

NAPA COUNTY ASSESSMENT PRACTICES SURVEY

JANUARY 2003

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January 31, 2003

TO COUNTY ASSESSORS:

NAPA COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2003/016

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-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 and the assessor's response constitute the final survey report which, pursuant to Government Code section 15646, is distributed to the Governor, Attorney General, and State Legislature; and to the Napa County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County Property Tax Division during November and December 2001. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Tuteur and his staff gave us 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 the 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,

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
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 comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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 (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Napa County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates 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, the Senate and Assembly, and the Napa County 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-Clerk,¹ elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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*) 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.

¹ This report covers only the assessment functions of his 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, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type.

In addition, Revenue and Taxation Code section 75.60² requires the BOE to certify whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Napa County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Napa County with information relevant to its property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined by rule 371.³

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on our analysis that indicates statutory violations, under- or over-assessments, or unacceptable appraisal practices that occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment.

² All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

³ All rule references are to Title 18, Public Revenues, California Code of Regulations.

EXECUTIVE SUMMARY

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

In our previous assessment practices survey of Napa County, we made 12 recommendations addressing problems in the assessor's policies and procedures. Part of one recommendation no longer applies. Of the remaining recommendations, the assessor has fully implemented five of these, has partially implemented three, and has not implemented three. In this report, we repeat those recommendations that were not fully implemented.

We also acknowledge several other improvements the assessor has made in his operation. These are summarized as follows:

- The assessor has made extensive use of computer programs to automate several office functions. These include electronic versions of aircraft and manufactured home value guides, a building drawing program, an audit program module, and spreadsheets for tracking transfers of real property and leased equipment.
- The assessor coordinates with various other county departments, including the Geographic Information Systems Coordinator, Flood Control District, and the Information Technology Services Department, to maintain current information both on his computer system and on the county's intranet.
- The assessor has a strong taxpayer education and outreach program which includes a monthly column in a local newspaper on assessment issues, a monthly radio call-in show on a local radio station, and visits to the governing body of each city and school district.
- In addition to these strong points noted above, we also noted areas where improvements could be made in the assessor's operation. We have grouped these deficiencies into three categories: administration, real property assessment, and business and personal property assessment.

Areas for improvement in administration include the following:

- The assessor accepts non-BOE prescribed property statements.
- The assessor fails to inform taxpayers of their right to appeal their assessments following disaster relief.
- The assessor neglects to include the required statutory notations on the assessment roll as well as the status of land in Timberland Production Zone.
- The assessor fails to apply the county's low-value property exemption to real property.
- The assessor should review a welfare exemption claim that he denied.

We also make several recommendations dealing with real property assessment issues that are summarized as follows:

- The assessor does not consistently screen all building permits issued and does not annually revalue construction in progress at its market value on the lien date.
- We found that farm laborer housing located on California Land Conservation Act property was incorrectly assessed as restricted property and that wind machines were incorrectly classified as structures.
- The assessor should add the TPZ notation to any Timberland Production Zone parcels on his assessment roll.
- The assessor has not reviewed private uses of fairground property (a problem noted in our 1998 report) and has not identified or contacted specific state and federal agencies controlling public lands.
- The assessor inappropriately classifies all structural improvements reported on business property statements as fixtures.
- The assessor does not determine the current market values of the properties owned by regulated water companies.
- The assessor has not determined the current market value of sand- and gravel-producing mineral properties as required by rule 469.

In the areas of personal property and fixture assessments:

- Mandatory audits are still in arrears (as noted in our 1998 survey). In addition, the assessor does not audit accounts not having waivers on file; and he has not investigated general aircraft valued at over \$400,000 to determine whether they are used in a business and are therefore subject to mandatory audit.
- The assessor accepts incomplete business property statements lacking authorized signatures or other important information, uses an outdated vessel property statement, and applies the section 463 penalty inconsistently.
- The assessor inappropriately applies an arbitrary minimum valuation factor to equipment without evidence to support the practice.
- We found that the assessor inappropriately depreciates vessel assessments 10 percent each year, fails to add sales tax as a component of market value, and uses non-certified staff to value vessels.

Rule 371(b)(4) specifies that conducting mandatory audits is one of the "areas of an assessor's assessment operation" that should be considered in determining whether significant assessment problems exist. Although the assessor is not current in his mandatory audit program, we believe this deficiency alone does not create a reasonable probability that the assessment roll would fail to meet the requirements of section 75.60. Accordingly, for purposes of rule 371, Napa County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of formal recommendations contained in this report, arranged in the order they appear in the text.

RECOMMENDATION 1: Reject property statements not filed on BOE-prescribed forms. 14

RECOMMENDATION 2: Inform owners of property receiving disaster relief of their right to appeal their proposed reassessments as required by section 170(c). 16

RECOMMENDATION 3: Cite the notation required by section 533 when enrolling escape assessments..... 17

RECOMMENDATION 4: Exempt all real property that qualifies for the low-value property exemption. 17

RECOMMENDATION 5: Review the eligibility of multispecialty health care clinics for the welfare exemption. 19

RECOMMENDATION 6: Initiate a control program for the processing of building permits..... 23

RECOMMENDATION 7: Revise the computer program to prevent inflation factoring of incomplete new construction. 23

RECOMMENDATION 8: Assess farm laborer housing on CLCA-restricted land in accordance with section 428..... 25

RECOMMENDATION 9: Classify wind machines as fixtures. 26

RECOMMENDATION 10: Cite the correct notation to identify TPZ property on the assessment roll as required by section 433. 27

RECOMMENDATION 11: Review all private uses of the fairgrounds for possible assessment as taxable possessory interests..... 27

RECOMMENDATION 12: Determine the specific government agency that controls properties identified on the assessment roll as "USA" or "State of California." 28

RECOMMENDATION 13: Properly classify and assess leasehold improvements. 28

RECOMMENDATION 14: Assess the real property of regulated water companies at the lower of current market value or factored base year value. 30

RECOMMENDATION 15: Determine both the current market value and the adjusted base year value of the entire mineral property appraisal unit as required by rule 469(e)(2)(C)..... 31

RECOMMENDATION 16: Bring the mandatory audit program to current status as required by section 469. 32

RECOMMENDATION 17: Schedule immediate audits of those taxpayers who do not agree to a waiver..... 33

RECOMMENDATION 18: Audit accounts of aircraft that have a full value of \$400,000 or more and are used in a business..... 33

RECOMMENDATION 19: Only accept properly completed business property statements. . 34

RECOMMENDATION 20: Require taxpayers owning vessels costing \$100,000 or more to file the BOE-prescribed *Vessel Property Statement* as required by section 441..... 34

RECOMMENDATION 21: Discontinue using arbitrary minimum valuation factors. 35

RECOMMENDATION 22: Annually assess pleasure boats at market value..... 38

RECOMMENDATION 23: Add sales tax as a component of market value when enrolling vessel assessments..... 38

RECOMMENDATION 24: Use certified personnel to review vessel valuations as required by section 670(a)..... 39

OVERVIEW OF NAPA COUNTY AND THE ASSESSOR'S OFFICE

Napa County was formed in 1850 as a General Law county. Today it has a population of 127,000, most of whom live in the four incorporated cities of Napa, Calistoga, St. Helena, and American Canyon, and the town of Yountville. The county ranks 23rd statewide in per capita revenue (\$1,026.63) and 22nd in per capita expenditures (\$992.93).

Budget

The assessor's budget for recent years is shown in the following table.

FISCAL YEAR	FINAL BUDGET	% CHANGE	NO. POSITIONS
2001-02	\$1,678,402	+18.3%	24.75
2000-01	\$1,418,786	+1.31%	22.75
1999-00	\$1,400,414	+9.69%	22.75
1998-99	\$1,276,700	-1.38%	22.25
1997-98	\$1,294,477	-----	22.25

Workload

The assessor produced a local assessment roll for 2001-02 consisting of 53,661 assessments. This assessment roll had a gross taxable value of \$14,167,170,060, which was an increase of 12.9 percent over the 2000-01 roll total of \$12,550,485,715.

The 2001-02 real property workload consisted of approximately 4,310 changes in ownership and 2,046 assessments of new construction. The roll included 1,337 manufactured homes, 306 taxable possessory interests, 620 California Land Conservation Act parcels, 320 decline-in-value assessments, and 82 foreign improvements (those on land owned by another person). The assessor also completed a business property workload that included approximately 5,100 business property statement reviews (both secured and unsecured), 47 audits (44 mandatory and 3 nonmandatory accounts), 2,000 vessel assessments, and 240 aircraft assessments.

The following table shows the distribution of property types for the last five years:

ROLL YEAR	NO. OF ASSESSMENT ROLL UNITS			
	RESIDENTIAL	COMMERCIAL	INDUSTRIAL	AGRICULTURAL
2000-01	31,114	1,840	717	12,042
1999-00	29,933	1,840	711	12,084
1998-99	29,934	1,840	711	12,084
1997-98	29,550	1,830	709	12,070
1996-97	29,455	1,822	713	11,999

Staffing

The assessor's office has 24.75 budgeted full-time positions, plus seasonal extra help and contract employees. The assessor has produced a local roll that has grown steadily in size, as the following table shows.

ROLL YEAR	NO. OF ASSESSMENTS
2001-02	53,661
2000-01	52,710
1999-00	52,281
1998-99	51,688
1997-98	51,392

All valuation functions, both real property and business property, are managed by the chief appraiser. The real property section consists of a supervising appraiser, two appraiser III's, four appraiser II's, two entry-level appraiser I's (one of these positions, currently vacant, is designated as limited-term), and an appraiser-aide. Each appraiser, including the chief appraiser and the supervising appraiser, is responsible for all the properties within his or her assigned map books, with some exceptions. One appraiser III handles all taxable government-owned property and California Land Conservation Act lands; the other appraiser III handles all the taxable possessory interest assessments. A team of two appraisers specializes in single-family residential subdivisions. The appraiser-aide, with the supervising appraiser's oversight, handles the assessment of all manufactured homes sited in rental parks.

The business property division consists of one auditor-appraiser III and two auditor-appraiser II's. Maintaining vessel assessment records is the responsibility of one assessment clerk, while aircraft records are assigned to a second clerk. The actual valuation of aircraft is handled by an auditor-appraiser. An assessment clerk prepares value estimates for vessels (see Recommendation 24 regarding the need for review by a certified auditor-appraiser).

All administrative functions are managed by the chief administrative coordinator. This position oversees an administrative office assistant, two mapping technicians, a transfer clerk, four assessment clerks (one position vacant), and a part-time assessment/records assistant.

There are also fifteen positions allocated to the county recorder-clerk-registrar functions. We do not include them in this report, since our oversight is confined to the assessor's functions.

RESULTS OF THE 1998 SURVEY

Assessment Roll Changes

We recommended that when preparing roll changes, the assessor cite correct code sections and that he inform the county auditor of roll changes that must include section 506 interest. We found that the assessor has implemented both aspects of this recommendation.

Change in Ownership

For property undergoing a change in ownership as a result of a change in control a legal entity, we recommended that the assessor use the date of change in control rather than recording date when establishing new base year values. We also recommended that the assessor track fractional interest transfers and reappraise the real property when the transfer threshold specified in section 65.1 was reached. The assessor has implemented these recommendations.

Taxable Possessory Interests

We recommended that the assessor assess all taxable private interests in property at the two fairgrounds in Napa County. Since the assessor has not reviewed the uses that give rise to such interests, we repeat this recommendation.

California Land Conservation Act Property

We recommended that the assessor assign an economic rent to sites used for wineries on restricted vineyard parcels. The assessor has implemented this recommendation.

Mineral Property

We recommended that the assessor use an appropriate capitalization rate to value mineral rights and that he revise his decline-in-value practices for sand and gravel properties by developing a current market value each year in order to determine the proper taxable value. The first recommendation no longer applies because the only active gold mine in the county has closed. However, the assessor has not implemented the second recommendation; therefore, we repeat it in this report.

Business Property Statement Processing

We recommended that the assessor ensure that only auditor-appraisers make valuations of business property and that he apply uniform service lives to similar business types. We found that the assessor has implemented only the second part of this recommendation. We repeat the first part of this recommendation.

Audit Program

We recommended that the assessor bring his mandatory audit program to current status. We repeat the recommendation, since the program is still not current.

Business Property Valuation

We recommended that the assessor revise his allocation procedure for business personal property and fixed equipment. He has implemented this recommendation.

Aircraft

We recommended that the assessor field inspect an aircraft before reducing its assessed value and that he consistently make adjustments for engine hours above or below average amounts. The assessor has implemented the second part of our recommendation. Although he does not conduct actual field inspections of aircraft before reducing assessed values, he receives and utilizes adequate information from aircraft owners when determining condition adjustments. We therefore do not repeat this part of the recommendation.

Vessels

We recommended that the assessor discontinue applying a mass depreciation adjustment to vessel values and that he enroll documented value assessments in a timely manner on the unsecured roll. The assessor now properly enrolls the 4 percent vessels, but still uses fixed depreciation on vessel values rather than making individual value estimates. We therefore repeat the first recommendation.

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined budget, workload; and staffing; the county's participation in the State-County Property Tax Administration Loan Program; certification of appraisal staff; computer systems; quality control; assessment forms; assessment appeals; disaster relief; changes to the completed assessment roll; exemption of low-value property; administration of welfare, church, and religious exemptions; and the in-lieu tax for racehorses.

State-County Property Tax Administration Loan Program

The enactment of section 95.31 established the State-County Property Tax Administration Loan Program (PTAP). This program provides state-funded loans to eligible counties for the improvement of property tax administration.⁴

If an eligible county elects to participate, the county and the State Department of Finance (DOF) enter into a written contract described in section 95.31. A PTAP loan is considered repaid if the county satisfies performance criteria set forth in the contract. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding. For most counties, the contract provides that verification of performance is provided to the DOF by the county auditor-controller.

Napa County has participated in the PTAP every year since its inception. For five of the six years, the loan amount was \$366,020; for 1999-2000, it was \$245,000. The assessor intends to renew his loan in the amount of \$366,020 for fiscal year 2001-02. Throughout the program, the assessor has maintained his staffing at the minimum level (22.75 positions) or higher, as required by the contract.

The assessor has used PTAP funds for various performance measures throughout the years of his contract (not all measures applied in each year):

- Defending his values for all applications filed for reductions in assessment;
- Performing annual review of properties experiencing declines in value;
- Reducing the backlog of mandatory audits;
- Performing nonmandatory audits;
- Enrolling yard improvements escaping assessment in certain newer residential subdivisions;

⁴ AB 818, Chapter 914, Statutes of 1995. This program expired June 30, 2001. Shortly after we performed our fieldwork for this survey, the Governor approved AB 589 (Chapter 521, Statutes of 2001). This chapter established the Property Tax Administration Grant Program for fiscal years 2002-03 through 2006-07. The new grant program will operate in essentially the same manner as the loan program, except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive the grant.

- Enrolling vineyard plantings and nonliving improvements on parcels not subject to California Land Conservation Act contracts;
- Updating the assessment database with property characteristics;
- Integrating the recorder's data flow;
- Automating the assessor's workflow;
- Training appraisal staff.

The assessor used a combination of overtime for full-time employees, temporary limited-term assistance from a retired staff member, and contracts with an outside auditing firm to achieve the performance measures relating to audit backlogs and escaped new construction. For every year he has participated in the loan program, the assessor has exceeded the performance measures established in his contract.

Appraiser Certification

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid certificate issued by the BOE.

Nine employees hold advanced appraiser's certificates and five employees (including the assessor) hold appraiser's certificates. In addition, three of these 14 certificated employees are qualified under section 670(d) to perform mandatory audits. There are currently no employees holding temporary certification by the BOE.

Contract Appraisers

Section 674 establishes specific requirements for non-employee appraisers or auditors who are hired by a county assessor. These include provisions for competitive bidding in the awarding of contracts, the safeguard of confidential information, and the use of BOE-prescribed language in the appraisal services contract.

In July 2000, the assessor contracted with an auditing firm to complete a portion of the office's backlog of mandatory audits. The one-year contract contained BOE-recommended language regarding alternative fee provisions but did not include recommended language safeguarding appraisal information. However, the assessor and the contractor also executed a separate letter of agreement that satisfies this requirement. At the time of our fieldwork, all assigned audits had been completed and returned to the assessor.

Contract appraisers working for the assessor are subject to the same BOE certification requirements as are appraisers and auditor-appraisers in the assessor's employ. Section 673 authorizes the BOE to issue a temporary certificate not to exceed one year, which may not be renewed. After that period, permanent certification must be obtained. Of the six contract appraisers who performed audits for the assessor, two are permanently certified and four are temporarily certified by the BOE.

The assessor has made very effective use of non-employee contract auditors to accomplish his required workload without neglecting either contract provisions or BOE certification requirements.

Web Site

The assessor maintains a home page on the Napa County Web site, www.co.napa.ca.us. This page contains useful information for property owners. The Napa County intranet also offers the recorder's index for the last 15 years, images of all documents recorded since March 1, 1999, all maps filed with the recorder, assessor's map book pages, and a Geographical Information System (GIS) layer showing parcel boundaries, aerial photography, and certain tax roll and assessment data.

Standards and Quality Control**Procedures Manuals**

The assessor has developed a three-volume procedures manual encompassing administrative, real property, and business property functions. The manual includes many management memoranda and some computer training materials, as well as descriptions of individual desk tasks. The formal policies and procedures are essentially unchanged since our previous survey. Much of this material, however, is still useful, because it focuses in detail on the daily routines and document processing flows for specific support staff positions, especially regarding the use of the computer system.

Communications

The assessor is very proactive about taxpayer education and customer service. To this end, he hosts a monthly radio call-in show for property tax-related inquiries on a local AM radio station; publishes a monthly column on assessment issues in the Sunday real estate section of the local newspaper; regularly visits the governing body of each taxing entity (cities and school districts) to discuss each year's assessment roll; and circulates all BOE assessment practices surveys for review to his entire staff (after review and highlighting by the assessor himself).

Review of Completed Work

The assessor has an effective system of ensuring quality in the work product in his office. In the real property section, each day's completed appraisal work is submitted to the supervising appraiser, who reviews it for conformity to property tax law and proper documentation. The work is then forwarded to the chief appraiser, who reviews it and logs the output into a production worksheet. Then the work is forwarded to an assessment clerk who inputs the property values to the Megabyte system. This clerk also checks for computational errors. If any are found, the clerk returns the appraisal to the chief appraiser or supervising appraiser for correction and return. The assessment clerk then gives reviewed work to the chief administrative coordinator, who reviews all value changes on a daily basis.

The more complex transfers of real property are analyzed by the administrative office assistant. Changes in control of legal entities and special exclusions from change in ownership are handled by the chief appraiser.

Assessment Forms

Section 15606(d) of the Government Code and various sections of the Revenue and Taxation Code require the BOE to prescribe all forms used by county assessors for assessment purposes.⁵ To fulfill this duty, the BOE publishes an annually updated list of prescribed and recommended forms in Assessors' Handbook Section 222, *Standard Form List*. While the assessor may rearrange the layout of a BOE-prescribed form to suit his or her local needs, he or she may not add to or delete specific language on the form. In addition, any rearranged forms must be approved by the BOE prior to use.

Assessors may also employ locally developed forms to assist them in their assessment duties. However, because such forms are not subject to BOE approval, they are not BOE-prescribed. Statutes authorizing the imposition of penalties for late filing or failure to file forms are specific to BOE-prescribed forms. Therefore, no penalty may be imposed upon a property owner for failure to file these locally developed, non-BOE-prescribed forms.

The BOE annually sends three checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year. Assessors are to return the property statements and miscellaneous forms checklists by October 15th and the exemption forms checklist by December 1st. Assessors are also required to submit to the BOE, by February 10th, a final printed copy of all forms they will use.

We found that the assessor consistently returns the checklists as requested and generally uses the prototype BOE-prescribed forms. However, we did notice one irregularity in a significant number of the *Business Property Statements* (form BOE-571-L) filed in recent years.

RECOMMENDATION 1: Reject property statements not filed on BOE-prescribed forms.

We found numerous examples in the business account files of property statement forms that were not the BOE-prescribed form. Although the assessor sends only the BOE-prescribed form to assessee, in many cases the form that is returned is apparently a computer-generated electronic version of the BOE-571-L. The examples we reviewed had been altered from the BOE-prescribed version. The assessor indicated that computer software companies had requested and received approval from the assessor to file the altered form.

Section 441.5 allows property owners to submit attachments with their property statements, as long as they are in a format acceptable to the assessor. This section also provides that the taxpayer must affix the attachment to the form BOE-571-L, execute the statement, and file the entire package with the assessor. However, neither this statute nor any other provision of property tax law allows a property owner to file a BOE-prescribed form BOE-571-L that has been modified in an unacceptable manner, i. e., has had language added to or deleted from it. Nor is there any statutory authority for the assessor to locally approve property statement forms submitted by taxpayers. The BOE alone may approve all assessment forms and does so through an established statutory process.

⁵ Government Code section 15606(d); Revenue and Taxation Code sections 251, 480(c), 480.2(b), 480.4(b), and 452; rules 101 and 171.

We recommend the assessor reject property statements filed on forms which have not been approved by the BOE.

Assessment Appeals

The assessment appeals function is required by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory implementation provisions that govern the authority, function, and composition of assessment appeals boards. Further, Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern county boards of equalization. The BOE has adopted rules 301 through 326 to regulate assessment appeals.

The Napa County Board of Supervisors serves as the county board of equalization and hears all assessment appeals. Assessment appeals are heard the third Tuesday of each month. All assessment appeals are prepared and presented by the chief appraiser.

The following table summarizes recent assessment appeals activity in Napa County.

Roll Year	Appeals Filed	Method of Resolution					
		Local Board Cases				Withdrawn	Continued
		Reduced	Sustained	Denied	Stipulated		
1999-00	85	0	0	2	39	27	17
1998-99	78	0	0	5	20	40	13
1997-98	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1996-97	307	1	1	45	89	149	22
1995-96	392	1	1	56	134	175	25

Note: Data for 1997-98 was not available from the Clerk of the Board of Supervisors.

The assessor is proactive in taxpayer education, which helps to prevent issues that would otherwise lead to a larger volume of assessment appeals. We found that the assessor and the county board of equalization work closely together to ensure that all appeals are tracked and heard within the required two-year time frame. The assessor effectively administers his office's role in the assessment appeals process.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that authorizes property tax relief to owners of damaged or destroyed property. The board of supervisors may by ordinance limit eligible properties to those located in an area proclaimed by the Governor to be in a state of disaster or may adopt an ordinance that generally authorizes reassessment relief for any property damaged or destroyed by a misfortune or calamity.

The Napa County Board of Supervisors adopted an ordinance granting the assessor the power to provide tax relief on properties damaged by calamity or misfortune. Ordinance No. 524 contains

provisions that include detailed information on how to file an application, time limits on filing, procedures for reassessments, assessor's notification of possible qualification, and the cancellation or refund of taxes.

The assessor discovers calamities through building permits issued for repairs, newspaper articles, taxpayer notification, and field investigation. The assessor does not receive fire reports from fire protection agencies in the county.

Effective January 1, 2002, section 170 has been significantly revised in several respects:

- The board of supervisors may specify in the local ordinance that the assessor may initiate the reassessment of property where the assessor determines that taxable property within the county has been damaged or destroyed within the preceding 12 months;
- Where the assessor does not have the general authority to initiate reassessment, he or she may reassess a particular property with the approval of the board of supervisors;
- The property owner now has 12 months or the period established by local ordinance, whichever is longer, to file a claim for reassessment;
- The damage threshold has been raised to \$10,000;
- The property owner now has six months to file an application to appeal a damage-adjusted value;
- The assessor may now notify owners of properties damaged within the preceding 12 months that they may file a claim, and the owner has 60 days to file the application after receipt; and
- The ordinance may provide that where no application is made, the assessor may reduce taxable values of property experiencing a misfortune or calamity up to 12 months after the disaster.

We reviewed eight properties for which the owners had filed disaster relief claims. The disasters consisted of five instances of earthquake damage, two fires, and one airplane crash. We conducted our review in light of statutory requirements as they existed prior to the above legislative amendments and found that the assessor's program conformed to those requirements, except in one respect.

RECOMMENDATION 2: Inform owners of property receiving disaster relief of their right to appeal their proposed reassessments as required by section 170(c).

The assessor sends a *Notice of Correction to the Section 601 Assessment Roll* to notify a property owner of the proposed reassessment. This notice does not include the statement that the property owner may appeal the reassessment.

Section 170(c) requires the assessor to notify property owners in writing of the amount of his or her proposed reassessment and right to appeal that value within 14 days of the date of mailing the notice. The assessor's current notification procedure does not fully inform taxpayers of their rights.

We recommend the assessor include assessment appeals information required by section 170(c) in his disaster relief reassessment notice.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change the assessment roll unless authorized by statute or by the board of supervisors. All assessment roll changes are based on specific statutes and must contain appropriate statutory references.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed on the July 1 roll or that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any escaped property upon discovery, and the taxpayer must be notified of the proposed escape assessment at least 10 days prior to enrollment. A correction is any type of roll change authorized by section 4831 to an existing assessment except for underassessments caused by an error or omission of the assessee.

RECOMMENDATION 3: Cite the notation required by section 533 when enrolling escape assessments.

We found that assessor does not enter the required notation on the current year's assessment roll when enrolling escape assessments. Section 533 requires that the assessor enter specific wording on the roll for all escape assessments, i. e., "Escaped assessment for year ____ pursuant to Sections ____ of the Revenue and Taxation Code."

The assessor's procedure does not conform to a specific statutory directive. We recommend that the assessor include the required escaped assessment notation on the current assessment roll.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to adopt an ordinance that exempts from taxation all real property with a base year value, and personal property with a full cash value, so low that the total taxes, special assessments, and applicable subventions would amount to less than the cost of assessing and collecting them.

Napa County has enacted a low-value property exemption resolution (Napa County Resolution No. 93-135). It exempts from taxation real property with a base year value of, and personal property with a full value of \$2,000 or less, as well as manufactured home accessories with a full value of \$5,000 or less. We reviewed the assessor's implementation of this exemption and found an incorrect procedure.

RECOMMENDATION 4: Exempt all real property that qualifies for the low-value property exemption.

As authorized by the county resolution, the assessor exempts all personal property generating a tax bill of less than \$20 and manufactured home accessories with licensed manufactured homes that generate a tax bill of less than \$50. However, we found that the assessor does not apply the exemption to real property that generates a tax bill of less than \$20. Instead, the assessor enrolls all real property, anticipating that the Megabyte property tax system will not create a tax bill less

than \$5 for real property. However, real property with a tax amount greater than \$5 but less than \$10 is billed and if the bill is not paid, it is cancelled. Real property with a tax amount greater than \$10 is billed and processed through the county's tax collection procedures.

The assessor's practice is contrary to the county's low-value property exemption resolution, which provides that all real property with a base year value of \$2,000 or less shall be exempt from property taxation. This results in unequal treatment of low-value real and personal property.

We recommend that the assessor apply his county's low-value property exemption resolution as written and exempt all low-value real property.

Exemptions

Article XIII, section 3(d) of the California Constitution exempts from property taxation property used for free libraries and free museums and property used exclusively for public schools, community colleges, state colleges, and state universities. Section 3(e) exempts property used exclusively for nonprofit colleges. Section 3(f) exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship. Section 4(b) of the same article authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes, and owned by nonprofit entities that are organized and operated for those purposes, while section 5 of the same article provides that the exemptions provided under section 3(f) and section 4(b) can be applied to buildings under construction and land required for their convenient use, if the intended use would qualify for exemption.

The following table shows exemption data taken from the 1997-98 through 2001-02 assessment rolls:

YEAR	WELFARE		RELIGIOUS		CHURCH	
	Number	Value	Number	Value	Number	Value
2001-2002	174	\$298,030,887	77	\$45,021,696	15	\$2,654,132
2000-2001	172	\$263,790,691	69	\$42,484,585	13	\$3,448,000
1999-2000	160	\$260,856,849	59	\$38,199,996	23	\$5,393,232
1998-1999	150	\$244,209,602	67	\$36,648,602	23	\$5,640,331
1997-1998	146	\$238,306,879	65	\$34,028,448	21	\$4,515,155

Religious Exemption

The religious exemption may be granted to property used exclusively for either religious worship or both religious worship and religious schools. It is available for real property owned by the claimant, and for personal property either owned by or leased to the claimant (California Constitution article XIII, section 2 and 4(b); sections 207 and 207.1). The religious exemption may not be granted for real property leased to a claimant.

We found no problems with the assessor's religious exemption program.

Church Exemption

The church exemption is limited to property used exclusively for religious worship, worship-related activities, and parking for these religious activities (California Constitution, article XIII, sections 3(f) and 4(d); Revenue and Taxation Code, sections 206 and 206.1). It is available for property owned by the claimant church as well as property leased to the church, providing that the benefit of the exemption accrues to the lessee church and, if the lessor seeks exemption, a lessors' exemption claim has been properly executed and filed (section 206.2.) The church exemption may not be granted to property used for housing; only the welfare exemption provides exemption for reasonably necessary staff housing.

We found no problems with the assessor's church exemption program.

Welfare Exemption

The California Constitution, article XIII, sections 3(f), 4(b), and 5 exempt or authorize the exemption of qualifying property used for religious, hospital, scientific, or charitable purposes from property taxation. Sections 214 et seq. provide legislative authority for this exemption.

The assessor's administrative assistant processes annual welfare exemption claims. We found that the assessor generally follows correct procedures in applying this exemption.

RECOMMENDATION 5: Review the eligibility of multispecialty health care clinics for the welfare exemption.

In 1999 the assessor denied the welfare exemption claim of a large health maintenance organization (HMO). This HMO sought to have its clinic, the only site it maintains in Napa County, recognized as a clinic of the type described in section 214.9, i. e., an outpatient clinic offering medical services on a charitable basis. The assessor denied that claim on the grounds that the clinic did not meet specific criteria of Health and Safety Code section 1206(l), in that it does not have 40 physicians practicing at least 10 specialties, two-thirds of whom practice medicine full time at that location. At the time, the clinic employed 28 physicians. In the two roll years subsequent to the assessor's denial, the assessee has not filed any additional claims for the welfare exemption.

The BOE considered the matter of multispecialty healthcare clinics in its decision *Matter of St. Jude Hospital Yorba Linda, dba St. Jude Heritage Health Foundation* (1997) and concluded that for purposes of the welfare exemption, claimants could aggregate multiple locations to meet the requirements of section 214.9 (Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*, April 2002, p. 35). Thus, although the claimant had only one clinic in Napa County, it operated many other clinics in many locations throughout California, and, when viewed as a whole, the clinics met the criteria specified in section 214.9. Acting on this direction, BOE staff approved the clinic's 1999-00 claim for property tax exemption. However, the assessor denied the claim.

The claimant has been granted the welfare exemption for its multispecialty health care clinics in several other counties. As a result of the assessor's denial, it has received inconsistent treatment in Napa County. We recommend that the assessor reconsider this claim for the welfare exemption in light of the BOE's decision.

Racehorse Tax

Since 1973, racehorses domiciled in California have been subject to a special annual tax in lieu of the property tax. The provisions of this tax are contained in sections 5701-5790. Racehorses are taxed at a different rate from other taxable horses, based upon the racing category for which the horse qualifies, and not upon its value. Specific procedures for the racehorse in lieu tax are prescribed by rules 1045, 1046, and 1047. Rule 1045(a) lists the responsibilities of the assessor as they pertain to the administration of this tax. Rule 1046(b) provides that in order to qualify as a racehorse, a horse must be registered or be eligible to be registered with one of the five agencies currently recognized by the California Horse Racing Board (CHRB).

Since 1996, the assessor has obtained needed information from the CHRB identifying racehorse owners in Napa County who may be required to file either form BOE-571-J, *Annual Racehorse Tax Return*, or form BOE-571-J1, *Annual Report of Boarded Racehorses*.

The assessor has identified 15 racehorses domiciled in Napa County. We reviewed the assessor's procedures for the administration of the racehorse in lieu tax and found that the assessor did not consistently receive copies of racehorse tax returns from the tax collector. When this problem was pointed out to the assessor, he immediately scheduled a meeting with the tax collector to identify that office's role in this assessment program. The problem was resolved during our fieldwork. We found that the other aspects of the annual racehorse in lieu tax program are correctly administered and have no recommendation for improvement.

ASSESSMENT OF REAL PROPERTY

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value, factored at no more than 2 percent per year for inflation, unless there is a change in ownership or new construction. The 1975 full cash value and subsequent values that result from a change in ownership or new construction are known as base year values.

The assessor's real property assessment program includes (1) revaluation of properties that have changed ownership, (2) valuation of assessable new construction, (3) annual review of properties experiencing declines in value, and (4) annual review of certain properties subject to special assessment provisions.

Change in Ownership

Section 50 requires the assessor to establish a new base year value for real property upon a 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 interest. Sections 61 through 69.5 further clarify what is and is not considered a change in ownership for property tax purposes.

To discover such changes in ownership, the assessor's Transfer Section receives documents (change in ownership statements and grant deeds) from the recorder's staff on a daily basis. A transfer mapping technician processes the change in ownership documents in the assessor's office. Grantor and parcel information is confirmed by reviewing computer records and grantee information is entered into the computer database. The transfer clerk prints copies of documents, marks the assessor's parcel number on the deed, and matches this information with the appraisal record and the *Preliminary Change of Ownership Report* (PCOR), form BOE-502-A, if one was filed. Each of these "packets" is filed in the transfer drawer. If the PCOR indicates the need for a homeowners' exemption, or exclusion from change in ownership due to parent-child or other qualifying type of transfer, the appropriate form is mailed to the transferee(s).

The following table summarizes the number of documents processed annually for the most recent five years:

ROLL YEAR	DEEDS
2001-02	9,076
2000-01	9,357
1999-00	9,213
1998-99	8,091
1997-98	6,525

We reviewed recorded grant deeds from the recorder's database and followed their processing through appraisal and enrollment of supplemental assessments. We found that in every instance

the change in ownership had been properly identified and supplemental assessments enrolled for all applicable periods. Some of the transfers were excluded from change in ownership and these special circumstances (parent-child transfers, transfers of base year value for persons over age 55, formation of legal entity, etc.) were well documented in the appraisal records and on the assessment roll computer database.

Change in Ownership Statements

Most transferees in Napa County elect to file form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), at the time the grant deed is recorded. To those transferees who do not file a PCOR, the assessor sends form BOE-502-AH, *Change in Ownership Statement* (COS). Most transferees return these statements before the 45-day deadline. When a transferee fails to file or files late a COS, the assessor applies the penalty required by Section 482.

Legal Entity Ownership Program

For nearly 20 years, the BOE's Legal Entity Ownership Program (LEOP) unit has notified county assessors of changes in control or ownership of legal entities owning real property in California. Under subdivisions (c) and (d) of section 64, such changes in control are changes in ownership and require reappraisal of the real property owned by those entities. Since these changes are usually not recorded at the county recorder's office, these events may go undiscovered by the assessor.

The BOE learns of such changes in ownership or control through information furnished by the Franchise Tax Board (FTB), which includes questions relative to changes in ownership and control on its annual corporate and partnership tax returns. The LEOP unit gathers this preliminary information from the FTB and sends both the acquiring and acquired entities a questionnaire soliciting the date of transfer, the nature of the change in control, and a listing by county of all parcels of real property involved. Periodically this information is distributed to assessors for possible reappraisal of the real property involved.

Since the program's inception in 1983, the BOE's LEOP unit has informed the assessor of changes in control of 114 entities affecting 419 parcels. We selected several such parcels for review and found that all had been promptly reappraised upon BOE notification.

New Construction

Section 71 requires that the assessor reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from the building permits issued by various government agencies. Other discovery methods include review of business property statements and field inspections.

To assist in the discovery of new construction, the cities of Napa, St. Helena, Calistoga, and American Canyon, and the County of Napa send to the assessor copies of all building permits issued. The town of Yountville contracts with Napa County to issue construction permits in its jurisdiction. The County Department of Environmental Management issues permits for wells and waste disposal systems.

Building Permit Processing

We selected several building permits and reviewed the method in which they were processed. Although most procedures are satisfactory, we did note some areas of concern.

RECOMMENDATION 6: Initiate a control program for the processing of building permits.

We found that building permits are not consistently screened for assessable new construction.

The assessor screens all permits to determine which represent new construction and which should be discarded. The appraisers review and cull permits for their assigned areas of the county, while an assessment clerk and the chief appraiser cull permits for other areas.

We found apparent inconsistencies in the types of permits deemed to represent assessable new construction. The assessor's staff discards some tenant improvement and sign permits without entering them into the assessor's database, yet forwards other such permits to the business property division. Occasionally, permits representing new construction eligible for statutory exclusion from assessment have been discarded, when the proper procedure would have been to process the new construction and request that the owner file a claim for exclusion from new construction.

We recommend that the assessor require uniform application of the criteria used to cull building permits. Essential steps should include (1) ensuring consistent screening and culling of permits and (2) establishing standards for referring permits to the business property division.

Valuation

While the assessor generally values and enrolls new construction correctly, we did note one area of noncompliance.

RECOMMENDATION 7: Revise the computer program to prevent inflation factoring of incomplete new construction.

We discovered that the assessor fails to consistently assess the value of new construction in progress on the lien date. We found several parcels where the assessor enrolled values for construction in progress on the initial lien date but failed to value construction in progress at its current market value on subsequent lien dates prior to completion. Instead, the inflation factor was applied to the prior year's value.

Section 71 requires that the assessor appraise new construction in progress on the lien date at its full value on such date and each lien date thereafter until it is completed. The assessor's failure to consistently assess construction in progress on the lien date results in the escape of taxable property.

We recommend the assessor assess all construction in progress at its current market value on each lien date.

Declines in Value

Section 51 requires the assessor to value taxable real property at the lesser of factored base year value or the current market value, as defined in section 110. Whenever a property's current market value declines below its factored base year value for any reason, that lower value must be

enrolled as the taxable value for the year or years of the decline. Any assessment enrolled as a decline in value requires annual review until the property's current fair market value exceeds the factored base year value. The factored base year value is then restored as the taxable value.

The assessor discovers properties experiencing declining values through taxpayers' requests for reviews and appraisers' tracking of market value trends in their assigned geographical areas. For 2001-02, the assessor enrolled 320 decline-in-value assessments. Most were in the areas of Lake Berryessa and American Canyon.

The following table shows the number of decline-in-value assessments processed in recent years and their effect on the assessment roll.

YEAR	NUMBER	REDUCTION IN ROLL VALUE
2001-02	320	\$50,480,200
2000-01	772	\$68,138,403
1999-00	3,838	\$193,667,333
1998-99	5,585	\$249,103,842

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor to the prior year's taxable value. These assessments are reviewed annually by the appraiser responsible for the geographical area. If an appraiser wishes to change the reduced value, he or she must estimate the current market value of the property, compare that value to the factored base year value, and enter the lower of the two values on the appraisal record.

In reviewing a number of decline-in-value assessments, we found that the records were well documented, and the values were well supported.

The assessor has an effective and thorough program of annually reviewing and adjusting real property assessments to reflect declines in value.

Supplemental Assessments

Section 75.10 provides that whenever a change in ownership occurs or new construction is completed, the assessor shall appraise the property at its full cash value as of the date of the change in ownership or completion of new construction. Any increase or decrease in assessed value resulting from a change in ownership or completion of new construction is reflected in a prorated assessment (the supplemental assessment) that covers the portion of the fiscal year remaining after the event date. If the event date occurs on or after January 1 but on or before May 31, a supplemental assessment is also levied for the upcoming year.

As part of our examination of supplemental assessment procedures, we reviewed a number of appraisal records for properties that had experienced new construction or a change in ownership during the 2001-02 assessment year. We found that all had been handled correctly. For events occurring on or after the lien date and on or before May 31, two supplemental bills were issued,

and all supplemental assessments were enrolled, including amounts less than \$20. All were prorated correctly and issued in a timely manner. The assessor's supplemental assessment program is accurate and in compliance with all applicable provisions of law.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act of 1965 (CLCA). Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their land. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including income from compatible uses (e.g., hunting rights and communications facilities). These lands are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Section 8 of article XIII of the California Constitution authorizes special assessment procedures for such properties. Sections 422 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts.

For the 2001-02 roll, Napa County had a total of 620 parcels under contract, comprising 68,826.7 acres. The assessed value of these properties was \$474,470,023. We reviewed the assessor's CLCA program for adherence to statutory mandates and uniform treatment of taxpayers. The computerized CLCA program annually recalculates restricted values for all land subject to CLCA contracts, including those properties in nonrenewal status.

Farm Laborer Housing

RECOMMENDATION 8: Assess farm laborer housing on CLCA-restricted land in accordance with section 428.

We found that residential sites, residences, and associated outbuildings on CLCA properties are valued correctly. However, we found that the assessor incorrectly includes farm laborer housing as part of the CLCA-restricted valuation.

The Legislature has expressly provided that residences and residential sites are not subject to the CLCA valuation restrictions. Section 428 provides that the CLCA valuation restrictions shall not apply to any residence, including any agricultural laborer housing facility on the land being valued or to an area of reasonable size used as a site for such a residence. Although section 51231 of the Government Code specifically recognizes farm laborer housing as a compatible use for property restricted by a CLCA contract, section 428 precludes the valuation of the facility or its site as restricted property. Therefore, any residential improvements and an area of reasonable size used as a home site located on a restricted property must be valued at the lower of its factored base year value or current fair market value.

Valuing farm laborer housing as restricted property will usually produce a lower assessed value than otherwise provided under state law, resulting in an underassessment.

We recommend that the assessor assess all farm laborer housing as described above.

Classification

For assessment purposes, all property is classified as either personal property or real property. Section 106 defines personal property as all property except real estate. A fixture is an item of

tangible property, the nature of which was originally personal property, but which is classified as real property for property tax purposes because it is physically or constructively annexed to real property with the intent that it remain annexed indefinitely (rule 122.5(a)(1)).

RECOMMENDATION 9: Classify wind machines as fixtures.

The assessor classifies wind machines as structures. Both Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, and Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, provide that a fixture is an item (other than personal property) whose use or purpose directly applies to or augments the process or function of a trade, industry, or profession. The use and purpose of a structure is for housing or accommodating personnel, personal property, or fixtures. Rule 461(e) provides that fixtures constitute a separate appraisal unit for purposes of decline-in-value determinations. Finally, subdivision (e)(10) of rule 122.5 provides guidance for the classification of wind machines as fixtures and states that wind machines classified as fixtures constitute a separate appraisal unit when measuring declines in value as provided in rule 461(e).⁶

Improperly classifying wind machines as structures will usually result in overassessments because wind machines classified as structures are included as part of the real property appraisal unit that may also include land and other structures. When assessed as part of the real property appraisal unit, a wind machine's assessed value may not reflect an appropriate reduction for physical depreciation. However, a wind machine classified as a fixture and included in the fixture appraisal unit, would likely have depreciation taken into account. A wind machine that should be properly classified as a fixture will usually be overassessed if classified as a structure (rule 122.5(e)(10)).

We recommend the assessor classify wind machines as fixtures. The assessor stated that he would revise the classification of agricultural wind machines for the 2002-03 roll.

Taxable Government-Owned Property

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

The assessor enrolled 59 Section 11 properties on the 2001-02 assessment roll with a total taxable value of \$4,944,715. We reviewed the assessor's valuations of these properties and found no problems.

Timberland Production Zone

Land that has been zoned Timberland Production Zone (TPZ), and is not subject to a CLCA contract, is assessed in accordance with special TPZ site classifications that exclude the value of the standing timber as provided in section 3(j) of article XIII of the California Constitution.

⁶ Rule 122.5 as amended February 6, 2002.

Section 435 specifies that the assessed value of land zoned timber production must be its appropriate site value plus the current market value of any existing compatible, nonexclusive uses of the land.

Napa County currently has only one parcel zoned as Timberland Production Zone. Our review of the assessor's TPZ records indicates that the assessor correctly values this property. Permitted exclusive uses such as homesites, residences, and necessary outbuildings are assessed correctly, and compatible uses are considered in the valuation. We did, however, find one error.

RECOMMENDATION 10: Cite the correct notation to identify TPZ property on the assessment roll as required by section 433.

The one TPZ property in Napa County is identified on the roll as a CLCA property.

When a property has timberland zoning, section 433 requires that the assessor make a notation on the roll: "When land is zoned as timberland production a notation of such zoning shall be made on the assessment rolls by the words 'Timberland Production Zone' or the initials 'T.P.Z.'"

We recommend the assessor correctly note TPZ land on his assessment roll as either "Timberland Production Zone" or "T.P.Z." as required by section 433.

Possessory Interests

Section 107 and rule 20(a) define a taxable possessory interest as an interest in publicly owned real property that exists as a result of possession, exclusive use, or a right to possession or exclusive use of land and/or improvements unaccompanied by ownership of a fee simple or life estate in the property.

A taxable possessory interest exists whenever a private party has the exclusive right to the beneficial use of real property owned by a public agency. Possessory interest assessments are based on the value of a private possessor's right to use public property.

The assessor regularly contacts 25 government agencies that own property in Napa County. There were 306 separate possessory interest assessments on the 2001-02 roll totaling \$35,756,011. There are two areas in need of improvement in this program.

Fairgrounds

RECOMMENDATION 11: Review all private uses of the fairgrounds for possible assessment as taxable possessory interests.

We found that the assessor does not obtain information concerning all private uses at the county fairgrounds. This was the same problem we found during our 1998 survey.

Section 107 and rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide private benefit. There are a number of private uses of the fairgrounds that appear to have these characteristics. There are also several recurring events held at the fairgrounds each year that appear to be possessory interests. The repeated use of the fairground facilities by the same person or entity over a number of years should be investigated to see whether it constitutes a taxable possessory interest.

We again recommend the assessor review all uses of the county fairgrounds and assess those that qualify as taxable possessory interests.

Identify Owners

RECOMMENDATION 12: Determine the specific government agency that controls properties identified on the assessment roll as "USA" or "State of California."

We found that several parcels owned by governmental agencies are enrolled in the name of "USA" or "State of California." Such general titles do not identify the specific federal or state agency that controls the use of the property.

To identify private uses of such property that may warrant assessment as taxable possessory interests, the assessor must contact the specific federal or state agency that controls the property. Therefore, it is important to determine the specific governmental agency controlling each parcel, and the designated uses thereof.

We recommend the assessor determine the names of the specific agencies that manage these government-owned properties.

Leasehold Improvements

Leasehold improvements are real property items that are installed by a lessee on leased real property. Typically, leasehold improvements are found in retail stores or office buildings. Because the owner of the leasehold improvements often does not own the real property, discovery of the leasehold improvements requires regular monitoring of commercial, industrial, and other income-producing properties.

The most common sources for the discovery of leasehold improvements are business property statements and building permits. Section B of Form BOE-571-L, *Business Property Statement*, contains information regarding real-estate-related assets owned by a tenant at the rented location of the business enterprise. Tenants are required to report costs incurred for construction, remodeling, or alterations to their rented or leased premises.

Auditor-appraisers in the assessor's business property division review costs reported on Schedule B to identify assessable tenant improvements. The assessor's official policy requires copies of business property statements with structure costs to be forwarded to the commercial/industrial appraisers in the real property division for review.

We reviewed business property statements and real property records indicating tenant improvements. We checked for: (1) reported costs and descriptions; (2) proper identification of tenant improvements by the business property division; (3) coordination between the business property division and the real property division to ensure proper assessment; and (4) proper assessment of tenant improvements. We found that information reported on the business property statements pertaining to real property was properly transmitted to the real property division.

RECOMMENDATION 13: Properly classify and assess leasehold improvements.

We found that the assessor arbitrarily classifies as structural improvements items reported on the business property statement as fixtures, and without investigation values these items using a composite equipment factor reflecting cost trending and a relatively short economic life. In addition, we found the assessor does not issue supplemental assessments for leasehold improvements.

Since there are significant differences between proper assessment practices for structures and fixtures, it is important to properly classify leasehold improvements. Differences arise in several areas: (1) fixtures constitute a separate appraisal unit when measuring declines in value; (2) fixtures are treated differently from structures for supplemental assessment purposes; and (3) the full value of both fixtures and personal property must be considered when determining whether a business property account is subject to mandatory audit.

The assessor does not levy supplemental assessments for these improvements. Failing to enroll supplemental assessments for leasehold improvements results in inequitable treatment of property owners.

We recommend the assessor properly classify and assess leasehold improvements.

Water Company Property

Water company properties assessed on local tax rolls may be either municipal or district water systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies subject to regulation by the California Public Utilities Commission (CPUC), private water systems that do not sell water and are therefore not subject to CPUC regulation, or mutual water company associations. Each type presents different assessment problems.

Municipal Water Systems

Article XIII, section 3(b) of the Constitution of California exempts from taxation property owned by a local government and located within its boundaries. Such property includes both property owned by city water departments and located within city limits and property owned by water districts and located within district boundaries. When a local government entity owns property located outside of the government agency's or district's boundaries, this exemption does not apply.

We found the parcels owned by the municipal water systems located within the city limits or district boundaries to be assessed correctly. The parcels were exempted from taxation under article XIII, section 3(b) of the California Constitution.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost primarily for its stockholders or members. When incorporated, the association can enter into contracts, incur obligations, own property, and issue stock. However, if unincorporated, it can do these things only in the names of the members. Corporations organized for mutual water company purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than stockholders and members.

We identified three mutual water companies in Napa County. We found that the value of the mutual water company property was correctly reflected in the assessments of the parcels served by the water systems.

Private Water Companies Regulated by the CPUC

Private water companies are privately-owned utilities in business to earn a profit from the sale of water. This type of water company is subject to regulation by the CPUC and must submit annual reports to the CPUC. The CPUC regulates the rates charged by private water companies, limiting profits to a return on the company's unamortized investment in plant and equipment. Because the earning ability of a regulated private water company is tied to this "rate base," as it is known, the current market value of water company properties may be adversely affected by this restriction on earning capacity. The assessor should determine both the current market values and the factored base year values of such property and enroll the lower of the two as the assessed value (Assessors' Handbook Section 542, Part I, *Assessment of Water Companies*, p. 13).

RECOMMENDATION 14: Assess the real property of regulated water companies at the lower of current market value or factored base year value.

We found that the assessor does not determine the current market value of real property owned by the one regulated private water company in Napa County. Instead, the assessor enrolls the company's properties at their factored base year values.

Section 51(a) requires that real property shall be assessed on each lien date at the lower of its factored base year value or its full cash value as defined in section 110. The assessor's practice may result in overassessment of the properties owned by the regulated water company.

We recommend that the assessor determine the current market value of the properties owned by the regulated water company in conformity with AH 542, Part I, and enroll these properties at the lower of their current market values or factored base year values.

Private Water Systems Not Regulated by the CPUC

Unregulated private water systems are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated on a for-profit basis to supply water to commercial developments such as manufactured home parks, resorts, campgrounds, etc. However, they do not sell water for profit to customers in the same manner as a regulated water company.

There are 22 properties listed by the State's Office of Drinking Water as private water systems in Napa County. The assessor also receives a listing from the State Department of Health Services that contains 133 water users in the county. We reviewed several assessments of water companies contained on both lists to ensure proper assessment. The assessor correctly values these water systems.

Mineral Property

There are four actively producing aggregate (sand and gravel) properties in Napa County. Aggregate prices have steadily increased in this area over the last several years. This increase in prices may have made it more economical to pursue additional reserves.

In our previous survey we recommended that the assessor determine both the current market values and the adjusted base year values of aggregate properties. Because this has not been done, we repeat our recommendation.

RECOMMENDATION 15: Determine both the current market value and the adjusted base year value of the entire mineral property appraisal unit as required by rule 469(e)(2)(C).

We found that the assessor adjusts only the base year values of the properties to account for production (depletion). He has not determined the current market values of these properties to enable the comparison with the adjusted base year values.

Rule 469(e)(2)(C) requires that declines in the value of the mineral property shall be recognized when the market value of the appraisal unit, including land, structures, fixtures and reserves, is less than the current adjusted base year value of the same unit, except for a leach pad, tailings facility, or settling pond.

Unless current market value is determined, increases in value from new reserves will not be properly added. We recommend that the assessor determine the current market value of the mineral property appraisal unit as required by rule 469.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The business property division annually processes more than 5,100 business property assessments and also assesses approximately 2,000 vessels and 240 general aircraft. The staff of the business property division includes one assessment clerk, an auditor-appraiser III, and two auditor-appraisers II's.

Audit Program

The audit program is an important component of an assessor's business property assessment program. Audits ensure that all taxable property has been reported accurately by the taxpayer and assessed properly by the assessor. Audits allow investigation and resolution of reporting and appraisal problems. A property tax audit is a means of collecting data relevant to determination of taxability, situs, and value of business property. Based on the audit findings, the original assessment may be adjusted to reflect the audited values.

Mandatory Audits

Section 469 and rule 192 require an audit of the books and records of a business at least once each four years when its locally assessable trade fixtures and tangible personal property have a full value of \$400,000 or more for four consecutive years.

We reviewed several recently completed audits for completeness and to investigate the assessor's techniques and procedures. We verified whether the assessor performed change in control (ownership) reviews, verified leased equipment, enrolled construction in progress, accounted for supplies, and properly classified equipment, among other things. In all cases, the complete audits we reviewed were accurate and well documented.

In our prior survey report, we recommended that the assessor bring the mandatory audit program to current status. Because the assessor is still behind in the mandatory audit program, we repeat that recommendation.

RECOMMENDATION 16: Bring the mandatory audit program to current status as required by section 469.

For the 2000-01 assessment year, there were 277 mandatory audit accounts in Napa County. This represents an average annual workload of approximately 70 audits in a four-year cycle. We found that there is a current backlog of 42 unfinished audits from previous years. With the help of California Counties Cooperative Audit Services Exchange (CCCASE), PTAP funds, and outside contract auditors, the assessor anticipates eliminating the backlog by the end of fiscal year 2001-02.

We recommend that the assessor continue his efforts to bring the mandatory audit program to a current status.

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped

assessment. As authorized by section 532.1, if the assessor cannot complete an audit within the prescribed time, the assessor may request a waiver of the statute of limitations from the taxpayer to avoid possible loss of revenue and to ensure refunds of overassessments when applicable.

RECOMMENDATION 17: Schedule immediate audits of those taxpayers who do not agree to a waiver.

Over the last several years, the assessor has sent waivers of the statute of limitations to every taxpayer whose mandatory audit will not be completed on time. Unfortunately, not all waivers were signed and returned. We found that several mandatory audit accounts lacked waivers. By failing to promptly audit an assessee who does not agree to a waiver, the assessor may allow taxable property to permanently escape assessment, or he may be prevented from authorizing tax refunds for years beyond the statute of limitations.

We recommend that if a taxpayer does not agree to a waiver, the assessor should schedule that account for an immediate audit.

Aircraft Used in a Trade or Business

RECOMMENDATION 18: Audit accounts of aircraft that have a full value of \$400,000 or more and are used in a business.

For the 2000-01 assessment roll, there were approximately 22 general aircraft on the local roll with assessed values of \$400,000 or more sited in Napa County. The assessor does not have sufficient information to determine whether any of these aircraft are used in a business, although it seems likely that some are. None of these aircraft accounts have been audited.

When aircraft are used in a trade or business, they fall under the mandatory audit guidelines of section 469. If the assessor fails to audit a business property account that has reached the level of a mandatory audit, he has failed to perform all of the audits required by section 469. If any of the aforementioned aircraft are used in a business and have been so used for at least four consecutive years, that business property account would automatically require audit as a mandatory account.

The assessor should cross reference the aircraft owners' names with names of business property assesseees in order to identify those general aircraft used in a business. We recommend that the assessor determine which of the aircraft valued at over \$400,000 qualify as business property, and then schedule those mandatory accounts for audit.

Business Property Statement Processing

Section 441 requires that every person owning taxable personal property with an aggregate acquisition cost of \$100,000 or more for any assessment year shall file a signed property statement with the assessor. Section 441 also provides that every person owning personal property that does not require the filing of a property statement shall, upon request of the assessor, file a property statement. If a taxpayer fails to file the property statement, section 501 authorizes the assessor to estimate the value, based upon information in the assessor's possession.

Most business property assessments are based upon the data submitted by taxpayers on the annual property statements. The more accurate the data on the statements, the more accurate the assessment roll.

RECOMMENDATION 19: Only accept properly completed business property statements.

We found property statements apparently signed by an assessee's agent (or other preparer) without written authorization on file. Although the assessor properly rejects unsigned business property statements as invalid filings, he does not have an enforced policy of screening and rejecting business property statements bearing unauthorized signatures.

Rule 172 requires assessees to provide written authorization for statements signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary. In addition, rule 172(d) prohibits the assessor from knowingly accepting any signed property statements that are not executed in accordance with the requirements of this section. Written authorization calls attention to the fact that corporate assessees are liable for any consequences of reporting errors by an employee or agent. It also assures that the assessor may rely upon that statement. By requiring such written authorization, the assessor will ensure that the property statement was the taxpayer's official response.

We also found business property statements where the assessees failed to complete the first section of those statements. This section contains questions that alert the assessor to possible changes in ownership, new leasehold improvements, remodeling, or a taxpayer's change in location. Data submitted on the business property statement serves as the basis for the business property assessment. In addition, business property statements also provide important information regarding changes in business ownership, location of the property, and the business start date at the current location.

Accepting business property statements signed by unauthorized persons contradicts the explicit requirements of a state regulation. Section 441(g) provides that the assessor may refuse to accept any property statement determined to be in error.

We recommend the assessor accept only business property statements that are properly completed.

RECOMMENDATION 20: Require taxpayers owning vessels costing \$100,000 or more to file the BOE-prescribed *Vessel Property Statement* as required by section 441.

We found that the assessor uses an older version of form BOE-576-B1, *Vessel Owner's Report*, for gathering information necessary to value vessels. Although the BOE revised this form in June of 1998, the assessor continues to use the older version (8/3/81).

While the above form is a BOE-developed form, it is not a BOE-prescribed property statement. The appropriate BOE-prescribed form that should be filed for any vessel costing \$100,000 or more is form BOE-576-D, *Vessel Property Statement*. Sections 441 and 452 require the use of a BOE-prescribed property statement whenever the aggregate cost of taxable personal property is \$100,000 or more. The use of a BOE-prescribed form, with statutorily authorized penalties for nonfilers, enhances the assessor's ability to secure necessary information for vessel assessment purposes.

We recommend that the assessor require taxpayers owning vessels costing \$100,000 or more to file the BOE-prescribed *Vessel Property Statement*.

Business Property Valuation

Full Value Factors

The BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581) to help assessors in the valuation of business personal property and trade fixtures. The price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial or industrial equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of annual changes for the majority of business machinery and equipment. Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to audited historical cost produces an estimate of taxable value.

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581. Except for older equipment, the percent good factors also parallel the AH 581 factors.

RECOMMENDATION 21: Discontinue using arbitrary minimum valuation factors.

The CAA tables employed by the assessor use the AH 581 percent good factors except that they employ arbitrary minimum valuation factors for older equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service left.

The percent good factors in AH 581 are based on the assumption that as business equipment ages, it gradually loses its ability to earn a profit for its owner. In some cases equipment wears out physically to the point where it is not economic to repair it. In other cases, the equipment may be in excellent condition physically but new technology, a changing market relative to the type of equipment, and other factors make the equipment uneconomic.

Some equipment, when no longer economic to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal. The AH 581 factors assume that on the average equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to 1 percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment but is still in use.

There is no question that some older equipment is worth much more than 1 percent of replacement cost new, just as some newer equipment is worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to find fair market value.

However, when using a mass appraisal tool such as the AH 581 tables, it is important to use the tables as presented. Use of arbitrary minimum valuation factors may value some equipment

correctly but will substantially overvalue most items of older equipment. Accordingly, we recommend the assessor use the AH 581 as intended in order to avoid overvaluations.⁷

Leased Equipment

One of the responsibilities of the business property division is the discovery and assessment of taxable leased equipment. Taxpayers are required to report all leased equipment, i.e., taxable property in their possession but belonging to others, on the annual business property statement. On the statement, the assessor requests the name and address of the owner, the month and year of property acquisition, the acquisition cost, the location, and other relevant information.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of a lease, the lessee may keep the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

We investigated the assessor's procedures for leased equipment and found that the assessor has an effective program for the discovery, processing, tracking, and assessing of leased equipment.

Manufactured Homes

Manufactured homes have been taxable on local county tax rolls since July 1, 1980. Prior to this date, manufactured homes were subject to license fees paid through the Department of Motor Vehicles. A manufactured home is subject to local property taxes if it was first sold new after July 1, 1980, or if the owner has requested conversion from the vehicle license fee to local property tax. Provided it is his or her primary residence, conversion allows the owner to qualify for the homeowners' exemption.

Manufactured homes placed on a permanent foundation, in accordance with Health and Safety Code section 18551(a), on the owner's land or on leased land under specified conditions, are treated as any other real property for property taxation purposes. Manufactured homes not on permanent foundations, or on foundations not meeting the requirements of section 18551(a), must be classified as personal property.

However, manufactured homes are treated differently than other personal property. Manufactured home assessments are entered on the secured roll with a base year value and are subject to the annual inflation factor allowed by article XIII A of the California Constitution. Taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments when there is a change in ownership or new construction. The taxable value of a manufactured home is the lower of its factored base year value or its full cash value on the lien date.

For the 2001-02 roll, the assessor assessed 1,361 manufactured homes with a total taxable value of \$47,946,940. We reviewed the assessor's effective manufactured home assessment program and found no areas where improvement is needed.

⁷ Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner (AB 2714, Ch. 299, Stats. 2002, adding section 401.16 to the Revenue and Taxation Code).

Aircraft

On January 8, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Bluebook*. As stated in Letter To Assessors (LTA) No. 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate value for the local market.

The 2001-02 assessment roll included 243 general aircraft with a total assessed value of \$73,553,255. Sources of aircraft discovery include reports from airport managers, referrals from other counties, and aircraft owners. The assessor relies primarily on the listing of aircraft as provided by the county airport manager. This listing, which shows aircraft present as of January 1, is submitted annually to the assessor. The listing is compared to the prior year's listing and changes are noted.

A questionnaire entitled *Aircraft Owner's Report* is sent to all listed aircraft owners. This questionnaire requests information regarding the type of aircraft, purchase price, number of engine hours, airframe hours, communication and navigational equipment, and the situs of the aircraft. Using this information, the assessor estimates the aircraft's value.

In our prior survey report, we recommended that the assessor conduct annual field inspections and consistently adjust aircraft values for both low and high engine hours. We found that the assessor now consistently adjusts aircraft assessments for actual engine hours above or below mid-time before recommended overhaul. The assessor does not routinely field inspect aircraft before reducing assessments, but makes value adjustments based on information supplied by aircraft owners on the *Aircraft Owner's Report*, through telephone contact, or by the owners' visits to the assessor's office. In a mass appraisal program, it is reasonable to presume that this information is accurate. Therefore, we do not repeat the recommendation.

Vessels

Assessors in California are required to annually appraise vessels at market value and to assess all vessels with an assessed value above \$400, unless the county has a low-value property exemption. The Napa County Board of Supervisors has passed a resolution that exempts real and personal property valued at \$2,000 or less.

For the 2001-02 assessment roll, the assessor enrolled approximately 2,000 vessels with a total assessed value of \$17,726,460. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves. Valuation techniques include reported purchase prices and the *N.A.D.A. Marine Appraisal Guide (NADA)*.

In our prior survey report, we recommended that the assessor revise the documented vessel procedures by enrolling the assessed value on the regular assessment roll. We also recommended that the assessor annually appraise pleasure boats at market value. We found now that the assessor enrolls values for documented vessels on the regular assessment roll. However, the assessor still depreciates vessel assessments by a fixed 10 percent each year. This arbitrary value reduction is an administrative convenience and is not a substitute for actual market value

appraisals. We therefore repeat that part of our recommendation. (See also Assessors' Handbook Section 576, *Assessment of Vessels*).

Market Value

RECOMMENDATION 22: Annually assess pleasure boats at market value.

We found that the assessor does not annually reappraise pleasure boats. After an initial assessment, the assessor depreciates pleasure boats by 10 percent annually. This practice produces values that probably do not represent current fair market value, because they are not based upon any market sales data. While this valuation procedure is expedient, it is also inaccurate, because the fixed depreciation rate applied to all boat assessments each year seldom reflects actual boat values.

Rather than depreciating all boats, regardless of type, by the same percentage, the assessor should first categorize all boats into groups as new and used, and then by type, i.e., cruiser/powerboat, sailboat, inboard, outboard, inboard/outboard, and personal watercraft. Trends in the market values for each of these groups should be calculated by comparing samples of values for each group found in published valuation guides for the current year and previous years. The trend factor could then be applied to all boats within each group annually. Adopting this approach would significantly increase the accuracy of the assessor's boat assessments.

The assessor's practice not only results in inaccurate pleasure boat values, it also leads to improperly exempting some boats from assessment altogether. When the fixed depreciation adjustment reduces the boat assessment below \$2,000, the boat is exempted under the county's low-value property exemption resolution.

We recommend the assessor appraise pleasure boats annually at market value.

Sales Tax

RECOMMENDATION 23: Add sales tax as a component of market value when enrolling vessel assessments.

The assessor values vessels by referring to the *NADA* boat valuation guide. Because this boat guide is intended for use on a nationwide basis, it does not include the sales and use tax in the values it lists. Although we found that the assessor selects the proper values listed in the *NADA* value guide, the assessor fails to add a sales tax component.

Sales tax is a recognized component of market value and should be added to the values listed in the *NADA* price guide when determining market values (*Xerox Corp. v. Orange County* (1977) 66 Cal.App.3d 746). Since sales tax has not been included in the vessel appraisals, vessels are underassessed in Napa County.

We recommend the assessor add a sales tax component when determining the market values of vessels.

Certified Personnel

RECOMMENDATION 24: Use certified personnel to review vessel valuations as required by section 670(a).

In Napa County an assessment clerk II prepares vessel assessments. These duties include receiving vessel statements, reviewing them for completeness, and estimating the full cash value of the reported vessels. The assessment clerk also enrolls the estimated values and makes any necessary roll corrections.

While the assessor's use of support staff to prepare vessel valuations is an efficient use of resources, all such value estimates should be reviewed by an auditor-appraiser prior to enrollment. Section 670(a) requires that every person performing the duties of or exercising the authority of an appraiser for property tax purposes must possess a valid appraiser's certificate issued by the BOE. Assessment clerks should not assume the duties, responsibilities, or authority of a certified appraiser. To do so is a violation of section 670(a).

We recommend that the assessor require a certified auditor-appraiser to review all vessel valuations.

Animals

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219 and rule 133.

Show Horses

Show horses are one of a few types of animals subject to property taxation. Show horses (and other nonexempt horses) are assessed in the same manner as any other personal property.

The assessor annually sends form BOE-571-F2, *Registered and Show Horse Statement*, to five owners of taxable show horses. Returned statements indicate that there are approximately 15 show horses in Napa County. We reviewed the procedures for assessing taxable show horses and found that the program is being administered correctly.

APPENDICES

A: County Property Tax Division Survey Group

Napa County Assessment Practices Survey

Chief, County Property Tax Division

Charles Knudsen

Assessment Practices Survey Section Manager

Michael Lebeau

Principal Property Appraiser

Survey Team Supervisor

Peter Gaffney

Supervising Property Appraiser

Survey Team

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Glenn Danley

Senior Specialist Property Appraiser

Dale Peterson

Senior Specialist Property Auditor Appraiser

Zella Cunningham

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Mike Shannon

Associate Property Auditor Appraiser

Bob Rossi

Research Analyst II

Marilyn Jones

Tax Technician II

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 also 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 10 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 10 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 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, if any, and BOE 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 CPTD staff has no comments on the response.



JOHN TUTEUR
ASSESSOR

NAPA COUNTY

ASSESSOR

1127 FIRST ST ROOM 128 NAPA CA 94559-2931
PHONE 707.253.4466 FAX 707.253.6171

December 4, 2002

Charles Knudsen, Chief
County Property Tax Division MIC 62
State Board of Equalization
PO BOX 942879
SACRAMENTO CA 94279-0062

RECEIVED

DEC 05 2002

County Property Tax Division
State Board of Equalization

Dear Mr. Knudsen:

On behalf of the dedicated staff of this office, I want to acknowledge the favorable comments contained in the 2002 Napa County Assessment Practices Survey.

We appreciate the efficient manner in which your survey team under the leadership of Peter Gaffney conducted their review with minimal interruption of our daily routine. We also appreciate the constructive suggestions and comments SBE staff provided during the survey process. Our responses to your specific recommendations are attached.

You can contact me by voice 707.253.4459 or by electronic mail at jtuteur@co.napa.ca.us

Sincerely Yours,

A handwritten signature in black ink, appearing to read "John Tuteur".

JOHN TUTEUR
NAPA COUNTY ASSESSOR-RECORDER-CLERK

RESPONSE TO 2002 SURVEY RECOMMENDATIONS

RECOMMENDATION No. 1 (Page 14) Reject property statements not filed on BOE-prescribed forms.

WE CONCUR - During the assessment season following the Survey team's fieldwork, business property staff applied the failure to file penalty on all non-original statements unless a signed original was included in the filing.

RECOMMENDATION No. 2 (Page 16) – Inform owners of property receiving disaster relief of their right to appeal their proposed reassessments as required by Section 170(c)

WE CONCUR - Our notice of roll correction does include language informing the property of the right to appeal. The date on our standard roll correction does give 60 days to file the appeal pursuant to relevant code sections for escapes/refunds instead of the newly adopted six-month period for calamities only. We will ask staff to correct the roll correction notice manually for calamity users to display the six-month period.

RECOMMENDATION No. 3 (Page 17) – Cite the notation required by section 533 when enrolling escape assessments.

WE CONCUR – However, we understand that legislation has been introduced to repeal the archaic provisions of Section 533. We will not implement this recommendation until such legislation has run its course.

RECOMMENDATION No. 4 (Page 17) – Exempt all real property that qualifies for the low-value property exemption.

WE CONCUR – All low-value, non-contiguous parcels of real property have been exempted for the 2002-2003 assessment roll.

RECOMMENDATION No. 5 (Page 19) – Review the eligibility of multi-speciality health care clinics for the welfare exemption.

WE DISAGREE – We have reviewed in depth the eligibility of our one multi-speciality health care clinic and found that it does not qualify for the welfare exemption pursuant to Health and Safety Code Section 1206(l).

RECOMMENDATION No. 6 (Page 23) – Initiate a control program for the processing of building permits.

WE CONCUR – Napa County does have a control program for reviewing permits for reassessment review and for referral to the business property division. The assessment staff member who reviews permits makes an initial determination as to the handling of each permit. That determination is carried out under procedures developed by the appraisal and business property staffs. We have reviewed our handling of permits and are working on greater uniformity. Permits for construction eligible for statutory exclusion from reassessment will be set for supplemental assessment and then appropriately treated.

RECOMMENDATION No. 7 (Page 23) – Review the computer program to prevent inflation factoring of incomplete new construction.

WE CONCUR – Our current system does not allow for the separate tracking of incomplete new construction (CIP) that extends over a lien date. Many of the 18 counties who use the Megabyte System have entered into a contract for a base-year tracking enhancement. This enhancement will create a separate field for CIP values that extend over a lien date. Values entered in that field will not get the inflation factor prior to being combined with base year structural improvements for transfer to the tax roll. Separate tracking of those values will also allow for review of assessed value as of the lien date.

RECOMMENDATION No. 8 (Page 25) – Assess farm laborer housing on CLCA-restricted land in accordance with section 428.

WE CONCUR – We are enrolling escapes for 1999, 2000, 2001 and 2002 for the one farm labor dwelling in Napa County that should have been assessed at its unrestricted value pursuant to section 428.

RECOMMENDATION No. 9 (Page 26) – Classify wind machines as fixtures.

WE CONCUR – The State Board of Equalization amended Rule 122.5 during the course of this survey to clarify that wind machines were fixtures. Napa County began implementing the change in classification for the 2002-2003 assessment roll.

RECOMMENDATION No. 10 (Page 27) – Cite the correct notation to identify TPZ property on the assessment roll as required by section 433.

WE CONCUR – The Megabyte System does have a TPZ module that carries out the provisions of Section 433. However, Napa County has not adopted that module because we have only one 18-acre TPZ parcel, a Christmas tree farm. The continued status of that parcel as TPZ is currently under review by County Planning. If that parcel remains in TPZ status, we will proceed to implement the TPZ module.

RECOMMENDATION No. 11 (Page 27) – Review all private uses of the fairgrounds for possible assessment as taxable possessory interests.

WE CONCUR – We have undertaken a thorough, annual review of all private uses of the two fairgrounds in Napa County for possible assessment as possessory interests. We believe that all taxable possessory interests are being assessed. We will review these interests again for the 2003-2004 assessment year.

RECOMMENDATION No. 12 (Page 28) - Determine the specific government agency that controls properties identified on the assessment roll as “USA” or “State of California”

WE CONCUR – We have been working on this recommendation since it was first made a decade ago. On a go-forward basis we have been making agency references and addresses in the address fields of these parcels.

RECOMMENDATION NO. 13 (Page 29) – Properly classify and assess leasehold improvements.

WE DISAGREE – We do not arbitrarily classify leasehold improvements as fixtures. Our experience with mandatory audits and other property owners is that the items we classify as leasehold improvements are fixture items. Structural improvements are usually associated with ownership of the real property in this county. We will review future leasehold improvement enrollments to confirm our past experience.

RECOMMENDATION No. 14 (Page 30) – Assess the real property of regulated water companies at the lower of current market value or factored base year value.

WE CONCUR – We will prepare a Historic Cost Less Depreciation value for this water company for the 2003-2004 roll and then compare that value with the factored base year value.

RECOMMENDATION No. 15 (Page 31) – Determine both the current market value and the adjusted base year value of the entire mineral property appraisal unit as required by rule 469(e)(2)(c)

WE CONCUR – We will do a current market value analysis of our one active quarry. Our other three quarries are inactive and may not have a highest and best use as quarries any longer.

RECOMMENDATION No. 16 (Page 32) – Bring the mandatory audit program to current status as required by Section 469.

WE CONCUR – We will continue our efforts to bring the mandatory audit program to a current status.

RECOMMENDATION No. 17 (Page 33) – Schedule immediate audits of those taxpayers who do not agree to a waiver.

WE CONCUR – We will review audit scheduling as part of our efforts to bring the mandatory audit program current.

RECOMMENDATION No. 18 (Page 33) – Audit accounts of aircraft that have a full value of \$400,000 or more and are used in a business.

WE CONCUR – We will determine if an aircraft used in business adds enough value to an existing business account to trigger a mandatory audit if that business is not already a mandatory account.

RECOMMENDATION No. 19 (Page 34) – Only accept properly completed business property statements.

WE CONCUR – We implemented this recommendation for the 2002 assessment year.

RECOMMENDATION No. 20 (Page 34) – Require taxpayers owning vessels costing \$100,000 or more to file the Board-prescribed Vessel Property Statement as required by section 441.

WE CONCUR – We implemented this recommendation and sent form BOE-576-D to our four owners of vessels over \$100,000 for the 2002 assessment year.

RECOMMENDATION No. 21 (Page 35) – Discontinue using arbitrary minimum valuation factors

WE DISAGREE – Napa County does not use arbitrary minimum valuation factors. The survey correctly states that the valuation of business property depends on AH 581, a mass appraisal tool. This office does not have the staff to value each piece of equipment of each owner. We depend on the extension of the expected life by 125% and calculation of the correct factor for that extended life as giving us an adequate approximation of the value of older equipment. We do review certain classes of equipment that experience functional obsolescence, regardless of age, when requested by the owner of such equipment.

RECOMMENDATION No. 22 (Page 37) – Annually assess pleasure boats at market value.

WE CONCUR - Napa County adopted a stratification of vessels and appropriate factors for each strata based on market studies done by another nearby county for the 2002 assessment roll.

RECOMMENDATION No. 23 (Page 38) Add sales tax as a component of market value when enrolling vessel assessments.

WE CONCUR – Sales tax was added to vessel assessments for the 2002 assessment year.

RECOMMENDATION No. 24 (Page 38) – Use certified personnel to review vessel valuations as required by section 670(a).

WE CONCUR - Boats are initially enrolled by support staff under procedures developed by the business division Auditor-Appraiser. These procedures will be reviewed and updated to include detailed instructions on using the County-adopted value guide. Value questions from owners and complex roll corrections are referred to an auditor-appraiser for review.