12	34,979	10,227	\$5,400,829,890
2010-11	35,106	10,557	\$5,472,813,901
2009-10	35,084	10,335	\$5,001,661,929
2008-09	31,270	5,387	\$2,892,288,228
2007-08	30,313	389	\$319,186,098

In the previous table, the 2011-12 roll year shows a reduction in the total value of properties in decline-in-value status. This is the result of the establishment of new base year values due to changes in ownership, not because of full or partial restoration of FBYVs.

The assessor does not have a formal computerized program for recognizing properties suffering from a decline in value. However, the assessor and his staff have been proactive in identifying properties in the county that may have experienced a decline in value.

In Napa County, the main sources for discovering properties experiencing a decline in value are through taxpayer requests for an informal assessment review, an assessment appeal, or appraisers' knowledge of property values in their assigned geographical areas. In some instances, the assessor may prepare a special study to identify declines in value for a certain property type, such as condominiums, either in mass or on an individual basis.

Property owners may request an informal review of their property value by submitting a *Request For Decline In Value Review* form available at the assessor's office or on the assessor's website. Applicants are asked to include any information that supports their opinion of value, but are not required to provide such information. The final filing date for requesting an informal review for the lien date value is May 15, prior to the closing of the assessment roll. Applicants filing an informal request for review near the final filing date for an assessment appeal (November 30) are encouraged to file an application for changed assessment, as well, in the event the assessor cannot complete the review before the assessment appeals filing deadline. Upon receipt of a request for review, the assessor enters the property to be reviewed into a spreadsheet for tracking purposes.

The assessor relies heavily on the comparative sales approach to value to determine a property's current market value as of the lien date. Residential properties are reviewed for a decline in value on an individual basis or, if possible, in mass. Individual reviews are performed when the property owner requests an informal assessment review or when appraisers discover a property in their area in need of review. Mass appraisals are performed for homogeneous residential areas. The assessor establishes an adjustment to recognize the decline in value experienced by properties within the same neighborhood.

The assessor does not have a formal program to identify declines in value for commercial properties. Declines in value for commercial properties are discovered from either a request for an assessment review or from the appraisers' knowledge of commercial property values in their assigned areas. When reviewing income producing properties for declines in value, the appraiser relies on the income approach, the cost approach, and the comparative sales approach to establish the current market value of the property. The current market value is then compared to the property's FBV and the assessor enrolls the lower of the two values.

In mid-July, after the close of the assessment roll, the assessor posts assessed value change notification letters on the county's website for each parcel granted a reduction, so owners may review the results of the informal assessment reviews. Owners of property not granted a reduction are sent a denial letter.

Properties in decline-in-value status are coded with an "800" use code and tracked on the assessor's computer system, allowing the assessor to print a list of properties requiring annual reviews and to temporarily suspend application of the annual inflation factor for those properties until their FBVs are restored. Due to the poor economic climate and continued decrease in property values in Napa County, there are no residential or commercial properties where the assessor has recently either partially or fully restored the FBV.

We reviewed a number of residential, rural, agricultural, and commercial properties in decline-in-value status. We found the assessor conducted special studies where certain property types or neighborhoods were analyzed for declines in value; the analysis streamlined the mass appraisal of these properties. We found the assessor annually compared the current market value to the FBV, and enrolled the lower of the two values for the lien date. Overall, the assessor has an effective program in place to recognize and assess properties that may warrant a decline in value.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

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

### **Audit Program**

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

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

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

In Napa County, the audit responsibility falls upon the supervising auditor-appraiser and two auditor-appraisers.

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

YEAR	2010-11	2009-10
Audits Scheduled	54	54
Audits Carried Over from Prior Year	7	0
<b>Total Audit Workload</b>	61	54
Audits Completed	41	47
<b>Audits Carried Forward</b>	20	7

As noted previously, effective January 1, 2009, section 469 specifies a minimum audit workload. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 54 audits per year. As shown in the previous table, the assessor completed only 47 audits for the 2009-10 roll year and 41 audits for the 2010-11 roll year.

We sampled numerous completed audits and found that they were thoroughly conducted, well documented, and supported by a comprehensive audit narrative and checklist defining the areas of investigation. We found the assessor verifies leased equipment, accounts for supplies, conducts field inspections, and properly classifies equipment. Additionally, the assessor secures waiver letters when the earliest year of the audit is near the expiration of the statute of limitations. Upon the completion of each audit, the audit is reviewed by the assessor, assistant assessor, and chief appraiser.

We also reviewed the assessor's application of roll corrections to reflect audit findings. We found that when correcting for multiple-year audit findings, the assessor is enrolling corrections for each year in which the escape assessment took place pursuant to section 531.

We found an area in the audit program that needs improvement.

**RECOMMENDATION 2:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

The assessor did not conduct the minimum number of audits required under the provisions of section 469. As previously mentioned, the assessor completed 47 of the 54 required minimum number of audits for the 2009-10 roll year, and 41 for the 2010-11 roll year.

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

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

### **Business Property Statement Program**

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

An assessment records technician works with the two auditor-appraisers in the business property division to process annual BPSs. They perform all BPS processing functions, and confirm reporting of leased equipment. The BPSs cover a wide variety of property types, including commercial, industrial, agricultural, vessels, and aircraft.

The following table displays the assessor's workload of secured and unsecured BPSs and assessments for the 2011-12 roll year:

<b>TYPE OF PROPERTY STATEMENTS</b>	<b>TOTAL</b>	<b>SECURED VALUE</b>	<b>UNSECURED VALUE</b>	<b>TOTAL ASSESSED VALUE</b>
General Business	3,372	\$850,656,628	\$719,783,447	\$1,570,440,075
Agricultural	642	\$60,661,737	\$25,550,813	\$86,212,550
Apartments	60	\$4,722,367	\$159,540	\$4,881,907
Direct Billing	1,236	\$6,441,316	\$16,818,391	\$23,259,707
Financial	56	\$1,110,510	\$6,041,660	\$7,152,170
Leased Equipment	380	\$0	\$181,541,956	\$181,541,956
Other	469	\$5,036,740	\$0	\$5,036,740
<b>Totals</b>	<b>6,215</b>	<b>\$928,629,298</b>	<b>\$949,895,807</b>	<b>\$1,878,525,105</b>

### **Discovery**

The assessor utilizes a wide range of tools for discovering taxable business property. Taxpayer self-reporting and periodic field canvassing are significant means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing city and county business licenses, fictitious business name filings, real property appraiser referrals, business directory services, landlord reports, and sales tax permits. We found that the assessor employs effective methods for discovering business personal property.

### **General Statement Processing**

BPSs are date stamped when received. Statements are reviewed for appropriateness of the form used, timeliness, authorized signatures, and any changes, such as the owner's name, Doing

Business As (DBA), situs, or mailing address. A certified auditor-appraiser prepares the valuation adjustments that are entered into the database.

We reviewed the BPS program and found that statements sampled evidenced the proper usage of Board-prescribed forms, were completed appropriately, and were signed. Coordination between the business and real property divisions was demonstrated by the use of a referral form indicating the referral information and action taken. The supervising auditor-appraiser oversees all routine processing of statements performed by non-certified staff. The assessor retains property statements between seven and eight years.

### Filing Procedures

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

We reviewed several BPSs and found that the assessee, or an authorized agent, appropriately signed statements, even when a rendition was attached to an original of the BPS. The assessor maintains an electronic spreadsheet of assessee name, authorized agent, and expiration date of authorization.

Our review also included verifying the assessor's procedures for processing late and non-filed statements. We found that the assessor properly applies the late-filing penalty as required by section 463. Additionally, habitual non-filers are contacted in an attempt to collect accurate assessment information. If no information is available, the assessor will conduct an audit and a field review.

### Direct Billing

The assessor utilizes an assessment procedure called "direct billing" or "direct assessment" in the valuation of business property. The program encompasses approximately 1,300 accounts. This procedure is a method of assessing qualified lower-value business accounts without the annual filing of a BPS. The assessor establishes an initial value and sends a BPS to the participating business every other year to update assessment information. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff thereby increasing time available for the auditor-appraisers to perform other required duties. Auditor-appraisers make the determination for an account to be enrolled in the direct billing program. We found the assessor has an effective direct billing program.

## Summary

Overall, we found the assessor's BPS program to be effectively administered. The procedures in place are well structured and compliant with existing law. We have no recommendations for this program.

### ***Business Equipment Valuation***

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

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

The assessor has a coding system to identify and designate the use of specific valuation tables for business property equipment reported on the business property statement (BPS). These factor tables are developed for use in mass appraisals and are used for converting original cost to estimates of market value for property tax purposes.

Although the assessor does not have written business equipment valuation procedures, he utilizes, as a guide, Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504). In addition, the assessor has adopted the price indices and percent good factors recommended in AH 581 and in tables developed by the California Assessors' Association (CAA). The CAA tables parallel the tables published in AH 581, with the exception of specific types of equipment (such as pagers, facsimile equipment, and high tech medical equipment) that the CAA recommends should not be trended.

We reviewed the assessments of a variety of business equipment reported by businesses, such as banks and financial institutions, service stations, grocery stores, propane companies, construction, and agricultural businesses. We found that the assessor correctly applies the CAA factor tables and the Board-recommended cost index, depreciation tables, and valuation factor tables. We have no recommendations for the assessor's business equipment valuation program.

## APPENDIXES

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

#### Napa County

*Chief*

Dean Kinnee

*Survey Program Director:*

Mike Harris

Principal Property Appraiser

*Survey Team Supervisor:*

Sally Boeck

Supervising Property Appraiser

*Survey Team Leader:*

Ronald Louie

Supervising Property Appraiser

*Survey Team:*

Andrew Austin

Senior Specialist Property Appraiser

Robert Marr

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Gary Coates

Assistant Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Paula Montez

Associate Property Auditor-Appraiser

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

### ***Government Code***

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

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

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

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

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

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

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

**15642. Research by board employees.**

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

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

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

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

**15644. Recommendations by board.**

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

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

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

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

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

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

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

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

**Revenue and Taxation Code**

**75.60. Allocation for administration.**

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

(b) For purposes of this section:

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

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

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

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

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

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

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

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

**Rule 371. Significant assessment problems.**

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

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

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

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

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

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

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

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



A Tradition of Stewardship  
A Commitment to Service

Assessor-Recorder-County Clerk  
Assessor Division

1127 First Street, Suite 128  
Napa, CA 94559-2931

(707) 253-4459  
Fax: (707) 299-4440

**RECEIVED**

**JUN 24 2013**

**JOHN TUTEUR  
ASSESSOR-RECORDER-COUNTY CLERK**

County-Assessed Properties Division  
State Board of Equalization

JUNE 17, 2013

DEAN R. KINNEE, CHIEF  
COUNTY-ASSESSED PROPERTIES DIVISION  
STATE BOARD OF EQUALIZATION  
450 N ST  
SACRAMENTO CA 94279-0062

Dear Mr. Kinnee:

Pursuant to California Government Code 15645 I am providing our written response to the findings and recommendations contained in the Napa County Assessment Practices Survey of the 2011-2012 assessment roll. On behalf of the staff of this office, I want to acknowledge the favorable comments contained in the Survey.

Survey Supervisor Sally Boeck and all the members of the team accomplished their review in an efficient manner during November and December 2011 with minimal interruption of our operations. We appreciate the stimulating conversations with SBE staff during the fieldwork and post-conference process.

I want to acknowledge the excellent working relations we have with the staffs of our Treasurer-Tax Collector, Auditor-Controller, County Counsel and Clerk of the Board of Equalization. All these agencies contribute to an efficient and cost-effective property tax system for the residents of Napa County.

I especially want to recognize the dedication and professionalism of our staff and their commitment to providing fair and accurate assessments to the property owners of our county.

Sincerely,

A handwritten signature in blue ink, appearing to read "John Tuteur", written over the typed name and title.

JOHN TUTEUR  
NAPA COUNTY ASSESSOR-RECORDER-COUNTY CLERK

Attachment

RESPONSE TO NAPA COUNTY ASSESSMENT PRACTICES SURVEY RECOMMENDATIONS

**RECOMMENDATION 1 [Page 13]:** Develop and adhere to written procedures for incompatible activities and the reporting of economic interests, and expand and adhere to written procedures for maintaining the integrity of staff-owned property assessments.

RESPONSE: WE CONCUR We have completed, adopted and are implementing written procedures for reporting of economic interests, incompatible activities and maintaining the integrity of the assessment of staff-owned properties.

**RECOMMENDATION 2 [Page 29]:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

RESPONSE: WE CONCUR We have instituted an audit assignment and tracking system to make sure that the required number of audits are performed pursuant to Section 469.