

SONOMA COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2005

CALIFORNIA STATE BOARD OF EQUALIZATION

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July 25, 2005

TO COUNTY ASSESSORS:

SONOMA COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2005/047

A copy of the Sonoma 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 Eeve T. Lewis, Sonoma County Clerk-Recorder-Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, the State Legislature, and the Sonoma County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from November through December 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG: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 more than one-half of all property tax revenue is 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 the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Sonoma County Clerk-Recorder-Assessor's Office.¹

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Sonoma County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Eeve T. Lewis, Sonoma County Clerk-Recorder-Assessor, elected to file her 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 this 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 volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor. In addition, pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. 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 Sonoma County Clerk-Recorder-Assessor's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with other public agencies in Sonoma County that provided information relevant to the property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by rule 371.³

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

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

EXECUTIVE SUMMARY

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

In our 2000 Sonoma County Assessment Practices Survey, we made 42 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented 26 of the recommended changes. Four prior recommendations no longer apply. Twelve prior recommendations were not implemented.

The statements below summarize the findings of the current survey.

- We found significant improvements in the assessor's office since our last assessment practices survey. Purchases of information technology hardware and software, and improvements in efficiency have greatly improved productivity and the assessor's interface with other county departments. The Sonoma County assessment roll increased by approximately 47 percent between fiscal year 1998-99 and fiscal year 2002-03.
- Administrative elements of the assessor's office, including appraiser certification, exemptions, racehorse tax returns, and assessment appeals conform to statutory requirements.
- The assessor improperly exempts low value government-owned properties.
- The assessor's program for enrolling decline-in-value assessments is consistent with the requirements of property tax law.
- The calamity damage claim section of the assessor's policies and procedures manual does not conform to section 70 and rule 463.
- The assessor does not correctly notify taxpayers of proposed escape assessments and continues to cite improper code sections when making escape assessments.
- The assessor does not maintain a public transfer list that conforms to the requirements of section 408.1(b).
- The assessor does not apply the correct inflation factor to properties.
- The assessor does not reappraise completed new construction that has spanned more than one lien date at full market value.
- The assessor continues to implement section 423.3 without the authority to do so and does not allow for the return of the investment in land improvements in the expenses deducted from gross income. The assessor incorrectly values winery sites when assessing California Land Conservation Act (CLCA) properties.

- For taxable government-owned property that has undergone a change in ownership, the assessor does not establish the base year value according to BOE guidelines. In addition, the assessor does not ensure that taxable government-owned properties are assessed at the lowest of the 1967 assessed value multiplied by a factor annually supplied by the BOE, the factored base year value, or the current fair market value as required.
- With respect to taxable possessory interests, the assessor does not recognize lessor expenses in the income approach, does not use the proper remaining term when valuing possessory interests with stated terms in excess of one year, and does not issue supplemental assessments for possessory interests on the unsecured roll.
- The assessor does not issue supplemental assessments for structural tenant improvements and does not ensure that staff consistently complies with existing procedures for assessing tenant improvements.
- The assessor does not value regulated water companies according to Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*.
- The assessor does not properly value mineral properties when determining declines in value.
- The assessor does not notify taxpayers of their right to appeal the result of an audit as required by rule 305.3.
- The assessor continues to use non-certified personnel to value property reported on business property statements.
- The assessor uses unapproved rearranged BOE-prescribed forms, accepts non-BOE-prescribed forms and unsigned forms, and attaches non-prescribed forms and questionnaires to BOE-prescribed forms.
- The assessor uses unsupported minimum percent good factors when valuing older machinery and equipment.
- The assessor should enroll manufactured homes as personal property rather than as real property.
- The assessor annually reduces the assessment of pleasure vessels by a fixed depreciation amount without market evidence and does not require a current certificate of inspection for documented vessels.

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

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

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

RECOMMENDATION 1: Revise the disaster relief provisions in the policies and procedures manual to conform to section 70 and rule 463.18

RECOMMENDATION 2: Revise the assessment roll change program by: (1) revising the notice used to inform taxpayers of proposed escape assessments, (2) citing the proper code section when enrolling escaped assessments, and (3) sending a *Notice of Enrollment of Escape Assessment* as required by section 534.....19

RECOMMENDATION 3: Do not exempt taxable government-owned properties.....21

RECOMMENDATION 4: Revise the assessment forms program by: (1) using correct assessment forms, (2) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them, and (3) accepting property statements filed according to section 441.5.25

RECOMMENDATION 5: Maintain a public transfer list that conforms to the requirements of section 408.1(c).30

RECOMMENDATION 6: Apply the proper inflation factor required by section 51.....31

RECOMMENDATION 7: Reappraise completed new construction at its full value as of the date of completion.....32

RECOMMENDATION 8: Revise the California Land Conservation Act assessment program by: (1) valuing compatible use property according to section 423, (2) submitting enabling resolutions to the board of supervisors to implement the provisions of section 423.3, (3) assessing restricted land improvements in accordance with section 423, and (4) correcting programming errors in the CLCA computer program.34

RECOMMENDATION 9: Revise the taxable government-owned property assessment procedures by: (1) establishing base year values for taxable government-owned properties according to BOE guidelines, and (2) assessing taxable government-owned properties at the lowest of the restricted value, factored base year value, or the current fair market value.....37

RECOMMENDATION 10: Revise the possessory interest assessment program by:
 (1) issuing supplemental assessments on possessory interests,
 (2) deducting allowed expenses from gross income when
 valuing possessory interests by the income approach, and (3)
 using the proper remaining term when valuing possessory
 interests created by leases according to rule 2138

RECOMMENDATION 11: Revise the assessment of tenant improvements by: (1) ensuring
 that the appraisal staff complies with existing procedures for
 assessing tenant improvements, and (2) issuing supplemental
 assessments for structural tenant improvements.....40

RECOMMENDATION 12: Correctly value regulated water companies.....41

RECOMMENDATION 13: For decline-in-value purposes, value each mineral property as
 one appraisal unit according to rule 469.....43

RECOMMENDATION 14: Notify taxpayers of their right to appeal the result of an audit
 as required by rule 305.3.....46

RECOMMENDATION 15: Use only certified personnel to value property.....47

RECOMMENDATION 16: Use Assessors' Handbook Section 581, *Equipment Index and
 Percent Good Factors*, as intended.....48

RECOMMENDATION 17: Enroll manufactured homes as personal property.....50

RECOMMENDATION 18: Revise the vessel assessment program by: (1) annually
 assessing pleasure vessels at market value, and (2) requiring a
 current certificate of inspection for documented vessels as
 provided by section 227.....52

RESULTS OF 2000 SURVEY

Training

We recommended the assessor ensure that the appraisal staff completes the annual training as required by section 671. The assessor has implemented this recommendation and all certified staff are current in their training.

Appeals

We recommended the assessor revise the reference guide comments on filing an appeal to accurately reflect the statutory filing periods. The assessor has implemented this recommendation.

Disaster Relief

We recommended the assessor obtain reports from local fire protection agencies to discover property that has been damaged or destroyed. The assessor now receives reports from all fire control agencies. We also recommended the assessor improve disaster relief claim processing by revising the policies and procedures manual to accurately reflect statutory provisions for filing deadlines, date stamping all applications, and retaining postmarked envelopes in order to document that applications are filed timely. The assessor has implemented this recommendation. Additionally, we recommended the assessor comply with section 170 by revaluing properties damaged by misfortune or calamity as of the date of restoration. The assessor has implemented this recommendation as well.

We also recommended the assessor revise the policies and procedures manual to conform to section 70 and rule 463. The assessor has not implemented this recommendation and we repeat it.

Roll Changes

We recommended the assessor limit assessment roll corrections to only those years permitted by statute. The assessor has implemented this recommendation.

We also recommended the assessor revise the assessment roll change procedures by citing the proper code section when enrolling escape assessment and comply with statutory provisions by including the correct heading when notifying taxpayers of proposed escape assessments. The assessor has not implemented these recommendations and they are repeated.

Racehorse Tax Returns

We recommended the assessor comply with rule 1045 by mailing Form BOE-571-J1, *Annual Report of Boarded Racehorses*, no later than December 15. The assessor has implemented this recommendation.

Change in Ownership

We recommended the assessor ensure that sufficient documentation is included in the appraisal file to support market value conclusions. The assessor has implemented this recommendation.

New Construction

We recommended the assessor more closely review permits with stated values below \$5,000. The assessor has implemented this recommendation.

Declines in Value

We recommended the assessor include documentation supporting the assessed value for all properties with an assessed value less than their factored base year value. The assessor has implemented this recommendation.

Possessory Interests

We recommended the assessor issue supplemental assessments for all low-value taxable possessory interests upon a change in ownership or new construction. We found that the assessor has not implemented this recommendation and, therefore, we repeat it.

Leasehold Improvements

We recommended the assessor apply the correct inflation factor when valuing unsecured leasehold improvements and that she investigate reported leasehold improvement costs. We also recommended the assessor develop a process to compare names of state assessees on the local assessment roll to prevent duplicate assessments. The assessor has implemented these recommendations.

We recommended the assessor issue supplemental assessments for leasehold improvements and ensure coordination between the real property division and business property division to prevent improper classification of leasehold improvements. The assessor has not implemented these two recommendations and, therefore, we repeat both.

California Land Conservation Act Properties

We recommended the assessor periodically update the market information used when valuing California Land Conservation Act (CLCA) properties and to capitalize tree and vine income based on other than a straight-line declining income premise. We also recommended the assessor revise her procedures for implementing section 423.3 by allocating values between land and improvements using generally accepted appraisal methods. The assessor has implemented these recommendations.

We also recommended the assessor identify and value income from compatible uses on CLCA properties and submit enabling resolutions or ordinances for implementation of the board of supervisor's resolution to authorize the assessor's implementation of section 423.3. The assessor has not implemented these recommendations and, therefore, we repeat them.

Timberland Production Zone Properties

We recommended the assessor record the base year values on Timberland Production Zone parcel records. The assessor has implemented this recommendation.

We also recommended the assessor send questionnaires requesting compatible use income information to Timberland Production Zone property owners. The assessor has not implemented this recommendation. However, we are not repeating this recommendation as sending this questionnaire is not required by law and we found no example of a compatible use that was not discovered by the assessor.

Taxable Government-Owned Property

We recommended the assessor implement policies to identify and assess all taxable government-owned property and review her policy of assigning zero values to some taxable government-owned properties. We also recommended the assessor consider the factored base year value when assessing taxable government-owned property. The assessor has implemented these recommendations.

Possessory Interests

We recommended the assessor use a reasonably anticipated term of possession when assessing taxable possessory interests and document the selection of capitalization rates used to value taxable possessory interests. The assessor has implemented these recommendations.

We also recommended the assessor document the reason for annual reduction of the term of possession when valuing long term taxable possessory interests. Due to changes in rule 21, this recommendation is no longer applicable.

Audit Program

We recommended the assessor bring the mandatory audit program to current status and develop criteria for selecting non-mandatory accounts for audit. The assessor has implemented these recommendations.

We also recommended the assessor include in the audit program vessels and aircraft that meet the value threshold for mandatory audit. Although there are some aircraft assessed over the \$400,000 audit threshold, we could not state with certainty that any of these aircraft were used in a business, trade, or profession. Therefore, we do not repeat this recommendation.

Business Property Statement Program

We recommended that the assessor ensure that only BOE certified personnel are permitted to estimate market value. The assessor has not implemented this recommendation and we, therefore, repeat it.

Business Equipment Valuation

We recommended the assessor implement a system to ensure the assessment of leased equipment. The assessor has implemented this recommendation.

We recommended the assessor discontinue the practice of limiting equipment valuation factors to an arbitrary minimum level. The assessor has not implemented this recommendation and it is repeated.

We also recommended the assessor use the BOE's equipment index factors as recommended in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). Since the last survey, the BOE revised AH 581 to use average factors for each category of business property. Therefore, this recommendation is no longer applicable.

Manufactured Homes

We recommended the assessor classify manufactured homes as personal property. The assessor has not implemented this recommendation and we, therefore, repeat it.

Vessels

We recommended the assessor value vessels at market value. We found that the assessor has not changed this practice and, therefore, this recommendation is repeated.

Aircraft

We recommended the assessor verify the 12 days of public display for historical aircraft before granting a historical aircraft exemption. The assessor has implemented this recommendation.

OVERVIEW OF SONOMA COUNTY

Sonoma County is located approximately 35 miles north of San Francisco. The county encompasses 1,604 square miles and is bordered by Marin County to the south, Lake and Napa counties to the East, Mendocino County to the north, and the Pacific Ocean to the West.

Sonoma County has a population of approximately 468,800 and nine incorporated cities: Sonoma, Petaluma, Cotati, Rohnert Park, Sebastopol, Windsor, Healdsburg, Cloverdale and the county seat of Santa Rosa. A five-member board of supervisors governs Sonoma County. Sonoma County's major industries include high technology, manufacturing, tourism, and agriculture. In 2000, the Sonoma County wine industry produced \$390 million in total revenue from 42,200 acres of grapes.

The following table displays information regarding the composition of the local tax roll in Sonoma County for 2002-03:

PROPERTY TYPE	NUMBER OF ASSESSMENTS
Secured Roll:	
Residential	149,214
Commercial/Industrial	7,452
Rural	8,394
Manufactured Homes	4,312
Secured Miscellaneous (mineral, other)	<u>4,419</u>
Total Secured	173,791
Unsecured Roll:	
Aircraft	812
Vessels	14,314
Personal Property and Fixtures	16,211
Possessory Interests	994
Leasehold Improvements	<u>611</u>
Total Unsecured	<u>32,942</u>
Total Assessment Roll	206,733

The following table illustrates the growth in assessed values during the past five years:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2003-04	\$48,591,184,895	8.48%	7.3%
2002-03	\$44,792,321,361	8.54%	7.3%
2001-02	\$41,267,767,155	12.93%	9.4%
2000-01	\$36,543,418,559	10.43%	8.3%
1999-00	\$33,090,739,067	4.8%	7.1%

ADMINISTRATION

This portion of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the assessor's budget, staffing, and workload, the State and County Property Tax Administration Program, appraiser certification, disaster relief, low-value property exemptions, exemptions, racehorse tax returns, and assessment forms. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares for and presents assessment appeals.

Budget, Workload, and Staffing

The Sonoma County Clerk-Recorder-Assessor will be referred to as the assessor in this report. Each department has its own separate budget and the statistics presented below pertain exclusively to assessment functions.

In 2001, the Sonoma County Board of Supervisors established the newly consolidated department of County Clerk-Recorder-Assessor. This office resulted from the consolidation of the County Clerk/Public Administrator and Recorder, when the former County Recorder retired, and subsequent consolidation with the Assessor, when the former assessor retired.

The assessor's budget and staffing levels for recent years, including both General Fund and Property Tax Administration Program funding, is shown in the following table:

FISCAL YEAR	FINAL BUDGET	% CHANGE	NO. POSITIONS
2003-04	\$6,668,272 ⁴	2.12	86.6
2002-03	\$6,530,135	.20	82.6
2001-02	\$6,517,092	18.57	82.6
2000-01	\$5,496,208	4.61	82.6
1999-00	\$5,254,163	--	82.6

Staffing

The assessor's office is currently authorized 86 full-time positions; in addition, there is also one part-time information specialist. At the time of our fieldwork, three positions were vacant (one appraiser II and two assessment clerks). The assessor also has a contract with a mineral consultant to value geothermal properties in Sonoma County. The chief deputy assessor directs the valuation division (46 positions), which includes five appraisal teams (four real property and one business property); the assessment standards and mapping division (10.6 positions); and the assessment services division (21 positions).

⁴ 2003-04 amount is the Recommended Budget per the 03/04 COUNTY BUDGET - PROPOSED BUDGET DETAIL. The budget had not been finalized at the time of our fieldwork.

The four real property valuation teams are organized according to both property type and geographical area: residential urban, rural residential, commercial and south county residential, and "wines and vines" (all agricultural properties, including California Land Conservation Act and Timberland Production Zone). The four teams, totaling 22 appraiser I/II/III's and four appraiser IV's, are supported by three appraiser aides, five assessment process specialists, and one assessment clerk. Six of the real property staff (five appraisers and one clerk) report to the assessor's branch offices in Guerneville, Petaluma, or Sonoma; the rest are assigned to the main office in Santa Rosa.

The business property team consists of a supervising auditor-appraiser, six auditor-appraiser II's, and one auditor-appraiser I. Support staff for the team consists of three assessment clerks. All of the auditor-appraisers process business property statements, perform audits, and value vessels. Two of the seven also value aircraft. All business property staff are assigned to the main office.

Seventy of the assessor's positions are funded by General Fund revenue. Of this number, 66 positions represent a stable staffing level that has prevailed since fiscal year 1993-94, and four are positions newly transferred in 2003 from the Recorder's and County Clerk's budget funds (departmental accounting manager, accountant, and two account clerks). In addition to the general fund positions, the assessor has added 16.6 positions through PTAP funding during 1998 and 1999.

Workload

The assessor produced a local assessment roll for 2003-04 consisting of 206,163 assessment parcels (174,307 on the secured roll and 31,856 on the unsecured roll). This assessment roll had a gross taxable value of \$48,591,184,895.

For her 2003 tax roll, the assessor processed approximately 19,200 changes in ownership and 5,200 assessments of new construction. The roll also included approximately 3,800 manufactured homes, 1,000 taxable possessory interests, 285,000 acres of California Land Conservation Act (CLCA) property, 400 Timberland Production Zone parcels, 50 taxable government-owned parcels, and 250 decline-in-value assessments. For the prior (2002) roll, the assessor also completed a business property workload that included processing approximately 16,200 business property statements (both secured and unsecured), performing about 190 audits (150 mandatory and 40 nonmandatory), valuing about 14,300 vessels, 800 aircraft (both general and certificated), and administering 50 racehorse tax returns.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP).⁵ This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001, and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except

⁵ Chapter 914, Statutes of 1995, in effect October 16, 1995.

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 a grant.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on 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 State Department of Finance by the county auditor-controller.

Under the grant program, beginning with fiscal year 2002-03, the performance requirements are determined in a different manner. The county must now compute, to the extent possible, the total value change in the following categories: transfers, new construction, supplemental assessment (estimated at 50 percent of the transfer and new construction values), audits (both mandatory and nonmandatory), restorations of declining values, business property (all secured and unsecured personal property and fixture values), and assessment appeals (the difference between taxpayers' opinions of value and the assessment appeals boards' determinations of value finalized during that fiscal year). The total of all these categories is multiplied by a tax rate of 1 percent to estimate property tax revenue impact. The resulting revenue amount is multiplied by the percentage derived by dividing the grant amount by the assessor's total annual budget. This amount is then multiplied by the percentage of the schools' share of added revenue. If this share is equal to or greater than the grant amount to the county, the county is deemed to have met its contractual obligation.

Sonoma County has participated in the PTAP every year since its inception. The contract calls for the county to maintain the assessor's 1993-94 funding level of \$4,052,085 and 67 total staff positions (66 budgeted and one contract position). For the fiscal year 2003-04, the state and county agreed to PTAP funding of \$1,035,049. This level of funding is expected to continue each year until the grant agreement expires in fiscal year 2006-07.

The assessor has utilized PTAP funds to accomplish various measures during the years of program funding. The measures, which have changed over the years of the contract, have included the following:

- Processing backlog of new construction and reappraisable transfers of real property,
- Reducing the average loss in assessed value resulting from assessment appeal hearings through increased preparation for hearings,
- Annually reviewing decline-in-value properties and subsequently increasing in assessed values due to either complete or partial restoration of factored base year value to such properties,
- Implementing a nonmandatory audit program, and

- Eliminating the backlog of mandatory audits.

To assist in the completion of these performance measures, the assessor has hired additional staff in full or part-time positions (i.e., appraisers, auditor-appraisers, an appraiser aide, an appraiser analyst, support clerks, an assessment specialists, and an information specialist). She authorized the hiring of seasonal extra support staff, as well as overtime for the permanent full time staff. The assessor also purchased computer technology (hardware and software for workstations) and engaged computer consultants to implement changes in networks and programs.

For every year of the assessor's participation in the PTAP, the Sonoma County Auditor-Controller has certified that the assessor has met the performance measures enumerated in the contractual agreement.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. We found that the assessor, her appraisal staff, and her contract appraiser possess the required certificates. In addition, we verified that the contract with the non-employee appraiser conforms to the requirements of section 674.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the functioning of the assessment appeal process.

Sonoma County Ordinance No. 2061 provides for the creation and defines the duties of the county's assessment appeals board. Sonoma County Ordinance No. 4859 and Resolution No. 95-0327 were added in 1995 to allow for the establishment of assessment appeals board hearing officers. Currently, there is one appeals board consisting of three members and one alternate member. The board of supervisors appoints members of the assessment appeals board. Assessment appeal hearings are held on the second Friday of each month.

Applications are received by the clerk of the assessment appeals board, reviewed and verified, and a copy is forwarded to the assessor's office. The original application is kept in the clerk's office. The chief deputy assessor assigns the appeal to the responsible appraiser and after review, the appraiser contacts the applicant by telephone. If the applicant decides to withdraw the appeal or agree to a stipulated value, the chief deputy assessor drafts a response and sends it to the taxpayer for his/her signature. Upon receipt of a signed letter, the assessor forwards the letter to the assessment appeals board for approval. If no agreement can be reached, the deputy clerk of the board of supervisors schedules a hearing.

The chief deputy assessor tracks the progress of assessment appeals. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension. On average, 354 appeals were filed annually from 1998-99 through 2002-03.

The following table shows the breakdown of appeal findings over the last five years:

ASSESSMENT ROLL	2002-03	2001-02	2000-01	1999-00	1998-99
Appeals Filed	470	313	395	229	363
Appeals Carried Over From Prior Year	63	11	10	4	1
Total Appeals Workload	533	324	405	233	364
Resolution:					
Withdrawn	70	151	249	139	217
Stipulation	48	52	72	37	108
Appeals Reduced	0	2	0	1	2
Appeals Upheld	10	2	0	6	0
Appeals Increased	0	0	0	0	0
Other Determination*	27	54	73	40	33
Total Resolved	155	261	394	223	360
To Be Carried Over**	378	63	11	10	4

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

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

The Sonoma County Assessor has a computerized reference guide designed to provide taxpayers with information concerning the assessment appeals process. In our 2000 survey, we recommended that the assessor revise the reference guide comments on filing an appeal to accurately reflect the correct filing periods. In our current survey, we found that the assessor has implemented this recommendation.

Overall, the assessor's portion of the assessment appeal program is well administered.

Disaster Relief

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

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he or she may revalue the property on lien date.

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

On December 23, 1980, the Sonoma County Board of Supervisors adopted a disaster relief ordinance. This ordinance applies to a misfortune or calamity, a major misfortune or calamity in an area subsequently proclaimed by the governor to be in a state of disaster, and a misfortune or calamity with respect to a possessory interest in government-owned land, that caused the permit or other right to enter the land to be suspended or restricted.

We made several recommendations pertaining to the assessor's disaster relief program in our prior survey. First, we recommended the assessor obtain reports from local fire protection agencies to discover property that has been damaged or destroyed. The assessor now receives reports from all fire control agencies. Although we discovered some instances that may qualify for disaster relief. These oversights do not appear to stem from the assessor's failure to request information. Therefore, we do not repeat this recommendation.

Second, we recommended that the assessor document the date a claim for disaster relief is received. At that time, we found it was impossible to determine whether applications had been filed timely, as the staff did not date stamp the applications or retain the postmarked envelopes. In our current survey, we found that disaster relief claims are date stamped upon receipt.

Third, we recommended that the assessor revalue properties damaged by misfortune or calamity as of the date of restoration. The assessor has implemented this recommendation.

Our final recommendation was to revise a section of the policies and procedures manual that did not conform to section 70 and rule 463. As this portion of the manual has not been revised, we repeat our recommendation.

RECOMMENDATION 1: Revise the disaster relief provisions in the policies and procedures manual to conform to section 70 and rule 463.

The calamity damage claim section of the assessor's policies and procedures incorrectly provides that, in part, when an approved calamity damage application does not exist, the prior base value of damaged property is not restored and the repair is considered new construction, resulting in a new base year and base year value.

Section 70(c) provides that where real property has been damaged or destroyed by misfortune or calamity, "newly constructed" and "new construction" does not mean any timely reconstruction of the real property, where the property after reconstruction is substantially equivalent to the property prior to the damage or destruction. Rule 463 excludes reconstruction from the meaning of new construction.

We did not find any instances where repairs for disaster or calamity damage were inappropriately treated as new construction. However, as the assessor's policy does not conform to statute, we repeat our recommendation.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, if a correction is made that will decrease the amount of the unpaid taxes, the consent of the board of supervisors is necessary. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes, both real and business property, processed in Sonoma County for the most recent five fiscal years. The number of changes increased significantly starting in fiscal year 2000-01, when the assessor upgraded her computer system:

Fiscal Year	Count	Escapes	Count	Refund	Total Count	Net Total Change
2002-03	3,752	\$940,625,294	6,490	\$633,961,755	10,242	\$306,663,539
2001-02	2,656	\$592,877,545	4,110	\$872,887,763	6,766	\$280,010,218
2000-01	4,176	\$532,163,108	3,475	\$387,201,271	7,651	\$144,961,837
1999-00	376	\$138,034,325	85	\$6,599,791	461	\$131,434,534
1998-99	71	\$9,394,654	116	\$6,719,282	187	\$2,675,372

An appraiser or auditor-appraiser initiates the roll change and forwards the change to a supervisor for review and approval. The appraisal support staff key in the data and the computer system generates a notification letter for the taxpayer. We found that roll corrections are made within the authorized period of time. However, we did note some areas where the assessor's procedures for roll corrections do not meet statutory requirements.

RECOMMENDATION 2: Revise the assessment roll change program by: (1) revising the notice used to inform taxpayers of proposed escape assessments, (2) citing the proper code section when enrolling escaped assessments, and (3) sending a *Notice of Enrollment of Escape Assessment* as required by section 534.

Revise the notice used to inform taxpayers of proposed escape assessments.

This recommendation was also made in 2000 survey. The assessor continues to send a *NOTICE OF CORRECTION TO THE SECTION 601 ASSESSMENT ROLL* to inform taxpayers of the increase in taxable value for the fiscal year affected. Although the notice contains all the statutorily required information, its heading does not meet the requirement of section 531.8.

Section 531.8 specifically provides that the notice of proposed escape assessment sent to taxpayers should prominently display on its face the following heading: "NOTICE OF PROPOSED ESCAPE ASSESSMENT."

Cite the proper code section when enrolling escaped assessments.

In our 2000 survey, we found that the assessor often cited incorrect sections when making a change to the assessment roll. In this survey, we found that the assessor continues to cite the incorrect sections.

The assessor in many instances cited section 4831.5 when enrolling roll changes involving escaped assessments. This is incorrect. The correct sections relating to escape assessments are in sections 531 through 538.

Section 4831.5 is the specific section applicable to roll corrections involving an existing overassessment. This type of roll correction generally results in a refund of taxes already paid. The section 531 series (i.e., sections 531, 531.1, 531.2, 531.3, etc.) require that additional taxes be assessed. It also adds the penalty described in section 504 and interest described in section 506 when appropriate (e.g., section 531.3).

By citing the incorrect section (section 4831.5) instead of the correct section (for example, section 531.3), the assessor is enrolling an incorrect assessment, in that she fails to add the penalty assessment and to instruct the auditor to include applicable interest in the escape billing.

Send a Notice of Enrollment of Escape Assessment as required by section 534.

The assessor does not properly notify taxpayers of the enrollment of an escape assessment. The only notice taxpayers received related to escape assessments is the *NOTICE OF CORRECTION TO THE SECTION 601 ASSESSMENT ROLL*. This notice does not satisfy the requirements of section 534.

Section 534 requires that the taxpayer be apprised of their rights to both an informal review of the assessment by the assessor and the right to file an appeal contesting the assessment. The assessor's notice does not provide this information to the taxpayer.

In Letter To Assessors 2003/066, dated November 4, 2003, the BOE notified assessors of statutory changes to section 534 (effective January 1, 2004) that make forms described in this section BOE-approved rather than BOE-prescribed.⁶ This change affects forms BOE-66-A and BOE-66-B, *Notice of Enrollment of Escape Assessment*.⁷ The letter directs that the forms used by the assessor as a *Notice of Enrollment of Escape Assessment* must be submitted to the BOE for approval. Section 534 provides that specific items must be included in this notice. The BOE forms meet the statutory requirements, but use of the BOE form is not mandatory.

⁶ Letter To Assessors 2001/043, dated August 2, 2001, stated that the BOE forms were prescribed and were to be considered as a "must use" type of form in that their use was not optional.

⁷ The "A" version of the form is intended for counties in which the board of supervisors **has not** adopted the provisions of section 1605(c). The "B" version is for counties in which the board **has** adopted the provisions of section 1605(c).

The assessor's notice does not comply with section 534 and does not adequately inform taxpayers of their rights to both an informal review of the assessment and to file an appeal contesting the assessment.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. A board of supervisors must adopt a low-value property exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

Sonoma County passed Resolution No.73026 in February 1983, exempting real and personal property with a base year value or full cash value equal to or less than \$1,500. The resolution was revised in February 1988 to make it effective for each succeeding year and was again revised February 1992 to include manufactured home accessories with a value of \$5,000 or less.

Our review of property eligible for this exemption included real and personal property. Although most of the property reviewed had been valued, enrolled, and properly exempted, we did find one problem with the low value exemption program.

RECOMMENDATION 3: Do not exempt taxable government-owned properties.

While reviewing the low-value exemption, we found that the assessor is exempting taxable government-owned properties that fall below the low-value exemption amount. Section 155.20(c) provides that those real or personal properties enumerated in section 52 cannot be exempted under a county's low-value exemption. Section 52(d) lists government-owned properties valued under the provisions of section 11. The practice of exempting low-value taxable government-owned properties violates an express statutory requirement.

Exemptions

The assessor's exemption processing is part of the workload handled by the Customer Service unit in the assessor's office. This unit is staffed with an assessment process supervisor, an assessment process specialist, and eight assessment clerks. Homeowners' exemptions are processed by two of these clerks, while disabled veterans' exemptions and major institutional exemptions (welfare, church, and religious) are processed by the specialist. Among her other duties, the assessment process supervisor reviews all exemption claims and assists in field inspections of properties for which exemptions have been claimed.

Welfare Exemption

The welfare exemption from local property taxes is available for property of organizations formed and operated exclusively for qualifying purposes (religious, hospital, scientific, or charitable) which use its property exclusively for those purposes. Both the organizational and property use requirements must be met for exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and issues *Organizational Clearance Certificates* to qualified nonprofit organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and approves or denies exemptions claims without review by the BOE.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table summarizes welfare exemptions granted on the local roll for the last five years:

ASSESSMENT YEAR	NUMBER OF EXEMPTIONS	EXEMPT ASSESSED VALUE
2003-04	665	\$672,336,236
2002-03	827	\$722,669,213
2001-02	772	\$647,591,969
2000-01	756	\$582,363,510
1999-00	742	\$527,737,407

We reviewed a variety of welfare exemption claims on file at the assessor's office. Specific property types that we reviewed included:

- Low-income housing and hospitals (partial exemptions);
- Reasonably necessary staff housing, including parsonages;
- Religious schools;
- Multi-specialty health care clinics; and,
- Exempt organizations subject to mandatory audit pursuant to section 469.

The assessor maintains very well documented welfare exemption claim records. There is a permanent file for every organization, which frequently includes proactive correspondence from the assessor to the claimant attempting to resolve problem claims. The specialist carefully applies all statutory provisions to welfare exemption claims, aided by an electronic worksheet she uses

to calculate late filing penalties, partial exemption allowances, and prorations of exemptions for midyear acquisitions of real property by qualified exempt organizations. The few exempt organizations owning trade fixtures and tangible business personal property having a full value of \$400,000 or more for four consecutive years are audited regularly as required by law.

Our review indicates the assessor's portion of the welfare exemption process is well administered.

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The following table represents the number of religious exemptions and assessed values for the last five years:

ASSESSMENT YEAR	NUMBER OF EXEMPTIONS	EXEMPT ASSESSED VALUE
2003-04	184	\$86,344,362
2002-03	270	\$105,499,922
2001-02	284	\$100,894,240
2000-01	295	\$100,341,425
1999-00	292	\$96,990,941

Our review of the assessor's religious exemption program showed that the assessor is very careful to adhere to statutory requirements regarding filing. When claimants fail to return the annual termination notice, the assessor promptly contacts the claimant by mail or telephone to obtain the necessary documentation or schedule a field inspection to verify continued eligibility for exemption.

The following table represents the number of church exemptions and assessed values for the past five years:

ASSESSMENT YEAR	NUMBER OF EXEMPTIONS	EXEMPT ASSESSED VALUE
2003-04	22	\$9,148,795
2002-03	40	\$11,807,617
2001-02	38	\$10,730,750
2000-01	43	\$11,530,649
1999-00	47	\$10,302,919

We found that the assessor is careful to allow the church exemption only for worship and related uses. The assessor's program for administering the church and religious exemption is effective and thorough.

Racehorse Tax Returns

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

Our review of the assessor's racehorse program showed that the assessor is in compliance with statutory requirements. The assessor annually sends Form BOE-571-J, *Annual Racehorse Tax*

Return, and Form BOE-571-J1, *Annual Report of Boarded Racehorses*, on December 12 (the deadline for mailing forms is December 15) with the county tax collector's name on the form and address on the return envelope.

The tax collector's office processes and collects the taxes due from the racehorse owner. After processing, the annual racehorse tax returns are returned to the assessor's office where they are retained for the statutory period.

None of the returns we reviewed reached the threshold amount in tax liability required warranting a mandatory audit.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.⁸ For the 2004 lien date, the BOE prescribed 75 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists and any rearranged forms to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

We noted a few areas that could lead to possible confusion or misunderstanding of assessment forms.

RECOMMENDATION 4: Revise the assessment forms program by: (1) using correct assessment forms, (2) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them, and (3) accepting property statements filed according to section 441.5.

Use correct assessment forms.

The assessor uses five unapproved rearranged BOE-prescribed forms. The assessor may rearrange BOE-prescribed forms, but she may not add or delete any part of the form. The Sonoma County Assessor has materially altered five forms and continues to use them, even after being notified by the BOE that these forms were not approved. This practice is contrary to both regulation and statute.

⁸ Also sections 480(b), 480.2(b), 480.4, and rules 101 and 171.

In addition, the assessor uses two forms that are obsolete and no longer BOE-prescribed and two outdated versions of BOE-prescribed forms.

Transmit non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them.

The assessor attaches several non-prescribed forms and questionnaires to the BOE-prescribed property statements sent to property owners. The accompanying instructions imply that if the forms, both BOE-prescribed and non-prescribed, are not completed, a 10 percent penalty may be applied to the assessment under the provisions of section 463.

The assessor's non-prescribed forms and questionnaires, while an effective tool, are not BOE-prescribed and, therefore, cannot carry section 463 penalty assessments. The assessor has the authority under section 441(d) to request that additional information be made available to her. However, the assessor does not have the authority to apply the section 463 penalty when the taxpayer fails to complete a form or questionnaire that is not BOE-prescribed.

Section 441(d) requires a taxpayer to make available for examination information or records regarding his or her property. The taxpayer may make the information available by the completion of the assessor's designed forms and questionnaires or by allowing the assessor to inspect his or her records. If the taxpayer fails to make additional information available to the assessor, the assessor may seek remedies provided by sections 462, 468, and 501.

Commingling BOE-prescribed forms with non-prescribed forms gives the impression that if both forms are not completed, the taxpayer will be subject to the section 463 penalty. Therefore, we recommend the assessor use a different cover letter outlining the appropriate penalties when mailing non-prescribed forms and questionnaires with the BOE-prescribed forms.

Accept property statements filed according to section 441.5.

We found the assessor accepted property statement filings on non-BOE-prescribed forms and some were not signed.

Section 441.5 provides that in lieu of completing the property statement as printed by the assessor, the taxpayer may provide the required information as an attachment to the original property statement. However, the attachment shall be in a format as specified by the assessor and the original property statement must be signed by the taxpayer.

Alternate property statements are only acceptable attachments to the original property statement sent by the assessor, which must be signed and returned. All the nonconforming property statements we reviewed are in a format as specified by the assessor. However, the statements are either not submitted with a signed original property statement or attached to unsigned original property statements.

ASSESSMENT OF REAL PROPERTY

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

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

Unless there is a change in ownership or new construction, 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.

Change in Ownership

Section 50 requires the assessor to establish a 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 simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for reappraisal purposes.

In our 2000 survey report, we recommended that the assessor document the market value conclusions in the appraisal file. We found that documentation now includes one, two or three approaches to value, depending on the situation, and that when more than one approach is used, reconciliation is provided explaining the reasoning for the final value estimate.

Discovery and Document Processing

The assessor's primary means of discovering properties that have changed ownership is the review of deeds and other documents recorded with the county recorder. The assessor's computer system is connected to the recorder's system, facilitating the receipt of all recorded documents. The recorder requires that Form BOE-502-AH, *Preliminary Change of Ownership Report* (PCOR), accompany documents submitted for recordation that transfer the ownership of real property. A \$20 fee is added to the recording fee when a PCOR is not received. The assessor obtains filed PCORs received by the recorder.

Assessment specialists analyze the recorded documents to determine the percentage of ownership transferred and if the events are reappraisable. When the review is complete and the required change in ownership statement has been received, a worksheet is created and the documents are filed in work bins by map book. Appraisers pull their work from these bins.

The number of documents received from the recorder remained relatively level from 1998 through 2001, increasing in 2002. The statistics for 2003 only cover the period from January 1 through July 31, but suggest that the annual number of recorded documents will increase again in 2003. The trend, which indicates an increase in the number of recorded documents but fewer reappraisals, is consistent with an active refinance market. The following table summarizes transfer document statistics and the resulting appraisal workload:

ASSESSMENT YEAR	NUMBER OF DOCUMENTS	REAPPRAISALS
2003	26,867*	42%
2002	40,367	48%
2001	34,096	47%
2000	33,580	61%
1999	34,955	60%
1998	32,507	55%

*For January 1 through July 31.

We found the assessor establishes the correct base year, takes advantage of the presumption in rule 2 that the sale price reflects the full cash value of the property, uses reasonable appraisal techniques, and enrolls supplemental assessments correctly.

When there is no PCOR, and no exclusion from a change in ownership is apparent, a copy of the deed is forwarded to an assessment clerk who mails Form BOE-502-AH, *Change of Ownership Statement* (COS), to the grantee. If there is no response after 45 days, a second request is sent. The penalty provided for in section 482 is applied if there is no response after another 60 days.

Base Year Value Transfer Exclusions

Certain transfers may be excluded from reassessment, provided that a claim is timely filed with the assessor and certain other requirements are met. Section 63.1 allows for the exclusion from reappraisal of property transferred between a parent and child, or grandparent and grandchild when the parent is deceased. Section 69.5 allows qualified homeowners over the age of 55 to transfer the base year value of their principal residence to a qualifying replacement dwelling.

We found that the assessor reports these exclusions to the BOE as required by law. The following table displays the number of claims filed annually for base year value transfer exclusions:

CALENDAR YEAR	PARENT/CHILD	OVER AGE 55
2002	2,739	189
2001	2,403	112
2000	2,158	179
1999	2,447	184
1998	2,121	124

We reviewed several claims for base year value transfer exclusions processed by the assessor in 2002 and 2003, including claims that were denied. We found that the claim forms were filed timely, included the required information, and that all required signatures were present. On claim forms for persons over 55 years of age, the assessor is diligent in verifying property values and transfer dates for both the original and replacement dwellings, and confirming eligibility for the homeowners' exemption. A similar degree of diligence was noted on the parent/child transfer exclusion claims reviewed. Additionally, the assessor confirms the timeliness and completeness of the application and contacts taxpayers when necessary.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements, such as sewers, sidewalks, lighting, and water lines, that generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with the 1911 or 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of evidence.

We found that there are about 30 active bond assessment districts in Sonoma County. Listings of parcels encumbered with assessment bonds are retained by the tax collector; principal balances and payoff amounts are also maintained. This information is available to the assessor.

We reviewed several properties that changed ownership in 2001, 2002, or 2003 and found that the assessor's treatment of improvements bonds is consistent with section 110(b).

Section 408.1 Transfer List

Section 408.1 requires the assessor to maintain a list, available to the public, showing property transfers that have occurred within the preceding two years. This section provides that the list be divided into geographical areas, updated quarterly, and must include the transferor and transferee

if available, assessor's parcel number, address of the transferred property, date of transfer, date of recording and recording reference number, and the consideration in money paid if it is known by the assessor.

In Sonoma County, the assessor maintains a computer data file of transfers and can print the report upon request.

RECOMMENDATION 5: Maintain a public transfer list that conforms to the requirements of section 408.1(c).

We found that the transfer list did not include the date of the recordation, as required by section 408.1(c). Section 408.1(a) requires the assessor to maintain a list of transfers that have occurred within the preceding two-year period. Section 408.1(c) sets forth the specific items of information that are mandatory for the list. The assessor's practice of not including the date of recordation does not comply with the law in making certain prescribed information available to the public.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation of section 64 changes in ownership or control and applicable exclusions. Discovery of such a change in ownership is difficult because ordinarily there is no recorded notice of the transfer.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, the assessor's parcel number, or how many parcels they own. Because of lack of reliable data provided by the entities, the BOE's LEOP unit advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.

We reviewed a number of properties on the LEOP list for Sonoma County and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor processes LEOP notices properly and reappraises all LEOP changes in control.

Article XIII A Annual Inflation Factor

Pursuant to section 51(a), the inflation factor shall be the annual percentage change to the California Consumer Price Index (CCPI) for all items, as determined by the California Department of Industrial Relations, rounded to the nearest one-thousand of one percent. Each year, the BOE issues a Letter To Assessors (LTA) announcing that year's CCPI adjustment.

RECOMMENDATION 6: Apply the proper inflation factor required by section 51.

We found that the assessor uses an annual inflation factor that extended only to one hundredth of 1 percent. Section 51(a)(1)(B) provides that the inflation factor shall be rounded to the nearest one-thousandth of 1 percent. The BOE announced inflation factor conforms to this format. The smaller inflation factor used by the assessor results in statutorily incorrect assessments.

New Construction

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Clarification of the statutory provisions for defining and valuing new construction is found in rule 463, and practical guidance is found in Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

Discovery

Most new construction activity is discovered from building permits. The assessor receives permits monthly from 10 permit-issuing agencies. The agencies are the County of Sonoma, and the cities of Cloverdale, Cotati, Healdsburg, Petaluma, Rohnert Park, Santa Rosa, Sebastapol, Sonoma, and Windsor. Permits for wells and septic systems are issued by the county's Permit and Resource Management Department. Upon receipt, permits determined to have no significant value impact are culled by two appraiser aides. The permits are then entered into the computer system and forwarded to the appraisers.

The following table shows the volume of new construction enrolled in each of the last five years:

ASSESSMENT ROLL	NO. OF ASSESSMENTS	TOTAL VALUE
2003-04	5,335	\$533,173,090
2002-03	5,224	\$522,079,892
2001-02	5,055	\$646,595,160
2000-01	4,923	\$533,106,547
1999-00	4,649	\$340,334,694

The assessor sends self-reporting questionnaires to taxpayers, primarily for residential permits indicating additions or alterations. When returned, appraisers review the questionnaires. A field inspection is performed only if inadequate or confusing information is received.

Upon completion, new construction is enrolled as of the date of completion and supplemental assessments are generated.

In our 2000 survey report, we recommended that the assessor more closely review permits with stated values below \$5,000 to determine the type of construction activity. The assessor has implemented this recommendation. We found new construction enrolled with values less than

\$5,000, and that the current permit review policy is to review all permits discarding only those that reflect repairs, maintenance, health clearances, abandonment, or electrical work.

Valuation

Section 71 requires the assessor to enroll construction in progress on a lien date at its fair market value. On subsequent lien dates, if the construction is still incomplete, the assessor must again enroll the fair market value of the construction. This process continues until the construction is complete, at which time the new construction is assessed at its fair market value upon completion and a base year value is assigned.

RECOMMENDATION 7: Reappraise completed new construction at its full value as of the date of completion.

The assessor does not determine the market value of completed new construction at the end of construction, which may lead to enrollment of values that are not fair market values. We found that the base value of completed new construction was based on the original value estimate for partially completed construction on prior assessment rolls, rather than a current value estimate. For example, in one case, a value estimate was developed for a completed residence when construction commenced in 1989. The new construction was completed on December 31, 1999. The assessor enrolled a value based on the original 1989 value estimate, which was about 10 years old.

Section 71 requires the assessor to assess new construction, upon completion, at its fair market value. Rule 463(d) provides that new construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value. The assessor's current practice does not conform to rule 463, since the newly constructed portion of the property is not reappraised at its full value at the time the new construction is completed.

Declines in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.

The assessor currently monitors 251 parcels with decline-in-value assessments. The number of decline-in-value assessments has decreased dramatically since 1999. Each decline-in-value assessment is coded for annual review. In addition, this coding prevents the automatic application of the annual inflation factor to the prior year's taxable value.

The following table illustrates the number of parcels reviewed by the assessor for declines in value for the last five years:

TAX YEAR	ASSESSED VALUE	DECLINE IN VALUE ASSESSMENTS
2003-04	\$213,815,900	251
2002-03	\$196,957,162	320
2001-02	\$240,883,997	826
2000-01	\$1,662,049,547	6,358
1999-00	\$2,750,795,313	11,499

Decline-in-value assessments are reviewed annually by the appraiser responsible for the subject's geographical area. The assessor is proactive in researching and answering all decline-in-value inquiries. She actively investigates area indicators and trends that may indicate potential declines in value. The assessee is annually notified of the factored base year value and the enrolled reduced value.

In our 2000 survey, we recommended that the assessor document the assessed value for all decline-in-value assessments. We found that the records are now thoroughly documented and the valuation is properly supported.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 govern the guidelines for assessing land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2003-04 tax roll, Sonoma County had approximately 285,000 acres encumbered by CLCA contracts. Nonrenewal acreage represented approximately 1,400 acres of the total restricted acreage. The total assessed value for CLCA land and living improvements for 2003-04 was approximately \$6.5 million.

Most of the rural property in Sonoma County consists of irrigated crops and vineyards. The bulk of the agricultural revenue generated in Sonoma County is derived from wine grapes and milk.

Valuation of CLCA Property

The valuation of CLCA properties in Sonoma County is the responsibility of the vineyard and winery crew, consisting of seven appraisers, one supervisor, and one appraiser aid. A computer program calculates restricted values for CLCA land. The capitalization rate is updated annually. Rents are updated in the computer system based on information reported on CLCA questionnaires, which are mailed periodically. Homesites are valued according to section 428.

The assessor implemented our prior recommendations to periodically update market rents used in the computer valuation program, to capitalize tree and vine income streams using an inclining-level-declining income premise, and to allocate section 423.3 values using the same percentage of factored base year value for land and improvements. However, several recommendations were not completed and, therefore, they are repeated.

RECOMMENDATION 8: Revise the California Land Conservation Act assessment program by: (1) valuing compatible use property according to section 423, (2) submitting enabling resolutions to the board of supervisors to implement the provisions of section 423.3, (3) assessing restricted land improvements in accordance with section 423, and (4) correcting programming errors in the CLCA computer program.

Value compatible use property according to section 423.

We found that the assessor is valuing compatible use winery sites as unrestricted land. She allocates an estimated acreage size for winery sites, assigns the site a base year value, and adjusts the base year value for inflation each lien date.

Sonoma County's CLCA contract permits agricultural uses for processing, packing, selling, and shipping of agricultural products located on a parcel devoted to agriculture. Compatible uses include commercial packing and processing plants of agricultural products, e.g., wineries.

In accordance with Government Code sections 51238.1, 51238.2, and 51238.3, the assessor must assume that any use allowed by a contract approved by the county/city administration is a compatible use. When income generated by this use is attributable to the land, it must be capitalized in the manner specified for restricted properties.

The assessor's practice of establishing an unrestricted base year value and adjusting this site value for inflation each lien date has resulted in overassessments.

Submit enabling resolutions to the board of supervisors to implement the provisions of section 423.3.

The assessor still has not submitted enabling resolutions to the board of supervisors to implement the specific provisions of section 423.3. On February 24, 1987, the Sonoma County Board of Supervisors adopted Resolution No. 87-0343 directing the assessor to implement section 423.3. The resolution requires that specific ordinances and resolutions necessary to implement section 423.3 should be submitted to the board of supervisors. The assessor elected to use one of the

valuation methods listed in section 423.3 without specific authorization by the board of supervisors.

Section 423.3 defines four categories of land restricted by CLCA and allows a city or county to limit assessments of land in each category to a value no higher than a specified percentage of the property's factored base year value. It provides property owners some tax relief in situations where their property's factored base year value is less than the CLCA value.

The assessor currently is implementing section 423.3(a) without the authority to do so. An enabling resolution is needed to specify the particular method used in the valuation.

Assess restricted land improvements in accordance with section 423.

The assessor is over-assessing and inappropriately processing supplemental assessments on restricted land improvements. The assessor properly classifies and assesses wells, frost protection reservoirs, and vineyard access roads as a component of the land value. However, the assessor does not allow for a return of the investment in the land improvements in the expenses deducted from gross income to land. In addition, the assessor assigns base year values to these restricted land improvements and assesses them with the unrestricted factored base year value of the homesite. The assessor also issues supplemental assessments for these improvements when newly constructed.

Market rents for income-producing lands often reflect the income generated by the land improvements, such as wells, frost protection ponds, and vineyard access roads. If this income is capitalized into value, the land value estimate will include the value contribution of the improvements. If the assessor adds an increment of value for the land improvements, the improvements will be doubly assessed.

In accordance with AH 521, p. II-23 (October 2003), to avoid a double assessment, the assessor should deduct a charge for the return of the land improvement from the income stream prior to capitalizing the income into value, and the land improvements should not be assessed with the unrestricted factored base year value of the homesite. When this procedure is followed, no additional value for the land improvements would be added to the restricted land value.

Restricted CLCA property is not subject to assessment under article XIII A. Section 75.14 provides that supplemental assessments shall not be made for any property not subject to the assessment limitations of article XIII A. Since section 52(a) excludes CLCA property from assessment under article XIII A, the assessor has no authority to apply supplemental assessments to any restricted CLCA land.

The assessor's incorrect valuation of restricted land improvements has resulted in overassessments.

Correct programming errors in the CLCA computer program.

The assessor's CLCA valuation program did not apply the inflation factor to some homesite values for 2002. We also found incorrect values posted to the 2003-04 roll. The Megabyte program calculated the restricted values correctly, but the value carried over to the Section 601

roll was not the same as the calculated value. Some nonliving improvement values were correctly factored in the CLCA program, but the factored value was not the value carried over to the Section 601 roll. These were the results of errors in the Megabyte and CLCA valuation programs.

Section 51 requires that for each lien date after the lien date in which the base year value is determined pursuant to section 110.1, the taxable value of real property shall be its base year value, compounded annually by an inflation factor or its current fair market value. Section 423 requires valuation pursuant to specific income methods. The assessor has not ensured that the correct values were enrolled for 2003. This has resulted in incorrect assessments.

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. Section 11 of article XIII of the California Constitution provides that land, and the improvements thereon, located outside a local government's or local government agency's boundaries are taxable if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable.

In Sonoma County, there were 53 taxable government-owned parcels on the 2003-04 assessment roll with a total assessed value of approximately \$3.6 million.

In our 2000 survey, we recommended that the assessor assess all taxable government-owned properties. The assessor has complied with this recommendation by implementing procedures for tax-rate area verification when there is a change in ownership. Also, the mapping section now changes the tax-rate area code of annexed properties.

We recommended that the assessor assign value to all taxable government-owned parcels, including land-locked parcels and access roads. The assessor has complied with this recommendation by assigning a low market value to such parcels, however, she then exempts these properties from enrollment in accordance with the county's low-value property exemption resolution. The exemption of these properties is addressed in the low value exemption portion of this report.

Finally, we recommended the assessor consider the property's factored base year value in the annual determination of taxable value. The assessor has complied with this recommendation. However, we did note some incorrect procedures.

RECOMMENDATION 9: Revise the taxable government-owned property assessment procedures by: (1) establishing base year values for taxable government-owned properties according to BOE guidelines, and (2) assessing taxable government-owned properties at the lowest of the restricted value, factored base year value, or the current fair market value.

Establish base year values for taxable government-owned properties according to BOE guidelines.

The assessor establishes the base year value of taxable government-owned properties at the time of acquisition based on the current market value.

BOE guidelines set forth in LTA 2000/037, *Guidelines for the Assessment of Taxable Government-Owned Properties*, provide that base year values for taxable government-owned properties acquired after March 1, 1975 are established at either the lower of current fair market value or the restricted value as of the date of change in ownership. The assessor's practice has resulted in overassessments of taxable government-owned properties because, in most cases, at the time of transfer, the restricted value was lower than the market value.

Assess taxable government-owned properties at the lowest of the restricted value, the factored base year value, or the current fair market value.

We found that the assessor did not apply the inflation adjustment to taxable government-owned properties for the 2002-03 roll. We also found that due to clerical errors, the assessor had enrolled several incorrect values for the 2002-03 roll.

In 1995, the California Supreme Court deemed that the provisions of article XIII A applied to taxable government-owned properties⁹ and these properties must be valued at the lowest of: (1) the restricted value, (2) the factored base year value, or (3) the current fair market value.

The assessor's error in not applying an inflation adjustment and enrolling incorrect values has resulted in some incorrect assessments for the 2002-03 roll.

Timberland Production Zone Property

Land zoned Timberland Production Zone (TPZ) is assessed in accordance with special TPZ site classifications that exclude the value of the standing timber. The assessed value of TPZ land each year must be its appropriate site pursuant to section 434.5 value plus the lower of the current market value or factored base year value of any existing, compatible, nonexclusive uses of land (section 435). The special assessment limitations do not apply to structures on TPZ lands or to reasonable site values for such structures. In other words, structures and supporting lands are subject to the same assessment guidelines as other real property. Land zoned as TPZ that is not under a CLCA contract is assessed at the lowest of its appropriate site value, current market value, or factored base year value.

⁹ *San Francisco v. San Mateo County et al*, 10 Cal. 4th 554.

For fiscal 2003-04, the assessor enrolled 414 TPZ parcels with a total assessed value of \$24,680,368. One supervising appraiser is responsible for the TPZ assessment program, which entails identifying, classifying, and appraising TPZ properties. These assessments are updated annually after TPZ site class values are announced by the BOE.

In our 2000 survey, we recommended that the staff record the base year value of TPZ parcels on the appraisal records. In reviewing the assessor's TPZ records, we were able to determine the base year values for most of these properties. We are, therefore, not repeating this recommendation.

Possessory Interests

A taxable possessory interest (PI) is a possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. In the case of privately-owned property, a property tax assessment is based on the fee simple value of the property. In the case of a taxable possessory interest, the assessment is based on the value of the rights actually held by the possessor.

For fiscal 2003-04, the assessor enrolled 1,023 PI's with a total assessed value of \$71,585,066. One appraiser is responsible for valuing most of the PI's.

The assessor has implemented two of the four recommendations we made in our 2000 survey regarding her PI assessment program. We recommended that the assessor document her selection of the capitalization rates used in the valuation of PI's. The assessor now maintains a file that contains the rate studies on which the capitalization rates used in PI appraisals are based. We also recommended that the assessor use a reasonably anticipated term of possession when valuing these PI's. The assessor now bases the anticipated terms of possession for uses without contracts, on the history of the property's use.

We recommended that the assessor document the reasons for making annual reductions in the term of possession when valuing PI's subject to long-term leases. Due to changes made to rule 21, this recommendation is no longer valid.

And finally, we recommended that the assessor issue supplemental assessments for all low-value PI's. At that time, the assessor canceled supplemental assessments if the tax revenue was less than \$20. The assessor's current policy has exacerbated the problem.

RECOMMENDATION 10: Revise the possessory interest assessment program by:
(1) issuing supplemental assessments on possessory interests,
(2) deducting allowed expenses from gross income when valuing possessory interests by the income approach, and (3) using the proper remaining term when valuing possessory interests created by leases according to rule 21.

Issue supplemental assessments on possessory interests.

The assessor's unwritten policy is to issue a supplemental assessment on a PI only when the taxable value has changed by more than \$50,000. As a result, the staff has not issued supplemental assessments for changes in ownership of most PI's.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable PI is a change in ownership. Section 75.11 provides that supplemental assessments shall be issued following a change in ownership or new construction. Section 75.55(b) allows a county board of supervisors to adopt an ordinance authorizing the assessor to cancel supplemental assessments that would result in a tax liability less than the cost of assessing and collecting the taxes. However, under no circumstances does this subsection allow any supplemental assessment to be canceled if the resulting taxes exceed \$50. At the time of our current survey, the Sonoma County Board of Supervisors had not adopted such an ordinance.

The assessor's current policy of not issuing supplemental assessments on PI's unless the value change exceeds \$50,000 results in a loss of revenue and is contrary to statute. We recommend that the assessor issue supplemental assessments for all changes in ownership of taxable PI's.

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

The assessor does not deduct operating expenses from the gross income before discounting the income stream into a value.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent.

A public owner will incur some management expense with each PI. Other lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By estimating the fair market value using gross income rather than net income to the lessor, the assessor is inflating this value indicator. We recommend that the staff deduct appropriate lessor-paid operating expenses from gross market rents when valuing PI's using the income approach.

Use the proper remaining term when valuing possessory interests created by leases according to rule 21.

The assessor does not consistently decline the term of possession when determining the full cash value of PI's. Often the staff use the remaining term submitted on usage reports when valuing these interests. However, we found instances where the staff used a longer term rather than the reported remaining term to value the PI's.

As defined in rule 21, the "stated term of possession" for a taxable PI as of a specified date is the remaining period of possession specified in the lease or other instrument that created, extended, or renewed the PI.

Using a longer term of possession will result in an overassessment of full cash value.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the lessee. Assessors' Handbook Section 504, *Appraisal of Personal Property and Fixtures*, states improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

When real property is reported on the business property statement, coordination between the real property and business property staff of the assessor's office is very important. The reported cost should be examined by both an appraiser and an auditor-appraiser. The appraisers should determine the proper classification of the property to ensure appropriate assessment and avoid escapes and double assessments. The assessor's office must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled. For these reasons, coordination between the real property and business property staff of the assessor's office is very important.

In our 2000 survey, we recommended that the assessor apply the same inflation factor adjustment to the base year value of real property, without regard to the entry of the assessment on either the secured or unsecured roll. The assessor has complied with this recommendation. The assessor has also complied with our prior recommendations to investigate reported costs on the business property statement and to prevent duplicate assessments of state assessees on the local assessment roll. However, we did note two areas of concern.

RECOMMENDATION 11: Revise the assessment of tenant improvements by: (1) ensuring that the appraisal staff complies with existing procedures for assessing tenant improvements, and (2) issuing supplemental assessments for structural tenant improvements.

Ensure that the appraisal staff complies with existing procedures for assessing tenant improvements.

Although the assessor has implemented a system of coordination between the business property and the real property staff for the assessment of tenant improvements, we found inconsistencies in assessments. Appropriate referrals for tenant improvements from the business property staff to the real property staff and vice versa, are not always made. We also found double assessments and the escape of taxable property.

AH 504 provides that improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant on the unsecured assessment roll. However, they cannot be assessed to both the landlord and the tenant.

The assessor's inconsistent coordination between real and business property staff has resulted in both overassessments and escaped assessments.

Issue supplemental assessments for structural tenant improvements.

We found that the assessor does not issue supplemental assessments for structural tenant improvements. However, the assessor correctly indexes structural tenant improvements each lien date. The business property staff enrolls structural tenant improvements on the unsecured roll and does not issue supplemental assessments, regardless of who owns the improvements. If the structural tenant improvements qualify as real property, they are subject to supplemental assessment pursuant to section 75.11 and 75.12.

The assessor's practice of not issuing supplemental assessments for structural tenant improvements has resulted in escaped assessments.

Water Company Property

Water company property assessed on the local tax roll may include private water companies, mutual water companies, and portions of government-owned water systems. Each type presents different assessment problems.

Private Regulated Water Companies

Private, for-profit water companies are subject to rate base/rate of return regulation by the California Public Utilities Commission (CPUC). In brief, this form of regulation limits the rate a company may charge to the cost of service plus a fair return on rate base, or invested capital. For this reason, the market value of a regulated water company should correlate closely with the historical cost less depreciation (HCLD) of the assets.

In Sonoma County, there are ten water companies regulated by the CPUC. The following recommendation will assist the assessor improve her regulated water company assessment program.

RECOMMENDATION 12: Correctly value regulated water companies.

The assessor incorrectly calculated the factored base year values for regulated water companies. The factored base year values were incorrectly reduced for differences between the current year's and prior year's retirements, advances for construction, contributions in aid of construction (CIAC), and Bond Act additions.

Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, provides that CIAC and advances for construction generally have zero value for property tax purposes because a prospective purchaser would not pay for property on which he or she is unable to earn a return on or recover the investment. Since the advances for construction, CIAC and Bond Act additions were not part of the FBV, making a deduction for these items result in erroneous comparison values.

When the assessor incorrectly calculated the factored base year values (FBYV), it was lower than the value indicated by the HCLD and thus the FBYV was enrolled. In two of these instances, the assessor enrolled the appropriate values because the water companies' HCLD's were lower than their erroneous FBYV's. However, in the other instances, the assessor's errors resulted in underassessments.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to land, improvement, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels.

We reviewed several mutual water company assessments in Sonoma County and found that the assessor assigns nominal values to such property, properly recognizing that the value of the mutual water system is reflected in the assessed values of the lots served by it. This is in accordance with Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*.

We found no problems with the assessor's procedures for mutual water companies.

Mineral Properties

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and general appraisal rules as all real property in the state. There are three mineral specific property tax rules that need to be reviewed and followed when appraising mineral properties. They are rule 468—*Oil and Gas Producing Properties*, rule 469—*Mining Properties*, and rule 473—*Geothermal Properties*. The rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties and specific to mineral properties only.

Geothermal Properties

Sonoma County is home to the Geysers Geothermal Steam Field (Geysers). The Geysers is a steam dominated geothermal heat source that is used to produce electricity. There are several different operating properties in the Geysers. Total electric production from the Geysers averages about 1,750 mega watts (MW) per day, 1,200 MW from Sonoma County and the remainder from Lake County. The geothermal properties in Sonoma County are valued at \$743,464,062. The assessor hires a mineral consultant to value these properties. The properties are typically valued using an income approach (discounted cash value). In general, the assessment process for geothermal properties meets the requirements of the law and guidance provided by the BOE.

Mining Properties

Sonoma County has several mining properties producing stone, sand, and gravel. In general, with the exception of the following issue, mining properties are assessed according to law.

RECOMMENDATION 13: For decline-in-value purposes, value each mineral property as one appraisal unit according to rule 469.

The assessor incorrectly values the real property separately from the business property, then combines them into one total property value. The real property value may be based on the factored base year value and the business property may be based on current market value. Rule 469(e)(2)(C) defines the appraisal unit of a mineral property as the land, improvements including fixtures and reserves, excluding leach pads, tailings facility, or settling pond. It provides that declines-in-value should be measured for the entire appraisal unit. Failure to determine the total appraisal unit value can result in the mineral rights being enrolled at the factored base year value and the fixtures and equipment enrolled at the current market value. The assessor must first determine the factored base year value and the current market values for the entire appraisal unit, then determine the lower value. Once this value has been determined, the assessor can allocate the value to the various parts of the appraisal unit.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

Audit Program

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

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

The assessor has averaged a workload of approximately 147 mandatory audit accounts in each of the last five fiscal years, or an annual average of about 21 audits per auditor-appraiser.

The audit workload for the most recent five fiscal years can be broken down as follows:

YEAR (JULY TO JUNE)	2002	2001	2000	1999	1998
Audits Scheduled:					
Mandatory	114	126	149	163	163
Nonmandatory	37	75	102	14	25
Total Audits Scheduled	151	201	251	177	188
Unfinished from prior year	53	53	49	37	38
Total Audit Workload	204	254	300	214	226
Audits Completed:					
Mandatory	150	129	145	151	159
Nonmandatory	36	72	102	14	30
Total Audits Completed	186	201	247	165	189
Audits Carried Forward					
Mandatory	1	51	53	48	37
Nonmandatory	17	2	0	1	0

In the 2000 survey, we recommended the assessor bring the mandatory audit program to current status and develop criteria for selecting non-mandatory accounts for audit. The assessor has implemented these recommendations.

The success of bringing the mandatory audit program to current status can be attributed to the increase of the mandatory audit threshold from \$300,000 to \$400,000 that occurred in 2001 and the infusion of additional money made possible through the State-County Property Tax Administration Program (PTAP). On March 20, 2001, the Sonoma County Board of Supervisors passed resolution No. 01-0312, which authorized \$51,610 of PTAP funds for a contract with a private auditing firm to assist the assessor with her mandatory audits. PTAP funding has also enabled the hiring of one auditor-appraiser and one assessment clerk to support the business property division.

We also recommended that the assessor include in the audit program vessels and aircraft that meet the value threshold for mandatory audit. Although there are some aircraft assessed over the \$400,000 audit threshold, we could not state with certainty that any of these aircraft were used in a business, trade, or profession. Therefore, we do not repeat this recommendation.

In general, the assessor's audit program is well administered. However, one recommendation is made to improve the program.

RECOMMENDATION 14: Notify taxpayers of their right to appeal the result of an audit as required by rule 305.3.

In Sonoma County, taxpayers are not notified of their right to appeal audit findings when the audit results in no change to a previously enrolled assessment, but the result of the audit disclosed property subject to an escape assessment. The assessor sends a letter to the taxpayer indicating that the audit resulted in no change to their assessment. However, there is no mention of the taxpayer's right to appeal audit findings.

Section 469 generally states that the assessor shall provide the taxpayer with the results of this audit in writing. In implementing section 469, rule 305.3(d)(2) provides that the taxpayer must be informed of his or her appeal rights, whether or not an escape is actually enrolled. When taxpayers are not advised of their appeal rights on a "no change" audit, they have no knowledge of their entitlement to equalization on the entire property for the year of such escape, regardless of whether the assessor actually enrolls an escape assessment.

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. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

It is the assessor's practice to seek a waiver of the statute of limitations from the taxpayer when there is the likelihood of the audit not being completed on time.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer-reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

Audit Quality

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

In our 2000 survey, we recommended the assessor direct her staff to reference and cross-reference all audit working papers. Now all the components of a sound audit are included in the *Audit File Checklist* and *Audit Checklist, Findings and Recommendations* forms. The assessor's auditor-appraisers also label all their audit working papers for cross-reference.

Business Property Statement Program

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

For the 2002-03 roll, a total of 26,224 business property statements were processed in Sonoma County. This resulted in assessments totaling more than \$7 billion and more than \$76 million in personal property taxes. The following table summarizes this activity:

TYPE	NUMBER	SECURED	UNSECURED	AMOUNT	SECURED	UNSECURED
General Business	15,752	1,640	14,112	\$6,652,346,907	\$5,062,574,586	\$1,589,772,321
Agricultural	1,198	775	423	181,061,484	131,405,731	49,655,753
Aircraft	856		856	101,130,194		101,130,194
Apartments	871	864	7	8,903,546	8,877,866	25,680
Billboards	1		1	302,870		302,870
Construction	392	76	316	69,000,724	31,887,170	37,113,554
Semiconductors	10		10	20,859,960		20,859,960
Service Stations	198	73	125	50,173,377	19,784,381	30,388,996
Vessels	6,614		6,614	63,427,810		63,427,810
Wineries	332	155	177	322,292,010	182,952,848	139,339,162
Total	26,224	3,583	22,641	\$7,469,498,882	\$5,437,482,582	\$2,032,016,300

In our 2000 survey, we recommend that the assessor discontinue the practice of allowing non-certified personnel to estimate values. The assessor has not implemented this recommendation.

RECOMMENDATION 15: Use only certified personnel to value property.

We found that several business property statements processed by the assessment clerks had not been reviewed by the appraisal staff. Assessment clerks are also given authority to process all property statements regardless of the property type, the amount or value involved, or the complexity of the accounts. This is contrary to the provisions of section 670. Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE.

In Letter To Assessors No. 2003/068, dated October 29, 2003, the BOE recommended guidelines for the use of non-certified personnel in processing routine business property statements. Among these is that exceptional items and those with taxpayers comments be referred to an appraiser for

resolution. Clerical staff are also discouraged from making decisions as to property classifications.

The guidelines provide that the appraiser must first verify that the items are properly described and assessable. Most importantly, an appraiser must review the resulting value estimate.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors' offices use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that, in the judgment of the BOE, will promote uniformity in appraisal practices and in assessed values throughout the state. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The assessor uses the valuation factor tables published by the California Assessors' Association and may also consider other published cost sources if the equipment is subject to an assessment appeal.

The index factors and percent good factors are programmed into the assessor's valuation computer system. The factors are updated each year prior to the coming lien date. The computer program will not apply an index factor for service lives that are greater than 125 percent of the economic service life.

Minimum Percent Good

RECOMMENDATION 16: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The percent good factors parallel the factors in the AH 581 with the exception that the CAA factors provide a minimum percent good for older equipment. On the whole, the CAA price index factors follows those in the AH 581 except for specific types of equipment, e.g., pagers, facsimile equipment and photocopiers, that the CAA recommends should not be trended.

Because the assessor uses the CAA tables, she employs minimum percent good factors for older equipment. However, beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner. The CAA tables recommend using percent good factors for an age equal to 125 percent of estimated service life as the minimum percent good factor. The assessor has no supporting evidence for using such minimum factors; hence, the assessor's practice does not meet the requirements of section 401.16.

Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA is not

supported by a study. Therefore, the assessor should discontinue the use of minimum percent good factors and untrended valuation factors.

Apartment Personality

Landlord-owned personal property in apartment complexes is assessable and reportable on the annual *Apartment House Property Statement*, Form BOE-571-R. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, gym equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, and common area furniture. The assessor annually sends business property statements to owners of apartment complexes. The assessor values apartment personality based on costs reported in these statements.

We found the assessor properly assesses landlord-owned personal property in apartment complexes.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values, and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In AH 581, Table 6: Computer Valuation Factors, the BOE provides valuation factors for use when valuing computer equipment.

The assessor has properly used the composite valuation factors provided by the BOE in his valuation of non-production computers and related equipment.

Pollution Control Equipment

Division 27, chapter 1 of the Health and Safety Code (commencing with section 44500) authorizes the California Pollution Control Financing Authority (CPCFA) to either acquire or finance the acquisition of devices or facilities necessary to mitigate air and water pollution caused by private industrial operations.

If the CPCFA acquires the device or facility and leases it to a private company, then section 201.5 provides that a possessory interest in this type of equipment or facility owned by the CPCFA, whether in real or personal property, is taxable. If the private company acquires the device or facility with financial assistance from the CPCFA, then the property is assessed to the private company.

To help identify such equipment or facility, the BOE's Assessment Policy and Standards Division furnishes all assessors with a yearly Letter to County Assessors Only (CAO) entitled *Listing of Companies Entering Into Contract With the Pollution Control Financing Authority*. The CAO lists the pollution control financing bonds issued during the previous year, with project location by county, the name of the lessee, and the amount of each bond.

We found that the assessor administers the assessment of pollution control equipment effectively.

Leased Equipment

The business property staff is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include taxable situs, reporting errors by lessees and lessors, taxability, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

In our 2000 survey, we recommended that the assessor implement a system to ensure the assessment of leased equipment. The auditor-appraisers are now required to verify all leased equipment reported by the lessor and the lessee. This requirement is implemented in every audit and is specified on their audit checklist.

Several of the audits we reviewed confirmed that this requirement has been implemented by the auditor-appraisers. We also reviewed 10 leased equipment files and found the filing and assessment to be in accordance with generally accepted assessment and appraisal procedures.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation.

A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Manufactured homes should be classified as personal property and enrolled on the secured roll.

For the 2003-04 roll, there are 3,776 manufactured homes in Sonoma County with an assessed value of \$117,505,899. Their valuation is the responsibility of one appraiser. The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development (HCD) listings, building permits, dealers' reports of sales, deed recordings, and the *Preliminary Change of Ownership Report* (Form BOE-502-AH).

In our review of manufactured homes, we did find one area of concern.

RECOMMENDATION 17: Enroll manufactured homes as personal property.

In our 2000 survey, we recommended that the assessor classify manufactured homes as personal property rather than as structural improvements. The assessor has implemented this recommendation for most manufactured homes, but still classifies some homes on owned land as structures.

Section 5801(b)(2) provides that a manufactured home should not be classified as real property for property taxation purposes; therefore, they should be classified as personal property.

Because the assessor has misclassified some manufactured homes as real property and enrolled them as improvements, they may have been subjected to special assessments, from which personal property is exempt. When classified as personal property, manufactured homes may qualify as business inventory and cannot be subject to possessory interest assessments. Classification as personal property also allows for the exemption from local taxation of manufactured homes under the provisions of the Soldiers' and Sailors' Civil Relief Act.

Aircraft

General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Bluebook*.

The assessor discovers aircraft from listings obtained from the Federal Aviation Agency (FAA), airport operators reporting on the Form BOE-577-B, *List of Aircraft*, annual filings by aircraft owners, and referrals from other county assessors' offices.

The Sonoma County Assessor's Office assessed 856 general aircraft for the 2003-04 tax roll with a total value of \$81,105,906. The assessor follows the appropriate statutory provisions and BOE guidelines in the assessment of aircraft. The data on the annually filed *Aircraft Owner's Report* (the assessor's locally developed form) is used with the *Bluebook* CD program to estimate a value for the aircraft. Sales tax is added to that value.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers and air taxis that are operated in scheduled air taxi operations. Unlike general aircraft, which are normally assessed 100 percent at the place where they are habitually located as of the January 1 lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and arrivals and departures during a representative period designated by the BOE. Certificated aircraft are valued pursuant to the methodologies described in section 401.15.

The assessor correctly assesses the certificated aircraft owned by the two commercial airline companies serving Sonoma County. The total assessed value of the certificated aircraft is \$482,640. The aircraft are assessed using the appropriate allocation formula provided in section 1152, which considers flight and ground time as well as arrivals and departures. This information, critical in determining the aircraft assessments, is routinely gathered from owners of certificated aircraft in the course of the assessor's audits.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any

aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

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

There are 440 historical aircraft in Sonoma County with a total value of \$19,689,510. In our 2000 survey, we recommended that the assessor verify the 12 days of public display required for the historical aircraft exemption. The assessor now verifies the 12 occasions of public display.

We found that the assessor administers the historical aircraft exemption program effectively.

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 Sonoma County Board of Supervisors has adopted a low-value property exemption resolution that exempts real and personal property valued at \$1,500 or less.

For the 2003-04 tax roll, the assessor enrolled 14,579 boats and documented vessels with a total assessed value of \$67,408,080. This amount includes \$6,371,570 for 173 documented vessels that received the 4 percent assessment provided by section 227. The primary discovery sources are Department of Motor Vehicle reports, marina reports, referrals from other counties, and information provided by the vessel owners themselves. The assessor uses reported purchase prices and value indicators from the *BUC Used Boat Guide* and the *N.A.D.A. Marine Appraisal Guide*.

In our 2000 survey, we recommended the assessor value vessels at market value. We found that the assessor has not implemented this recommendation and, therefore, this recommendation is repeated along with a new finding.

RECOMMENDATION 18: Revise the vessel assessment program by: (1) annually assessing pleasure vessels at market value, and (2) requiring a current certificate of inspection for documented vessels as provided by section 227.

Annually assess pleasure vessels at market value.

We found that after the initial enrollment of a vessel, the assessor annually depreciates its value by arbitrary rates; i.e., 10 percent for a jet ski and 5 percent for a pleasure vessel. This practice produces values that probably do not represent current fair market value because they are not based upon any market sales data. In addition, this valuation procedure is inaccurate because

using a fixed depreciation rate for all pleasure vessel assessments each year seldom reflects actual vessel values.

Rather than depreciating all pleasure vessels, regardless of type, by the same percentage, the assessor should first categorize all vessels 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 year. The trend factor could then be applied to all vessels within each group annually. Adopting this approach would significantly increase the accuracy of the assessor's vessel assessments.

Require a current certificate of inspection for documented vessels as provided by section 227.

Sonoma County has over 170 vessels that qualify for the 4 percent assessment under section 227. Section 227 applies to (1) commercial fishing vessels, (2) vessels used in instruction or research studies as an oceanographic vessel, or (3) sport fishing vessels carrying or transporting seven or more people for commercial passenger fishing. To qualify for the 4 percent assessment under section 227(c), a vessel must hold a current certificate of inspection by the U.S. Coast Guard.

The assessor does not require the vessel owner to submit a current certificate of inspection with the annual 4 percent documented vessel affidavit.

The assessor's failure to require a current inspection certificate does not comply with statutory eligibility requirements.

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.

Methods used by the Sonoma County Assessor to discover taxable animals include exchange of information with other county assessors, newspaper articles and advertisements, telephone directories, business directories, agricultural property statements, and audits of agricultural property. Animals that are assessed are typically those used as rodeo stock, show horses, security dogs, riding stable or pack animals remaining under the owner's direct control, and animals held for breeding purposes. Also included are any other animals, not held for sale or lease or used in the production of food, fiber, or feed for such animals.

The assessor annually sends Form BOE-571-A, *Agricultural Property Statement*, to those property owners that are involved in agriculture. Schedule B of this form requests the description and number of all taxable animals. If there are registered and show horses located in Sonoma County, Form BOE-571-K, *Horse Property Statement*, must be completed as a supplemental schedule. The forms are forwarded to an auditor-appraiser for review and valuation of the reported property. We found that the assessor administers the assessment of animals effectively.

APPENDIX

A. County Property Tax Division Survey Group

Sonoma County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

Jim McCarthy

Senior Petroleum and Mining Appraisal Engineer

Sally Boeck

Senior Specialist Property Appraiser

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Zella Cunningham

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Manny Garcia

Associate Property Auditor-Appraiser

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, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

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



Eeve T. Lewis

Sonoma County Clerk – Recorder - Assessor

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June 8, 2005

Ms. Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879, MIC:62
Sacramento, CA 94279

Dear Ms. Stuckey:

Pursuant to Section 15645 of the California Government Code, we are providing a written response to the findings and recommendations in the Sonoma County 2005 Assessment Practices Survey Report for inclusion in the final report.

The periodic survey of assessors' assessment practices and procedures is a useful and invaluable tool. As you will note, we concurred with many of the constructive recommendations of the survey team and have or will be implementing them. In those areas where we have either disagreed or feel implementation is not an option, we have noted that in our response.

We do want to extend our appreciation to the survey team members for their professionalism, their courtesy, their diligence, and their effort in minimizing the disruption of our daily work schedules in carrying out their analysis.

Very truly yours,

/s/ Eeve T. Lewis

Eeve T. Lewis

Sonoma County Clerk-Recorder-Assessor

Enclosure: Responses to recommendations

Sonoma County 2005 Assessment Practices Survey Responses

RECOMMENDATION 1: Revise the disaster relief provisions in the policies and procedures manual to conform to section 70 and rule 463.

Assessor's Response:

We concur and have revised the wording on page 8 and page 20 of the Calamity Damage Claims section of our online policies and procedures manual to conform to Section 70 and Rule 463.

RECOMMENDATION 2: Revise the assessment roll change program by: (1) Revising the Notice of Proposed Escaped Assessments, (2) Citing the proper code section on Escaped Assessments, and (3) Sending a Notice of Enrollment of Escape Assessment as required by section 534.

Assessor's Response:

We concur. The recommended changes have already been implemented.

RECOMMENDATION 3: Do not exempt taxable government-owned properties.

Assessor's Response:

This recommendation was the result of one erroneously coded parcel and several Section 11 properties. The miscoded parcel has been corrected. The BOE staff has overstated the Section 11 property issue. The parcels they are referring to are low value properties that have minimal value. While the exemption on these properties should not be allowed, the impact on the assessment roll is minimal. In any case, the errors will be corrected.

RECOMMENDATION 4: Revise the assessment forms program by: (1) using correct assessment forms, (2) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them, and (3) accepting property statements filed according to Section 441.5

Assessor's Response:

(1) We concur. The five forms referred to by SBE have been reviewed, changed and accepted by SBE.

(2) We concur and will make the necessary changes. It is not the Assessor's intention to imply that if both forms are not completed, that a penalty will be imposed.

(3) We concur and will only accept property statements filed in accordance with Section 441.5.

RECOMMENDATION 5: Maintain a public transfer list that conforms to the requirements of section 408.1(c).

Assessor's Response:

We concur and will comply. We are currently creating an on-line public transfer database for our front counter public computers.

RECOMMENDATION 6: Apply the proper inflation factor required by section 51.

Assessor's Response:

We concur and have made the necessary changes. Changes to our property tax system now allow the inflation factor to be rounded to the nearest one thousand of 1 percent.

RECOMMENDATION 7: Reappraise completed new construction at its full value as of the date of completion.

Assessor's Response:

We concur and will make the necessary changes. Please note that the above recommendation was made on a small sample of properties that had continuing new construction that spanned several lien dates. It is and has been the office policy to update the building cost on an annual basis and determine the new market value for new construction every lien date.

RECOMMENDATION 8: Revise the California Land Conservation Act assessment program by: (1) valuing compatible use property according to section 423, (2) submitting enabling resolutions to the board of supervisors to implement the provisions of 423.3, (3) assessing restricted land improvements in accordance with section 423, and (4) correct programming errors in the CLCA computer program.

Assessor's Response:

- (1) We agree and will comply if market rents are available.
- (2) Now that we have clarification from the BOE staff on what the issue is, we concur and will take the necessary steps to submit the enabling resolutions to the Board of Supervisors to implement the provisions of Section 423.3.
- (3) We concur and will implement. We will discontinue the process of issuing supplemental bills on irrigation wells.
- (4) We concur and are working with our property tax system vendor to correct previous programming errors.

RECOMMENDATION 9: Revise the taxable government-owned property assessment procedures by: (1) establishing base year values for taxable government-owned properties according to BOE guidelines, and (2) assessing taxable government-owned properties at the lowest of the restricted value, factored base year value, or the current fair market value.

Assessor's Response:

Concur and corrected both items in 2003.

RECOMMENDATION 10: Revise the possessory interest assessment program by: (1) issuing supplemental assessments on possessory interests, (2) deducting allowed expenses from gross income when valuing possessory interests by the income approach, and (3) using the proper remaining term when valuing possessory interests created by leases according to rule 21.

Assessor's Response:

(1) We agree in theory that all possessory interests that undergo a change in ownership or new construction need to be supplementally assessed. In practicality, issuing supplemental assessments for vendors at the fairgrounds for a two-week use of the real property is not realistic. Even if Sonoma County passes an ordinance to exempt low value possessory interests, the assessor must still value them to determine if they meet the low value threshold. Since all of the work is done in valuing them, it makes no sense to then exempt them. With that said, we will review our guidelines to determine when it is practical and efficient to levy a supplemental assessment for this type of property.

(2) Concur and will request more detailed information from affected agencies in future.

(3) Concur and will implement. On an annual basis, we will review all leases and consistently adjust the remaining terms to reflect the contracts as stated in Rule 21.

RECOMMENDATION 11: Revise the assessment of tenant improvements by: (1) ensuring that the appraisal staff complies with existing procedures for assessing tenant improvements, and (2) issuing supplemental assessments for structural tenant improvements.

Assessor's Response:

(1) We concur and will review our internal procedures for assessing tenant improvements.

(2) We concur and will continue to review all structural improvements to properly classify them and will issue supplemental assessments when appropriate.

RECOMMENDATION 12: Correctly value regulated water companies.

Assessor's Response:

We concur and will correct our procedures. We suggest that to insure uniformity in the valuation of water companies that the Board of Equalization offer a training course or workshop on this subject.

RECOMMENDATION 13: For decline-in-value purposes, value each mineral property as one appraisal unit according to rule 469.

Assessor's Response:

We concur and will change our procedures.

RECOMMENDATION 14: Notify taxpayers of their right to appeal the result of an audit as required by rule 305.3.

Assessor's Response:

We concur and have put this recommendation in place this audit season.

RECOMMENDATION 15: Use only certified personnel to value property.

Assessor's Response:

We concur with this recommendation. Our internal procedures have and will mirror the guidelines in Letter To Assessors No. 2003/068.

RECOMMENDATION 16: Use Assessors' Handbook Section 581, Equipment Index and Percent Good Factors, as intended.

Assessor's Response:

The Assessor will continue to use the California Assessors Association's cost indices and percent good factors. Starting with the 2005 lien date, the minimum percent good factors will be based on Marshall Valuation Services' suggested salvage value for commercial and industrial equipment and fixtures.

RECOMMENDATION 17: Enroll manufactured homes as personal property.

Assessor's Response:

We concur and will make the changes to the limited number of manufactured homes that are assessed in this manner.

RECOMMENDATION 18: Revise the vessel assessment program by: (1) annually assessing pleasure vessels at market value, and (2) requiring a current certificate of inspection for documented vessels as provided by section 227.

Assessor's Response:

(1) We concur and have implemented this recommendation in 2005.

(2) We concur and have implemented this recommendation with the 2004/05-audit season.