

# CALAVERAS COUNTY ASSESSMENT PRACTICES SURVEY

OCTOBER 2021

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October 6, 2021

TO COUNTY ASSESSORS:

No. 2021/044

**CALAVERAS COUNTY  
ASSESSMENT PRACTICES SURVEY**

A copy of the Calaveras County Assessment Practices Survey Report is enclosed for your information. The State 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 specified counties 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 Leslie K. Davis, Calaveras County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the Assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Calaveras County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from January through February 2020. The report does not reflect changes implemented by the Assessor after the fieldwork was completed.

Ms. Davis 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.

Sincerely,

/s/ David Yeung

David Yeung  
Deputy Director  
Property Tax Department

DY:dcl  
Enclosure

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## **INTRODUCTION**

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

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

The Assessor is required to file with the board of supervisors a response that states the manner in which the Assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Calaveras County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Leslie K. Davis, Calaveras County's Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

## OBJECTIVE

The survey shall "...show...the extent to which assessment practices are consistent with or differ from state law and regulations."<sup>1</sup> The primary objective of a survey is to ensure the Assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

The objective of the survey program is to promote statewide uniformity and consistency in property tax assessment by reviewing each specified county's property assessment practices and procedures, and publishing an assessment practices survey report. Every Assessor is required to identify and assess all properties located within the county – unless specifically exempt – and maintain a database or "roll" of the properties and their assessed values. If the Assessor's roll meets state requirements, the county is allowed to recapture some administrative costs.

## SCOPE AND METHODOLOGY

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.

Pursuant to Revenue and Taxation Code<sup>2</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey examined the assessment practices of the Calaveras County Assessor's Office for the 2019-20 assessment roll. 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.

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

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, which is available on the BOE's

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<sup>1</sup> Government Code section 15642.

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

website at <http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

## EXECUTIVE SUMMARY

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

We examined the assessment practices of the Calaveras County Assessor's Office for the 2019-20 assessment roll and followed up on recommendations from our prior survey of this county.

In our 2016 assessment practices survey report of the Calaveras County Assessor's Office, we made seven recommendations to address problems found in the Assessor's policies and procedures. Our review of these prior recommendations, responses, and current status are detailed in Appendix B.

During our current survey, we conducted reviews of the following areas:

- Administration

We reviewed the Assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include budget and staffing, workload, assessment appeals, disaster relief, and exemptions. In the area of administration, the Assessor is effectively managing assessment appeals and disaster relief; however, we made recommendations for improvement in the workload and exemptions programs.

- Assessment of Real Property

We reviewed the Assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership and new construction assessments, and certain properties subject to special assessment procedures, such as taxable possessory interests and mineral property. We made recommendations for improvement in the change in ownership, new construction, taxable possessory interests, and mineral property programs.



- Assessment of Personal Property and Fixtures

We reviewed the Assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, aircraft assessments, and vessel assessments. In the area of personal property and fixtures assessment, the Assessor has an effective program for assessing vessels; however, we made recommendations for improvement in the audit, business property statement, business equipment valuation, and aircraft programs.

Despite the recommendations noted in this report, we found most properties and property types are assessed correctly, and the overall quality of the assessment roll meets State standards.

We found no significant assessment problems as defined in Rule 371. Since Calaveras 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, Calaveras County continues to be eligible for recovery of costs associated with administering supplemental assessments.

## OVERVIEW OF CALAVERAS COUNTY

Calaveras County is in the central part of California. The county encompasses a total area of 1,036.93 square miles, consisting of 1,020.01 square miles of land area and 16.92 square miles of water area. Created in 1850, Calaveras County is one of California's original 27 counties. Calaveras County is bordered by Amador County to the north, Alpine County to the east, Tuolumne County to the south, and San Joaquin and Stanislaus Counties to the west.



As of 2019, Calaveras County had a population of 45,905. There is only one incorporated city, Angels Camp, and the county seat is San Andreas.

The Calaveras County local assessment roll ranks 41st in value of the 58 county assessment rolls in California.<sup>3</sup>

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<sup>3</sup> Statistics provided by the BOE's Table 7 – *Assessed Value of County-Assessed Property Subject to General Property Taxes*, for year 2019-20.

## FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Calaveras County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

<b>RECOMMENDATION 1:</b>	Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407.....	9
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<b>RECOMMENDATION 7:</b>	Improve the taxable possessory interests program by: (1) reappraising all taxable possessory interests upon a change in ownership, as required by section 61(b); (2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests; and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.....	16
<b>RECOMMENDATION 8:</b>	Improve the mineral property program by: (1) removing the increment added to the overall rate to account for a return on the investment when using discounted cash flow analysis to value mineral properties; (2) reviewing the current market value of mineral properties based on the projected physical and economic operating conditions on the current lien date; and (3) measuring declines in value for mineral properties using the entire appraisal unit, as required by Rule 469.....	18

**RECOMMENDATION 9:** Improve the audit program by: (1) developing and implementing written procedures to improve and monitor the audit program; (2) developing and maintaining an effective audit tracking schedule; (3) ensuring that a supervisory review is conducted on all audits; (4) obtaining a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely; (5) coordinating assessment activities with the real property section as a standard component of the audit process; (6) informing taxpayers of audit results; and (7) enrolling all escape assessments discovered during an audit.....21

**RECOMMENDATION 10:** Improve the business property statement program by: (1) consistently applying a penalty assessment to all business property accounts that file late or fail to file a BPS in accordance with section 463, and (2) requesting a property statement, conducting an audit, or performing a field review to update taxable value estimates every three or four years.....25

**RECOMMENDATION 11:** Improve the discovery process for the BPS program. ....26

**RECOMMENDATION 12:** Improve the business equipment valuation program by: (1) using the Board-prescribed factor tables as intended when valuing business equipment, (2) correctly classifying taxable trade fixtures, and (3) properly valuing structural leasehold improvements reported on the BPS. ....26

**RECOMMENDATION 13:** Grant the historical aircraft exemption only when all conditions have been satisfied pursuant to section 220.5. ....29

## ADMINISTRATION

### **Workload**

Generally, the Assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the Assessor reviews recorded documents and building permits to discover assessable property. In addition, the Assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.<sup>4</sup>

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

According to information provided by the Assessor, the roll value in Calaveras County has steadily increased from fiscal years 2015-16 through 2019-20. In addition, assessment appeals, decline-in-value assessments, welfare exemptions, and new construction permits decreased during this same review period, while reappraisable transfers increased.

**RECOMMENDATION 1:** Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407.

During the survey, we requested statistics from the Assessor for various topics, since the Assessor had not reported requested statistics to the BOE for the annual publication of *A Report on Budgets, Workloads, and Assessment Appeals Activities* for years 2017-18, 2018-19, and 2019-20.

Section 407 provides that the Assessor shall transmit a statistical statement to the BOE annually, on the second Monday in July, supplying any statistical information which the BOE may require, and shall supply any other information required by the BOE.

By not reporting statistics to the BOE, the Assessor is not in compliance with current statute.

### **Exemptions**

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of

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<sup>4</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Budget, Staffing, and Workload*, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/budget-staffing\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/budget-staffing_general.pdf).

certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.<sup>5</sup>

Our review of the Assessor's exemptions program focused on the welfare exemption.

## Welfare Exemption

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

The welfare exemption is co-administered by the BOE and County Assessors. The BOE is responsible for determining whether an organization is qualified for either an *Organizational Clearance Certificate* (OCC) or a *Supplemental Clearance Certificate* (SCC), while the Assessor is responsible for determining whether the use of a qualifying organization's property is eligible for the welfare exemption.

The Assessor may not grant a welfare exemption on an organization's property unless the organization holds either a valid OCC or SCC. The Assessor may deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The Assessor's welfare exemption program is administered jointly by an assessment technician IV and an appraiser analyst. After an initial review of new claims by the assessment technician IV, the appraiser analyst conducts a secondary review to ensure exemption claims are properly granted. Annual claims do not receive a secondary review.

**RECOMMENDATION 2:** Apply late-filing provisions for welfare exemption claims that are not timely filed.

We found several instances where the Assessor did not apply late-filing provisions to a property granted the welfare exemption, even though the welfare exemption claim form was filed late. The late filings found included both first filing claim forms that were filed for property acquired after the lien date, as well as annual filing claim forms.

Section 271(a) provides that a welfare exemption claim filed on property that was acquired after the lien date is considered timely filed if it is filed within 90 days from the first day of the month following the month in which the property was acquired or by February 15 of the following calendar year, whichever occurs earlier. If the claimant does not file within the prescribed time period, but files late, 85 percent of any tax, penalty, or interest is cancelled or refunded. In addition, section 271(c) provides that any tax, penalty, or interest imposed may not exceed \$250.

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<sup>5</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Exemptions*, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/exemptions\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf).

Section 255(a) provides that annual claim forms for the welfare exemption must be filed with the Assessor between the lien date, which is January 1, and 5:00 p.m. on February 15.

Section 270(a)(1) states that 90 percent of any tax, penalty, or interest will be cancelled or refunded if the claim is filed on or before the lien date in the calendar year next succeeding the calendar year in which the exemption was not claimed by a timely application. If a claim is filed after this specified time period in section 270(a)(1), then 85 percent of any tax, penalty, or interest shall be cancelled or refunded, as specified in section 270(a)(2). However, section 270(b) provides that any tax, penalty, or interest may not exceed \$250.

By not properly applying late-filing provisions for welfare exemption claims, the Assessor is not in compliance with statutory requirements.

## ASSESSMENT OF REAL PROPERTY

### **Change in Ownership**

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the Assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.<sup>6</sup>

The change in ownership program is administered by an appraiser analyst and two assessment technicians.

**RECOMMENDATION 3:** Reduce the backlog of valuation work resulting from changes in ownership.

We found that the Assessor has not established new base year values for numerous properties having undergone a change in ownership. In a review of the Assessor's records, we found several records in which changes in ownership were not reassessed until two or more years after the date of the change in ownership. According to Assessor's staff, the backlog of reassessments due to changes in ownership for residential properties is approximately three years, while the backlog for commercial properties is approximately five years.

Section 50 provides that for purposes of base year values as determined by section 110.1, values determined for property which is purchased or changes ownership after the 1975 lien date shall be entered on the roll for the lien date next succeeding the date of the purchase or change in ownership. When a new base year value is established as a result of a change in ownership, section 75.11 requires a supplemental assessment be enrolled within four years of July 1 of the assessment year in which the event occurred in order to be valid.

Section 532(a) requires that escape assessments be issued within a four-year statute of limitations. If a new base year value is not processed before the beginning of the second assessment year following the change in ownership or new construction, an escape assessment results. Section 531.2(a) provides that an escape assessment shall not create or impose a lien on the property when the property has changed ownership or becomes subject to a lien after July 1 of the year of escape, but prior to the date of assessment and entry on the secured roll. Instead, the escape assessment shall be entered on the unsecured roll in the name of the person who would have been the assessee in the year of the escape assessment, and it shall be treated and collected like other taxes on the unsecured roll.

While we recognize that the Assessor is reassessing changes in ownership within the four-year statute of limitations, the backlog has resulted in the delay of property tax bills for taxpayers, and

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<sup>6</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/cio\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf).



a delay in the collection of revenue. In addition, delays in issuing assessments may cause an unnecessary burden on taxpayers for payment of taxes. Taxpayers are entitled to timely notification of assessment.

**RECOMMENDATION 4:** Apply penalties for failure to file or file timely BOE-502-AH, *Change of Ownership Statement* (COS), as provided in section 482(a).

We found several instances where the Assessor failed to apply penalties when a COS was either not filed or not filed timely, as requested by the Assessor.

Section 482(a)(1) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 90 days from the date of a written request by the Assessor, a penalty of either: (A) one hundred dollars (\$100), or (B) 10 percent of the taxes applicable to the new base year value reflecting the change in ownership of the real property, manufactured home, or floating home, whichever is greater, but not to exceed five thousand dollars (\$5,000) if the property is eligible for the homeowners' exemption or twenty thousand dollars (\$20,000) if the property is not eligible for the homeowners' exemption if the failure to file was not willful, shall be added to the assessment made on the roll.

The information contained in a properly completed COS assists the Assessor in making an accurate assessment of a property. By not applying penalties when a property owner fails to file, or fails to file timely a requested COS, the Assessor is not in compliance with statute.

### Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting legal entity changes in control under section 64(c)(1) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership, reporting is made on BOE-100-B, *Statement of*

*Change in Control and Ownership of Legal Entities.* Section 482(b) requires the County Assessor to impose a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises County Assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

**RECOMMENDATION 5:** Improve the LEOP program by properly applying penalties in accordance with section 482(b).

We found several instances where the Assessor did not apply a penalty when a legal entity failed to file or failed to file timely a BOE-100-B, even though the Assessor had been notified by the BOE's LEOP section that the penalty applied.

Section 482(b) states that if a legal entity required to file a statement described in sections 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership of the legal entity, or (2) the date of a written request by the BOE, a specific penalty will be applied.

The BOE provides the Assessor with several reports, as well as copies of BOE-100-B filings, indicating whether a penalty applies. The Assessor should utilize these reports and the BOE-100-B filings to identify legal entities with late filings and apply the penalty accordingly.

By failing to apply the required penalty, the Assessor is not in compliance with statutory requirements.

### ***New Construction***

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement constitutes a major rehabilitation of the improvement. Section 71 requires the Assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.<sup>7</sup>

The new construction program is administered by the Assessor, the chief appraiser, and the appraisal staff. The chief appraiser is responsible for managing the appraisal staff and oversight of the program.

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<sup>7</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction*, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/newconstruction\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/newconstruction_general.pdf).

**RECOMMENDATION 6:** Reduce the backlog of valuation work resulting from assessable new construction.

We found that for residential properties, the Assessor is currently working on 2018 valuation assessments for construction in progress and completed new construction. For commercial properties, the Assessor is currently working on 2016 valuation assessments for construction in progress and completed new construction.

Section 532(a) requires that escape assessments be issued within a four-year statute of limitations. If a new base year value is not processed before the beginning of the second assessment year following the change in ownership or new construction, an escape assessment results. Section 531.2(a) provides that an escape assessment shall not create or impose a lien on the property when the property has changed ownership or becomes subject to a lien after July 1 of the year of escape, but prior to the date of assessment and entry on the secured roll. Instead, the escape assessment shall be entered on the unsecured roll in the name of the person who would have been the assessee in the year of the escape assessment, and it shall be treated and collected like other taxes on the unsecured roll.

While we recognize that the Assessor has experienced this backlog due to a workload increase from the number of reassessments required to be completed due to several Governor-declared disasters in the county, the backlog has resulted in delayed property tax bills for taxpayers. In addition, delays in issuing assessments may cause an unnecessary burden on taxpayers for payment of taxes and may result in lost revenues for years beyond the statute of limitations for levying supplemental and escape assessments. Taxpayers are entitled to timely notification of assessment.

### ***Taxable Possessory Interests***

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.<sup>8</sup>

The Assessor performs the work related to the assessment of taxable possessory interests in Calaveras County.

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<sup>8</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/tpi\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf).

**RECOMMENDATION 7:** Improve the taxable possessory interests program by:  
(1) reappraising all taxable possessory interests upon a change in ownership, as required by section 61(b);  
(2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests; and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

**Reappraise all taxable possessory interests upon a change in ownership, as required by section 61(b).**

We found that the Assessor does not consistently reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used to value the taxable possessory interest.

Section 61(b) provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property for any term. Section 61(b)(2) provides that for renewals, the Assessor shall, at the end of the initial term of possession used by the Assessor, establish a new base year value based upon a new reasonably anticipated term of possession.

By not revaluing taxable possessory interests at the end of the reasonably anticipated term of possession, the Assessor is not in compliance with statutory provisions and may enroll inaccurate assessments.

**Use the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests.**

When valuing taxable possessory interests with a stated term of possession created by a contract, we found several instances where the Assessor used a term of possession different from the stated term of possession as the reasonably anticipated term of possession without any supporting documentation.

Rule 21(d)(1) provides that the stated term of possession shall be deemed the reasonably anticipated term of possession used in valuing a taxable possessory interest unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. In several cases where the term used by the Assessor was different from the stated term of possession, we found no evidence of a mutual understanding or agreement such that the term used by the Assessor should be deemed the reasonably anticipated term of possession.

The Assessor's use of a term of possession different from the stated term of possession in the contract, without any supporting evidence, is contrary to Rule 21 and may result in incorrect assessments.

**Periodically review all taxable possessory interests with stated terms of possession for declines in value.**

We reviewed several taxable possessory interests with stated terms of possession and found several instances where the Assessor did not periodically review these taxable possessory interests for possible declines in value. Instead, the Assessor either enrolled the factored base year value on the lien date or left the enrolled value unchanged on the roll for several years.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the Assessor must estimate the current market value of the taxable possessory interest on lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

Although the Assessor is not required to reappraise all properties each year, the Assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the Assessor to overstate the taxable value of a taxable possessory interest.

**Mineral Property**

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*; Rule 469, *Mining Properties*; and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.<sup>9</sup>

There are no high temperature geothermal resources or petroleum properties located in Calaveras County. An appraiser II is responsible for valuing the mining properties.

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<sup>9</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/mineralprop\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.pdf).

**RECOMMENDATION 8:** Improve the mineral property program by:  
(1) removing the increment added to the overall rate to account for a return on the investment when using discounted cash flow analysis to value mineral properties; (2) reviewing the current market value of mineral properties based on the projected physical and economic operating conditions on the current lien date; and (3) measuring declines in value for mineral properties using the entire appraisal unit, as required by Rule 469.

**Remove the increment added to the overall rate to account for a return on the investment when using discounted cash flow analysis to value mineral properties.**

The Assessor uses a full discounted cash flow analysis to value mineral properties. However, the Assessor improperly uses a modified Hoskold premise and adds an increment to the overall rate to account for a return on the investment over the life of the property. This adjustment is neither proper for full discounted cash flow analysis nor proper for the application of the Hoskold premise.

The Hoskold premise uses an overall rate and, if used correctly, is applied using a direct capitalization of the first year's net operating income, rather than using a discounted cash flow analysis. The Appraisal Institute considers the Hoskold premise only appropriate for certain types of investments, such as calculating replacement reserves for leased equipment or personal property. It is preferable to use discounted cash flow analysis to value mineral properties.

As previously stated, the modified Hoskold premise used by the Assessor adds an increment to the overall rate to account for a return of the investment over the life of the property, which the discounted cash flow analysis already accounts for. Assessors' Handbook Section 560, *Assessment of Mining Properties*, Chapter 10, discusses the use of discounted cash flow analysis as it applies to the valuation of mineral properties. A discounted cash flow analysis uses a forecast of future revenue and expenses to develop a forecast of net income for a property. This cash flow stream is then discounted into a present worth value.

The Assessor's addition of an increment to the overall rate to account for a return on the investment that is already accounted for when using a discounted cash flow analysis may lead to the underassessment of mineral properties.

**Review the current market value of mineral properties based on the projected physical and economic operating conditions on the current lien date.**

Mineral properties are income producing properties and, therefore, they are typically appraised using either a discounted cash flow analysis of the net income to the property (full income approach) or an analysis of the royalty income on the property and then adding value for the improvements and fixtures on the property (royalty approach). The Assessor makes use of each of these approaches depending on what information is available for each property.

To establish a base year value, the Assessor projects the expected production and income for the property, determining "a per unit value of production." In subsequent years, to determine the current market value, the Assessor uses the initial projection of production, adjusts for changes to income based on the annual reports filed by the taxpayer to derive a current "per unit value," and then multiplies this per unit value by the quantity of remaining reserves. The resulting value is then compared to the base year value of the reserves to determine which value to enroll. Unless the prior years' actual production is the same as the initial projected production, the characteristics of the cash flow are changed, and the value generated does not represent the current market value of the reserves.

Rule 469 states that proved reserves are minerals that are expected "to be recoverable in the future, taking into account reasonably projected physical and economic operating conditions." A change in the production profile of the property from prior years is a change in the physical and economic operating conditions of the property. To reflect the current market value of a property accurately, a new projection of production should be part of the income analysis for each year.

This error in the Assessor's valuation procedure may or may not result in the enrollment of an incorrect taxable value. The error only affects the estimate of the current market value, and if the base year value is the proper value to enroll, the taxable value would be correct.

The Assessor's working appraisal files do not indicate that the Assessor is determining the current market appraisal unit value of the mineral properties to compare to the adjusted base year appraisal unit value in order to enroll the lower of the two value components.

Discounted cash flow values used by the Assessor to compare to the adjusted base year values look to be from cash flows generated several years prior with no adjustment to the cash flow to reflect changes in demand for sand and gravel products and how it may affect reserves. These should be examined each year to reflect the current market value of a mining property.

By not reviewing the operating characteristics of mineral properties to adjust for changes in the demand of products may lead to the enrollment of incorrect values.

**Measure declines in value for mineral properties using the entire appraisal unit, as required by Rule 469.**

We found that the Assessor does not combine the values of the land (other than reserves), improvements including fixtures, and reserves into a total value reflecting the total appraisal unit when determining whether to enroll the adjusted base year value or the current market value.

In accordance with article XIII A, all real property receives a base year value and, on each lien date, the taxable value of the real property unit is the lesser of its adjusted base year value or current market value. Section 105 defines fixtures as a type of improvement and, hence, as real property.

For most properties, fixtures are treated as a separate appraisal unit for determining a decline in value. Mineral properties, however, are treated differently. Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land (other than reserves), improvements

including fixtures, and reserves. The Assessor should use this unit for measuring a possible decline in value.

The Assessor's failure to properly determine the decline in value of a mineral property using the entire mineral property appraisal unit could result in an underassessment of the fixtures and equipment or an overassessment of the mineral rights.



## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

### **Audit Program**

County Assessors are required to annually conduct a significant number of audits, as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the Assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.<sup>10</sup>

The Assessor does not have an auditor-appraiser on staff to conduct audits. Instead, the Assessor contracts with the California Counties Cooperative Audit Services Exchange (CCCASE) to conduct property tax audits.

### **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 cash value calculations, a reconciliation of fixed asset totals to the general ledger and financial statements, a review of asset invoices, a reconciliation between reported and audited cost amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of any business property.

**RECOMMENDATION 9:** Improve the audit program by: (1) developing and implementing written procedures to improve and monitor the audit program; (2) developing and maintaining an effective audit tracking schedule; (3) ensuring that a supervisory review is conducted on all audits; (4) obtaining a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely; (5) coordinating assessment activities with the real property section as a standard component of the audit process; (6) informing taxpayers of audit results; and (7) enrolling all escape assessments discovered during an audit.

### **Develop and implement written procedures to improve and monitor the audit program.**

We found that the Assessor does not have written procedures in place to manage the audit program and to assist staff with conducting the various audit functions.

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<sup>10</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program*, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/auditprogram\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf).

An effective audit program verifies the reporting of a significant number of business property owners, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices.

Without clearly defined written procedures, uniformity and consistency in performing audits is difficult to achieve.

### **Develop and maintain an effective audit tracking schedule.**

We found the Assessor does not maintain an effective audit tracking schedule. The schedule used lacks some necessary information to properly administer an audit program, such as whether a waiver of the statute of limitations was requested or executed, the date an audit was completed, and the results of an audit.

An audit tracking schedule provides management with a snapshot of the audit workload and assists in monitoring audit assignments, completions, and results. Furthermore, the audit tracking schedule serves as a useful tool when preparing for future audit workloads and provides management with a tool for verifying compliance with section 469. BOE guidance on tracking the audit workload and developing the audit tracking schedule can be found in Chapter 2 of Assessors' Handbook Section 506, *Property Tax Audits and Audit Program* (AH 506).

Without a proper audit tracking schedule, it is difficult for the Assessor to effectively manage the required annual workload.

### **Ensure that a supervisory review is conducted on all audits.**

We found that the Assessor has not reviewed completed audits received from CCCASE auditors aside from two audits completed in 2016.

Reviews of completed audits should be conducted to ensure technical and legal correctness. Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), indicates the audit report, audit findings, and all working papers should be reviewed to ensure that the proper audit procedures have been performed and that findings are supported by evidence and substantiating documents.

A review is a fundamental component of the audit process. Without an appropriate review, it can be difficult to determine if proper audit procedures were followed, and if findings are sufficiently supported.

### **Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.**

We found that the Assessor has not sought to obtain waivers of the statute of limitations for any of the scheduled audits that were completed by a CCCASE auditor. Although the audits were completed, the Assessor has yet to review the audits and process the findings.

Section 532 provides that when the Assessor discovers property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the Assessor cannot complete an audit within the prescribed time, the Assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an escape assessment, correction, or refund. A signed waiver allows the Assessor to enroll an escape assessment if a reporting deficiency is found and can protect the taxpayer during the audit process should an overassessment be discovered.

By failing to obtain signed waivers, the Assessor may allow taxable property to permanently escape assessment should the statute of limitations expire prior to the completion of the audit.

### **Coordinate assessment activities with the real property section as a standard component of the audit process.**

We found that in all but one of the audits reviewed there was no evidence that the business property section had coordinated the assessments of improvements with the real property section.

To ensure accurate and valid assessments are made, proper classification should be verified; coordination between the business property and real property sections is an integral step in the process. According to AH 506, classification is an important element of the local assessment function for several reasons. Principally it is important because sections 602 and 607, as well as Rule 252, require the assessment roll to show separate values for land, improvements (including fixtures), and personal property.

Lack of coordination between the real property section and the business property section could lead to misclassification. Misclassification is problematic because of the following assessment differences between real property and personal property: (1) only real property is subject to special assessments; (2) personal property is appraised annually at market value, while real property, including fixtures, is assessed at the lower of current market value or factored base year value; and (3) fixtures are typically a separate appraisal unit when measuring declines in value.

The lack of coordination between the real property section and auditors can lead to misclassifications of enrolled property, enrolled valuation errors, and the possibility of escaped taxable improvements.

### **Inform taxpayers of audit results.**

We found no instances where the Assessor had informed taxpayers of their audit results, including audits with escapes or overassessments.

Section 469(c)(1) provides that upon completion of an audit, the Assessor is required to notify the assessee, in writing, of the audit findings with respect to data that would alter any previously enrolled assessments. Section 469(c)(4) further states that if an audit for any particular tax year discloses that the property was incorrectly valued or misclassified for any cause, to the extent that this error caused the property to be assessed at a higher value than the Assessor would have entered on the roll had the incorrect valuation or misclassification not occurred, then the Assessor shall notify the taxpayer of the amount of the excess valuation or misclassification.

Additionally, section 408(e)(1) permits the assessee or representative to inspect or copy all information, documents, and records, including auditors' narrations and workpapers, relating to the assessment of the assessee's property.

The Assessor's practice is contrary to the requirements of sections 469 and 408. When taxpayers are not informed of their audit results, they have no knowledge of their appeal rights and entitlement to equalization. In addition, taxpayers are not given the benefit of feedback from the Assessor when reporting errors are discovered.

**Enroll all escape assessments discovered during an audit.**

We found that the Assessor has not enrolled any escape assessments discovered during recent audits, with the exception of a 2016 audit.

Section 531 specifically states, "If any property belonging on the local roll has escaped assessment, the Assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment." Section 532 states, in relevant part, "...any assessment made pursuant to either Article 3 or this article shall be made within four years after July 1 of the assessment year in which the property escaped taxation or was underassessed." Furthermore, section 469 provides that if the result of an audit discloses property subject to an escape assessment, the assessee is entitled to appeal the assessment of all the property at the location of the trade, profession, or business.

By failing to enroll escaped assessments, the Assessor risks allowing trade fixtures and tangible business personal property to permanently escape assessment and does not provide an avenue for the assessee to exercise their right to appeal.

***Business Property Statement Program***

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a business property statement (BPS) with the Assessor; other persons must file a BPS if requested by the Assessor. Property statements form the backbone of the business property assessment program.<sup>11</sup>

The Assessor does not have an auditor-appraiser on staff to process BPSs. Instead, a Board-certified appraiser analyst performs all duties concerning the processing of BPSs.

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<sup>11</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled Business Property Statement Program, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/businesspropstatement\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_general.pdf).

**RECOMMENDATION 10:** Improve the business property statement program by:  
(1) consistently applying a penalty assessment to all business property accounts that file late or fail to file a BPS in accordance with section 463, and  
(2) requesting a property statement, conducting an audit, or performing a field review to update taxable value estimates every three or four years.

**Consistently apply a penalty assessment to all business property accounts that file late or fail to file a BPS in accordance with section 463.**

We found that the Assessor does not consistently apply the section 463 penalty assessment to business property accounts when a required BPS is not filed or is filed late.

Section 463(a) states, in relevant part, that if any person who is required by law or is requested by the Assessor to make an annual property statement fails to file an annual property statement within the time limit specified, a penalty of 10 percent of the assessed value of the unreported taxable tangible property of that person placed on the current roll shall be added to the assessment made on the current roll.

The Assessor's failure to consistently apply the penalty required by law when a taxpayer fails to file or files late diminishes the taxpayer's incentive to file a property statement, which may result in unequal treatment of taxpayers and a possible loss of tax revenue.

**Request a property statement, conduct an audit, or perform a field review to update taxable value estimates every three or four years.**

We found that the Assessor sets no formal limits on the number of consecutive years a business property owner may fail to file a BPS before visiting the location of the taxable property, conducting an audit, or requesting that the taxpayer file a property statement.

Section 501 requires the Assessor, after written request, to estimate the value of business property belonging to anyone who does not comply with the reporting requirements. If a BPS was received during the previous year, it is reasonable to use the reported cost data from the previous year as a basis for estimating the current year's value. However, when allowing estimated assessments to continue for several years without any new information, the values become increasingly susceptible to error.

This practice can lead to inaccurate assessments and the permanent loss of tax revenue due to the expiration of the statute of limitations provided for in section 532. Therefore, estimated assessments based on prior years' reportings should be limited to three consecutive roll years.

**Discovery**

A comprehensive discovery program is an essential part of an effective business property assessment program. When a new business applies for a business license, the County Treasurer/Tax Collector requires the taxpayer to file a business questionnaire with the Assessor before they will issue a valid license. The County Business Property questionnaire is the

Assessor's main form of discovery. The Assessor has significantly reduced the taxable business property discovery program due to budget constraints and significant staff turnover.

**RECOMMENDATION 11:** Improve the discovery process for the BPS program.

We found that the Assessor relies too heavily upon county business license applications for the discovery process.

The business climate is ever changing with businesses opening, closing, transferring, and changing locations constantly. Therefore, the portion of the assessment roll attributed to personal property and fixtures must be continually updated. According to AH 504, developing a program for discovering information regarding taxable personal property and fixtures, and for verifying new and existing information, is the best assurance that the assessment roll is complete, accurate, and valid. There are productive discovery tools not being utilized by the Assessor, including, but not limited to, review of property transfers, sales tax permits, telephone directories, newspapers, and periodic field canvassing or field checks. Although the county's business license application requires the taxpayer to fill out a County Business Property questionnaire with the Assessor, which can be a valuable, low-cost discovery tool, other available resources should be utilized, as well, to ensure a complete, accurate, and valid assessment roll.

Timely discovery of taxable property is one of the basic functions of any County Assessor. Due to the frequent changes in the business community, it takes a substantial effort to maintain an accurate, all-inclusive listing of assessable business properties. Therefore, it is essential to take advantage of every available tool to have an effective discovery program. By not utilizing all discovery methods available to the Assessor, there may be taxable business property in the county escaping assessment.

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

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. Under this methodology, value for taxation purposes is established by multiplying a property's historical cost by an appropriate valuation factor.<sup>12</sup>

Business property assessment functions are administered by an appraiser analyst.

**RECOMMENDATION 12:** Improve the business equipment valuation program by: (1) using the Board-prescribed factor tables as intended when valuing business equipment, (2) correctly classifying taxable trade fixtures, and (3) properly valuing structural leasehold improvements reported on the BPS.

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<sup>12</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation*, which is available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/businessequipval\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf).

**Use the Board-prescribed factor tables as intended when valuing business equipment.**

We found the majority of the Assessor's factor schedules used in deriving value estimates during the 2019 assessment year did not include index factors in their compilation. The factors used by the Assessor to value machinery and equipment, construction mobile equipment, and agricultural mobile equipment consist of only the percent good component and lack the application of the index factor. In cases like these, where the valuation factors are meant to be derived by combining an appropriate index factor and percent good factor, the Assessor has only included the percent good factor. The only correctly compiled valuation tables used by the Assessor are those that are intended to be applied directly to historical costs, such as Table 7 through Table 11 of Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* and the California Assessors' Association's published valuation factors for set top boxes (Table J).

Section 401.5 requires that the Board issue to County Assessors data relating to costs of property and other information to promote uniformity in appraisal practices and in assessed values throughout the state. According to AH 581, index factors are used to estimate current reproduction costs new and percent good factors are used in conjunction with index factors to estimate current reproduction cost new less normal depreciation. The appropriate index factor should be applied to the equipment cost along with a percent good factor when determining values of machinery and equipment employing a mass appraisal approach to valuation for property taxation purposes.

By not using the Board-prescribed factors as intended and failing to apply index factors in current market value estimates of taxable business equipment, the Assessor is underassessing business property, resulting in a loss of tax revenue.

**Correctly classify taxable trade fixtures.**

We found numerous instances where fixtures were likely enrolled as personal property on the assessment roll. It is common in many industries to report machinery and equipment composed of both personal property and fixtures on Schedule A of the BPS. When making enrollment decisions, the Assessor must estimate the percentage of reported machinery and equipment, which is composed of fixtures, when acquisition costs are reported in bulk. Additionally, we observed an instance where business property reported as fixtures was enrolled as personal property.

Sections 602 and 607, as well as Rule 252, require the assessment roll to show separate values for land, improvements (including fixtures), and personal property.

Classification is an important element of the local assessment function because property tax law requires the assessment roll to show separate values for land, improvements (including fixtures), and personal property. It is also significant because of the assessment differences between real property and personal property. Those differences include: (1) only real property receives special assessments, (2) personal property is appraised annually at market value, while fixtures are assessed at the lower of current market value or factored base year value, and (3) fixtures are a separate appraisal unit when measuring declines in value.

The Assessor's current practice may result in misclassifications of enrolled property, which is not compliant with legal mandates.

**Properly value structural leasehold improvements reported on the BPS.**

We found examples where the Assessor's value conclusion was derived by applying business equipment valuation tables to structural leasehold improvements reported in column 1 of Schedule B of the BPS. We also found instances where the Assessor utilized incorrect compound inflation factors when valuing structural leasehold improvements enrolled by the business division.

Cost data reported in column 1 of Schedule B of the BPS often relate to structural improvements made by the tenant or lessee. Structural improvements, whether paid for by the tenant or the landlord, should be assessed in the same manner as other real property. A base year value should be established and factored each subsequent roll year by the annually determined inflation factor in accordance with article XIII A of the California Constitution.

By valuing structural leasehold improvements in a manner similar to business personal property and trade fixtures, the Assessor is depreciating and, thus, underassessing structural improvements. In addition, this practice results in inconsistent treatment of similar types of property. This will produce a significant valuation difference between similar improvements assessed as appreciating property on the secured roll and those assessed as depreciating property on the unsecured roll.

***Aircraft***

**Historical Aircraft**

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

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



**RECOMMENDATION 13:** Grant the historical aircraft exemption only when all conditions have been satisfied pursuant to section 220.5.

We found an example of a historical aircraft that was granted the historical aircraft exemption for the January 1, 2019 lien date, even though BOE-260-B, *Claim for Exemption from Property Taxes of Aircraft of Historical Significance*, was not filed for the 2019 lien date. In addition, we found that although the claim for the exemption for this historical aircraft was filed for the 2018 lien date, the claim was lacking the attachment of a certificate of attendance signed by the event coordinator for when the aircraft was displayed to the public, which is also a requirement of the statute.

Section 254 provides, in relevant part, that any person claiming the aircraft of historical significance property tax exemption shall submit to the Assessor annually an affidavit, giving any information required by the Board. Section 220.5(b) provides that an aircraft of historical significance shall be exempt from taxation only if all the following conditions are satisfied:

- The assessee is an individual owner who does not hold the aircraft primarily for purposes of sale.
- The assessee does not use the aircraft for commercial purposes or general transportation.
- The aircraft is 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. When applying for the exemption pursuant to this section, the claimant shall attach to that application a certificate of attendance from the event coordinator of the event at which the aircraft was displayed.

Section 220.5(c) further provides that the claimant shall provide all information required and answer all questions contained in an affidavit furnished by the Assessor.

When the Assessor allows historical aircraft exemptions without following the provisions of sections 254 and 220.5, there is a loss of revenue by allowing full or partial exemptions that the owner is not entitled to receive.

## APPENDIX A: STATISTICAL DATA

**Table 1: Assessment Roll**

The following chart displays pertinent information from the 2019-2020 assessment roll.<sup>13</sup>

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$1,967,935,703
	Improvements	\$5,531,558,917
	Personal Property	\$23,988,091
	Total Secured	\$7,523,482,711
<b>Unsecured Roll</b>	Land	\$7,013,140
	Improvements	\$43,522,603
	Personal Property	\$87,727,603
	Total Unsecured	\$138,263,346
<b>Exemptions<sup>14</sup></b>		(\$122,439,473)
	<b>Total Assessment Roll</b>	<b>\$7,539,306,584</b>

**Table 2: Change in Assessed Values**

The next table summarizes the change in assessed values over recent years:<sup>15</sup>

YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2019-20	\$7,539,307,000	4.7%	6.1%
2018-19	\$7,197,592,000	6.5%	6.5%
2017-18	\$6,758,210,000	8.0%	6.3%
2016-17	\$6,256,575,000	1.1%	5.5%
2015-16	\$6,187,963,000	5.6%	6.9%

<sup>13</sup> Statistics provided by BOE-822, *Report of Assessed Values By City*, Calaveras County for year 2019.

<sup>14</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>15</sup> Statistics provided by the BOE's Table 7 – *Assessed Value of County-Assessed Property Subject to General Property Taxes*, for year 2019-20.

**Table 3: Gross Budget and Staffing**

The Assessor's budget has grown from \$1,080,276 in 2015-16 to \$1,828,160 in 2019-20.

At the time of this survey, the Assessor had 17 budgeted permanent positions. These positions consist of the Assessor, 2 managers, 7 real property appraisers, 0.5 auditor-appraisers, 1 cadastral draftsman, and 5.5 computer programmers, analysts, and technicians.<sup>16</sup>

The following table identifies the Assessor's budget and staffing over recent years:<sup>17</sup>

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2019-20	\$1,828,160	9.0%	17
2018-19	\$1,676,701	26.4%	16
2017-18	\$1,326,560	-0.4%	14
2016-17	\$1,474,542	36.5%	13
2015-16	\$1,080,276	4.5%	13

**Table 4: Assessment Appeals**

The following table shows the number of assessment appeals filed in recent years:<sup>18</sup>

YEAR	ASSESSMENT APPEALS FILED
2019-20	108
2018-19	92
2017-18	139
2016-17	114
2015-16	186

<sup>16</sup> Staffing information provided by the Assessor.

<sup>17</sup> Statistics provided by the Assessor.

<sup>18</sup> Statistics provided by the Assessor.

**Table 5: Exemptions – Welfare**

The following table shows welfare exemption data for recent years:<sup>19</sup>

<b>YEAR</b>	<b>WELFARE EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2019-20	94	\$67,565,756
2018-19	102	\$71,202,496
2017-18	102	\$72,462,451
2016-17	97	\$68,637,042
2015-16	102	\$71,200,558

**Table 6: Change in Ownership**

The following table shows the total number of transfer documents received and the total number of reappraisals due to changes in ownership processed in recent years:<sup>20</sup>

<b>YEAR</b>	<b>TOTAL TRANSFER DOCUMENTS RECEIVED</b>	<b>REAPPRAISABLE TRANSFERS</b>
2019-20	16,145	3,264
2018-19	14,330	2,218
2017-18	16,995	3,109
2016-17	14,831	3,049
2015-16	14,870	1,248

<sup>19</sup> Statistics provided by BOE-802, *Report on Exemptions*.

<sup>20</sup> Statistics provided by the Assessor.

**Table 7: New Construction**

The following table shows the total number of building permits received and the total number of new construction assessments processed in recent years:<sup>21</sup>

<b>YEAR</b>	<b>TOTAL BUILDING PERMITS RECEIVED</b>	<b>NEW CONSTRUCTION ASSESSMENTS</b>
2019-20	2,371	1,465
2018-19	3,122	1,316
2017-18	3,280	3,123
2016-17	3,223	1,073
2015-16	3,219	685

**Table 8: Declines In Value**

The following table shows the total number of decline-in-value assessments in recent years:<sup>22</sup>

<b>YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2019-20	8,297
2018-19	9,587
2017-18	11,339
2016-17	14,552
2015-16	14,838

<sup>21</sup> Statistics provided by the Assessor.

<sup>22</sup> Statistics provided by the Assessor.

**Table 9: Audits**

The following table shows the minimum number of audits required to be conducted and the total number of audits completed in recent years.<sup>23</sup>

<b>MINIMUM NUMBER OF AUDITS REQUIRED<sup>24</sup></b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>	<b>2015-16</b>
Largest Assessments	2	2	2	2	2
All Other Taxpayers	2	2	2	2	2
<b>Total Required</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>NUMBER OF AUDITS COMPLETED</b>					
<b>Total Audits Completed</b>	<b>7</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>4</b>
Largest Assessments	0	2	3	2	2
<b>Over/(Under) Required</b>	<b>(2)</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>
All Other Taxpayers	7	2	2	2	2
<b>Over/(Under) Required</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CCCASE AUDITS</b>					
Prepared for other County Assessors	0	0	0	0	0

<sup>23</sup> Statistics provided by the Assessor.

<sup>24</sup> See LTA No. 2009/049, *Significant Number of Business Property Audit*, for the minimum number of annual audits required pursuant to the provisions of Revenue and Taxation Code section 469.

## APPENDIX B: PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our August 2016 Assessment Practices Survey Report and the Assessor's response to each recommendation. After each recommendation, we report the current status of the Assessor's effort to implement the recommendation, as noted during our survey fieldwork.

### ***Exemptions***

**RECOMMENDATION 1:** Properly notify claimants of the process for contesting denials when the property, or portion thereof, is denied the welfare exemption.

### **Original Findings:**

When the claimant is denied the welfare exemption, the assessor's notice to the claimant does not include the statutorily required language that informs the claimant of the process for contesting denials.

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

*We agree. We have corrected the letter to include the process for contesting denials.*

### **Current Status:**

The Assessor did not send any notifications of denial of the welfare exemption to claimants during the review period. We obtained a copy of BOE-267-F, *Welfare of Veterans' Organization Exemption Assessor's Finding on Qualification of Property Use*, which is the form that the Assessor will use for any future notifications of denial of the exemption. BOE-267-F includes the statutorily required language informing claimants of the process for contesting denials.

## Taxable Possessory Interests

**RECOMMENDATION 2:** Improve the taxable possessory interest program by: (1) obtaining copies of lease agreements that create taxable possessory interests; (2) recognizing lessor expenses when valuing taxable possessory interests by the income approach; (3) reappraising all taxable possessory interests upon a change in ownership as required by section 61(b); (4) using the term of the lease as stated when valuing taxable possessory interests with a contract that has a stated term; (5) issuing supplemental assessments for changes in ownership in taxable possessory interests in compliance with section 75.5(b); (6) properly assessing tenant constructed or owned improvements that revert back to the lessor as taxable possessory interests; and (7) periodically reviewing all taxable possessory interests with stated terms of possession for decline in value.

### (1) Obtain copies of lease agreements that create taxable possessory interests.

#### Original Findings:

The assessor does not consistently obtain copies of current leases for taxable possessory interests. The assessor primarily relies on historical information or information obtained from the public agencies.

#### Assessor's Response:

*This recommendation is almost an exact duplicate from 2012. At that time, we said the following:*

*In general, we agree that the assessments of possessory interests have room for improvement. We will, as time and resources permit, make changes to improve the process.*

*We do not agree with all seven components of the recommendation. Most importantly, we disagree with the suggestion that we obtain copies of all lease agreements or permits that create taxable possessory interests. There is no requirement in state law that supports this recommendation. In fact, the law provides two alternative ways for public agencies to report a possessory interest so there is no need to obtain a copy of the document if it is reported correctly. Also, it should be noted that possessory interests are created by public agencies that are not subject to state law and their responsiveness is not something that the Assessor can control.*

*Our response has not changed much. We have not had the time or resources to make changes to improve the process. Even if we had, I doubt that obtaining copies of lease agreements would be a high priority.*



*The balance of the recommendation is technical in nature. This particular recommendation is contained in the majority of Survey Reports issued by the BOE and would imply that the BOE needs to provide more training on possessory interests. Admittedly, BOE resources are also spread thin. But, "the objective of the survey program is to promote statewide uniformity and consistency in property tax administration." If you continue to find problems across the state, your time might be better spent developing and providing training in those areas and the valuation of possessory interests is a prime candidate for training.*

**Current Status:**

The Assessor has implemented this portion of the recommendation. We found lease agreements in the Assessor's taxable possessory interests files. In addition, we were provided a copy of the email request for data sent out yearly by the Assessor to the various agencies having taxable possessory interests within Calaveras County. Included with the Assessor's email request for data from the various agencies is BOE-502-P, *Possessory Interests Annual Usage Report*, for the agency to utilize.

**(2) Recognize lessor expenses when valuing taxable possessory interests by the income approach.****Original Findings:**

The assessor typically determines the fair market value of a taxable possessory interest using the direct income approach. We found that the assessor is not consistent in making deductions from the gross rent for management and other operating expenses incurred by the public lessor.

**Assessor's Response:**

*This recommendation is almost an exact duplicate from 2012. At that time, we said the following:*

*In general, we agree that the assessments of possessory interests have room for improvement. We will, as time and resources permit, make changes to improve the process.*

*We do not agree with all seven components of the recommendation. Most importantly, we disagree with the suggestion that we obtain copies of all lease agreements or permits that create taxable possessory interests. There is no requirement in state law that supports this recommendation. In fact, the law provides two alternative ways for public agencies to report a possessory interest so there is no need to obtain a copy of the document if it is reported correctly. Also, it should be noted that possessory interests are created by public agencies that are not subject to state law and their responsiveness is not something that the Assessor can control.*

*Our response has not changed much. We have not had the time or resources to make changes to improve the process. Even if we had, I doubt that obtaining copies of lease agreements would be a high priority.*

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**Current Status:**

The Assessor has implemented this portion of the recommendation. We found that the Assessor is properly making deductions from the gross rent for management and other operating expenses incurred by the public lessor.

**(3) Reappraise all taxable possessory interests upon a change in ownership as required by section 61(b).****Original Findings:**

We found taxable possessory interests where the assessor failed to do a reappraisal at the end of the reasonably anticipated term of possession.

**Assessor's Response:**

*This recommendation is almost an exact duplicate from 2012. At that time, we said the following:*

*In general, we agree that the assessments of possessory interests have room for improvement. We will, as time and resources permit, make changes to improve the process.*

*We do not agree with all seven components of the recommendation. Most importantly, we disagree with the suggestion that we obtain copies of all lease agreements or permits that create taxable possessory interests. There is no requirement in state law that supports this recommendation. In fact, the law provides two alternative ways for public agencies to report a possessory interest so there is no need to obtain a copy of the document if it is reported correctly. Also, it should be noted that possessory interests are created by public agencies that are not subject to state law and their responsiveness is not something that the Assessor can control.*

*Our response has not changed much. We have not had the time or resources to make changes to improve the process. Even if we had, I doubt that obtaining copies of lease agreements would be a high priority.*

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### **Current Status:**

The Assessor has not implemented this portion of the recommendation. Refer to the Taxable Possessory Interests topic for the current recommendation.

### **(4) Use the term of the lease as stated when valuing taxable possessory interests with a contract that has a stated term.**

### **Original Findings:**

When valuing taxable possessory interests with a stated term of possession created by a contract, we found instances where the assessor is using an anticipated term of possession as the reasonably anticipated term rather than the term of possession as stated in the contract.

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

*This recommendation is almost an exact duplicate from 2012. At that time, we said the following:*

*In general, we agree that the assessments of possessory interests have room for improvement. We will, as time and resources permit, make changes to improve the process.*

*We do not agree with all seven components of the recommendation. Most importantly, we disagree with the suggestion that we obtain copies of all lease agreements or permits that create taxable possessory interests. There is no requirement in state law that supports this recommendation. In fact, the law provides two alternative ways for public agencies to report a possessory interest so there is no need to obtain a copy of the document if it is reported correctly. Also, it should be noted that possessory interests are created by public agencies that are not subject to state law and their responsiveness is not something that the Assessor can control.*

*Our response has not changed much. We have not had the time or resources to make changes to improve the process. Even if we had, I doubt that obtaining copies of lease agreements would be a high priority.*

*The balance of the recommendation is technical in nature. This particular recommendation is contained in the majority of Survey Reports issued by the BOE and would imply that the BOE needs to provide more training on possessory interests. Admittedly, BOE resources are also spread thin. But, "the objective of the survey program is to promote statewide uniformity and consistency in property tax administration." If you continue to find problems across the state, your time might be better spent developing and providing training in those areas and the valuation of possessory interests is a prime candidate for training.*

**Current Status:**

The Assessor has not implemented this portion of the recommendation. Refer to the Taxable Possessory Interests topic for the current recommendation.

**(5) Issue supplemental assessments for changes in ownership in taxable possessory interests in compliance with section 75.5(b).****Original Findings:**

We found instances where the assessor is issuing supplemental assessments for taxable possessory interests with month-to-month agreements having full cash values of less than \$50,000.

**Assessor's Response:**

*This recommendation is almost an exact duplicate from 2012. At that time, we said the following:*

*In general, we agree that the assessments of possessory interests have room for improvement. We will, as time and resources permit, make changes to improve the process.*

*We do not agree with all seven components of the recommendation. Most importantly, we disagree with the suggestion that we obtain copies of all lease agreements or permits that create taxable possessory interests. There is no requirement in state law that supports this recommendation. In fact, the law provides two alternative ways for public agencies to report a possessory interest so there is no need to obtain a copy of the document if it is reported correctly. Also, it should be noted that possessory interests are created by public agencies that are not subject to state law and their responsiveness is not something that the Assessor can control.*

*Our response has not changed much. We have not had the time or resources to make changes to improve the process. Even if we had, I doubt that obtaining copies of lease agreements would be a high priority.*

*The balance of the recommendation is technical in nature. This particular recommendation is contained in the majority of Survey Reports issued by the BOE and would imply that the BOE needs to provide more training on possessory interests. Admittedly, BOE resources are also spread thin. But, "the objective of the survey program is to promote statewide uniformity and consistency in property tax administration." If you continue to find problems across the state, your time might be better spent developing and providing training in those areas and the valuation of possessory interests is a prime candidate for training.*

### **Current Status:**

We were unable to determine whether the Assessor has implemented this portion of the recommendation. The evidence viewed did not include any changes in ownership with month-to-month tenancies that had a full cash value of less than \$50,000 and, thus, we were unable to determine if the Assessor has corrected this practice of issuing supplemental assessments for these types of transfers.

### **(6) Properly assess tenant constructed or owned improvements that revert back to the lessor as taxable possessory interests.**

#### **Original Findings:**

We found instances where improvements constructed by the tenant, that become the property of the public owner at the termination of the possession, are not correctly assessed as taxable possessory interests.

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

*This recommendation is almost an exact duplicate from 2012. At that time, we said the following:*

*In general, we agree that the assessments of possessory interests have room for improvement. We will, as time and resources permit, make changes to improve the process.*

*We do not agree with all seven components of the recommendation. Most importantly, we disagree with the suggestion that we obtain copies of all lease agreements or permits that create taxable possessory interests. There is no requirement in state law that supports this recommendation. In fact, the law provides two alternative ways for public agencies to report a possessory interest so there is no need to obtain a copy of the document if it is reported correctly. Also, it should be noted that possessory interests are created by public agencies that are not subject to state law and their responsiveness is not something that the Assessor can control.*

*Our response has not changed much. We have not had the time or resources to make changes to improve the process. Even if we had, I doubt that obtaining copies of lease agreements would be a high priority.*

*The balance of the recommendation is technical in nature. This particular recommendation is contained in the majority of Survey Reports issued by the BOE and would imply that the BOE needs to provide more training on possessory interests. Admittedly, BOE resources are also spread thin. But, "the objective of the survey program is to promote statewide uniformity and consistency in property tax administration." If you continue to find problems across the state, your time might be better spent developing and providing training in those areas and the valuation of possessory interests is a prime candidate for training.*

### **Current Status:**

We were unable to determine whether the Assessor has implemented this portion of the recommendation. The evidence viewed did not include any examples of improvements constructed by the tenant that become the property of the public owner at the termination of the possession and, thus, are unable to determine if the Assessor has corrected this practice of not assessing those types of improvements as taxable possessory interests.

### **(7) Periodically review all taxable possessory interests with stated terms of possession for decline in value.**

### **Original Findings:**

We found the assessor does not periodically review all taxable possessory interests for possible declines in value. In some instances, the assessor instead enrolls the factored base year value.

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

*This recommendation is almost an exact duplicate from 2012. At that time, we said the following:*

*In general, we agree that the assessments of possessory interests have room for improvement. We will, as time and resources permit, make changes to improve the process.*

*We do not agree with all seven components of the recommendation. Most importantly, we disagree with the suggestion that we obtain copies of all lease agreements or permits that create taxable possessory interests. There is no requirement in state law that supports this recommendation. In fact, the law provides two alternative ways for public agencies to report a possessory interest so there is no need to obtain a copy of the document if it is reported correctly. Also, it should be noted that possessory interests are created by public agencies that are not subject to state law and their responsiveness is not something that the Assessor can control.*

*Our response has not changed much. We have not had the time or resources to make changes to improve the process. Even if we had, I doubt that obtaining copies of lease agreements would be a high priority.*

*The balance of the recommendation is technical in nature. This particular recommendation is contained in the majority of Survey Reports issued by the BOE and would imply that the BOE needs to provide more training on possessory interests. Admittedly, BOE resources are also spread thin. But, "the objective of the survey program is to promote statewide uniformity and consistency in property tax administration." If you continue to find problems across the state, your time might be better spent developing and providing training in those areas and the valuation of possessory interests is a prime candidate for training.*

**Current Status:**

The Assessor has not implemented this portion of the recommendation. Refer to the Taxable Possessory Interests topic for the current recommendation.

**Mineral Property**

**RECOMMENDATION 3:** Reevaluate the current market value of mineral properties based on the projected physical and economic operating conditions on the current lien date.

**Original Findings:**

Mineral properties are income producing properties and, therefore, they are typically appraised using either a discounted cash flow analysis of the net income to the property (full income approach) or an analysis of the royalty income on the property and then adding value for the improvements and fixtures on the property (royalty approach). The assessor makes use of each of these approaches depending on what information is available for each property.

To establish a base year value, the assessor projects the expected production and income for the property, determining "a per unit value of production." In subsequent years, to determine the current market value, it appears that the assessor uses the initial projection of production, adjusts for changes to income based on the annual reports filed by the taxpayer to derive a current "per unit value," and then multiplies this per unit value by the quantity of remaining reserves. The resulting value is then compared to the base year value of the reserves to determine which value to enroll. However, unless the prior years' actual production is the same as the initial projected production, the characteristics of the cash flow are changed and the value generated does not represent the current market value of the reserves.

**Assessor's Original Response:**

*We concur. We have attempted to contact your subject matter expert for guidance. We hope to correct the problem after we have an opportunity to meet.*

**Current Status:**

The Assessor has not implemented this recommendation. Refer to the Mineral Property topic for the current recommendation.

**Audit Program**

**RECOMMENDATION 4:** Develop and implement written procedures to improve the audit program, and monitor the program to ensure compliance with sections 469, 531, and 532.

**Original Findings:**

The assessor does not have written procedures in place to manage the audit program and to assist staff with conducting the audit function. An effective audit program verifies the reporting of a significant number of business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Without clearly defined written procedures, uniformity and consistency in performing audits is difficult to achieve.

**Assessor's Original Response:**

*We concur and are working on written procedures.*

**Current Status:**

The Assessor has not implemented this recommendation. Refer to the Audit Program topic for the current recommendation.

**Business Equipment Valuation**

**RECOMMENDATION 5:** Use the Board-prescribed factor tables as intended when valuing business equipment.

**Original Findings:**

We reviewed the assessor's factor schedules for the 2014 assessment year and found several significant errors in the factor schedule compilation. For example, the combined factor should include both the index factor and the percent good factor, but in some instances only included the percent good factor. In addition, some of the factor schedules



were mislabeled as "new" instead of "average" and "average" instead of "new." We confirmed the use of the incorrect factors by reviewing a number of assessments involving mobile and non-mobile agricultural and construction equipment.

**Assessor's Original Response:**

*We concur and have taken action to ensure that the factor tables are correctly input into our property tax system.*

**Current Status:**

The Assessor has not implemented this recommendation. Refer to the Business Equipment Valuation topic for the current recommendation.

**Aircraft**

**RECOMMENDATION 6:** Grant the historical aircraft exemption only when all conditions have been met pursuant to section 220.5.

**Original Findings:**

We found the historical aircraft exemption claim forms for all three of the historical aircraft receiving the exemption are lacking the proper certificate of attendance signed by the event coordinator when the aircraft was displayed to the public. The assessor has been granting the historical aircraft exemption when the BOE-260-B, *Claim for Exemption from Property Taxes of Aircraft of Historical Significance*, is incomplete and the certificates of attendance are not attached as required.

**Original Assessor's Response:**

*We agree and have taken action to ensure that all conditions are met before granting the exemption. We appreciate the fact that you noted that there are only three historical aircraft exemptions in the county and they reflect about 4/1000's of the entire assessment roll. Nonetheless we agree that no taxpayer should receive special treatment and the problem has been corrected.*

**Current Status:**

The Assessor has not implemented this recommendation. Refer to the Aircraft topic for the current recommendation.

## **Vessels**

**RECOMMENDATION 7:** Consistently include sales tax as a component of market value when appraising vessels.

### **Original Findings:**

The assessor initially values vessels by referring to widely recognized value guides and Internet sales data. However, value guides and Internet sales data do not include California sales tax, an element of value. We found numerous cases where the assessor developed a value conclusion derived from these sources but there is no indication that a sales tax component is included. Since the assessor applies BOE annual valuation factors to this initial value for subsequent lien dates, this error is perpetuated.

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

*We concur and have taken action to ensure that all vessels include sales tax as a component of market value.*

### **Current Status:**

The Assessor has implemented this recommendation. We reviewed a number of vessel property records and found that the Assessor now includes sales tax as a component of market value when appraising vessels.

## APPENDIX C: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

### Calaveras County

***Deputy Director***

David Yeung

***Survey Program Director:***

Diane Yasui

Manager, Property Tax Department

***Survey Team Supervisor:***

Andrew Austin

Supervisor, Property Tax Department

***Survey Team Leader:***

Gary Coates

Senior Specialist Property Appraiser

***Survey Team:***

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Nichole Spence

Senior Specialist Property Auditor-Appraiser

Alexander Fries

Associate Property Auditor-Appraiser

Christine Bradley

Associate Property Appraiser

Amanda Lopez

Associate Property Appraiser

Nicole Grady

Assistant Property Appraiser

Dany Lunetta

Associate Governmental Program Analyst

## APPENDIX D: RELEVANT STATUTES AND REGULATIONS

Reference	Description
<i>Government Code</i>	
§15640	<b>Survey by board of county assessment procedures.</b>
§15641	<b>Audit of records; appraisal data not public.</b>
§15642	<b>Research by board employees.</b>
§15643	<b>When surveys to be made.</b>
§15644	<b>Recommendations by board.</b>
§15645	<b>Survey report; final survey report; Assessor's report.</b>
§15646	<b>Copies of final survey reports to be filed with local officials.</b>
<i>Revenue and Taxation Code</i>	
§75.60	<b>Allocation for administration.</b>
<i>Title 18, California Code of Regulations</i>	
Rule 371	<b>Significant assessment problems.</b>

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

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

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



# Calaveras County Assessor's Office

Leslie K. Davis  
Assessor

August 13, 2021

Mr. David Yeung, Deputy Director  
Property Tax Department  
State Board of Equalization  
PO Box 942879  
Sacramento, CA 94279-0064

Re: Calaveras County Assessment Practices Survey Response

Dear Mr. Yeung:

I have reviewed the *2021 Calaveras County Assessment Practices Survey Report* and the recommendations it contains. I have attached my response to those recommendations pursuant to section 15645 of the Government Code. Please include my response in your final survey report.

Your survey team was professional, courteous, and diligent in their review of our assessment practices. We appreciate the time they spent explaining their findings and insights. I believe that the primary value of the Survey Program comes from the interaction between survey team members and my staff. Please convey my sincere thanks to your team for their hard work and professional conduct.

I would like to express my sincere appreciation to the staff of the Calaveras County Assessor's Office for their professionalism and their commitment to provide high quality and responsive public service. It is an honor to work with such a dedicated team. The positive survey results are a direct reflection of their efforts.

Respectfully submitted,

A handwritten signature in blue ink that reads "Leslie K. Davis".

Leslie K. Davis  
Assessor

# CALAVERAS COUNTY ASSESSMENT PRACTICES SURVEY

August 2021

## Recommendations and Responses

### Preface to Responses

Many of the problems that the recommendations identify and seek to correct are the result of staffing issues; specifically recruitment and retention. When we are fully staffed, and the staff is experienced and fully trained, these issues will be more easily resolved. In the 2021-22 budget, I requested reclassification or creation of certain positions to create an organizational structure that should improve our recruitment and training efforts and provide additional support to monitor workflow and reporting requirements. While they were approved in concept, and funded, final action to implement those changes has been held up. Where I agree with the recommendation, but know that current resources are constrained and do not allow us an opportunity to correct the problem, that is the main reason for any disclaimers.

Staff recruitment and retention is not a problem that is specific to Calaveras County. Times have changed and public service is no longer held in high esteem. Budgets were cut as a result of the Great Recession and the stability that public employees had relied on historically was lost. The aftermath of the Butte Fire in 2015 exacerbated many of those issues. We continue to suffer through the pandemic. Other counties have experience similar problems. My recommendation to the BOE is that future Surveys give greater consideration to staffing and budget constraints when reviewing the operations and assessment practices in County Assessor's Offices.

I want to recognize that the Survey is required by the Government Code and that attempts to amend the statutory provisions in order to improve the survey process and results have not been successful. BOE staff have worked hard, despite those constraints, to analyze and understand the practical aspects of an Assessor's Office. Where we respectfully disagree with some of the continued recommendations, I think it's important to acknowledge the very real constraints that BOE staff experiences and my comments should not be construed as a criticism.

**Recommendation 1:** Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407.

**Response:** We agree that we have not reported all statistics requested by BOE. It should be noted that the specific statistical statement referred to in Section 407 is timely filed annually. It is the other information that the board requests, from time to time, that is not always provided. Producing those statistics will not improve the workload program of the office. In fact, it can interfere with essential office operations.

**Recommendation 2:** Apply late-filing provisions for welfare exemption claims that are not timely filed.

**Response:** We agree. We have taken action to correct the instances identified by the Survey Team and have provided additional training in this area.

**Recommendation 3:** Reduce the backlog of valuation work resulting from changes in ownership.

**Response:** We agree that reducing the backlog of valuation work from all sources is a worthy goal. It is not currently possible given current staffing constraints. We share the taxpayers' frustration with this situation.

**Recommendation 4:** Apply penalties for failure to file or file timely BOE 502-AH, Change of Ownership Statement (COS), as provided in section 482(a).

**Response:** We agree that the penalties for failure to file or file timely are required. The penalties have not been applied because of the backlog of valuation work [see Recommendation 3]. The fact that we have not yet appraised the property means that we don't know the amount of the penalty. As we get that work completed, the penalty will be applied.

**Recommendation 5:** Improve the LEOP program by properly applying penalties in accordance with section 482(b).

**Response:** We agree that the penalty is required. Like the penalty for failure to file the COS, the problem is exacerbated by the backlog of valuation work. Training for staff has been provided and the penalties will be added as time permits.

**Recommendation 6:** Reduce the backlog of valuation work resulting from assessable new construction.

**Response:** We agree that reducing the backlog of valuation work from all sources is a worthy goal. It is not currently possible given current staffing constraints. We share the taxpayers' frustration with this situation.

**Recommendation 7:** Improve the taxable possessory interests program by: (1) reappraising all taxable possessory interests upon a change in ownership, as required by section 61(b); (2) using the stated term of possession in accordance with Rule 21 when valuing taxable possessory interests; and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

**Response:** We agree with the recommendation. Parenthetically, Possessory Interests represent one-third of one percent [0.34%] of all assessments and less than one-tenth of one percent of the total 2019 assessment roll. The Board of Supervisors has been asked to increase the low value exemption which would eliminate all but three possessory interest assessments and they have demurred.



**Recommendation 8:** Improve the mineral property program by: (1) removing the increment added to the overall rate to account for a return on the investment when using discounted cash flow analysis to value mineral properties; (2) reviewing the current market value of mineral properties based on the projected physical and economic operating conditions on the current lien date; and (3) measuring declines in value for mineral properties using the entire appraisal unit, as required by Rule 469.

**Response:** We agree. We have corrected our internal process.

**Recommendation 9:** Improve the audit program by: (1) developing and implementing written procedures to improve and monitor the audit program; (2) developing and maintaining an effective audit tracking schedule; (3) ensuring that a supervisory review is conducted on all audits; (4) obtaining a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely; (5) coordinating assessment activities with the real property section as a standard component of the audit process; (6) informing taxpayers of audit results; and (7) enrolling all escape assessments discovered during an audit.

**Response:** We agree with the recommendation, in general, and have identified opportunities for additional training. It should be noted that there is no mandate for taxpayers to agree to waive the statute of limitations during an audit. The waiver is requested in each instance. That is all we can do. Also, we do coordinate assessment activities with the real property section and have a clear, workable procedure. Finally, enrolling all escape assessments discovered during an audit is impacted by the valuation backlog and will be handled as staffing and time permits.

**Recommendation 10:** Improve the business property statement program by: (1) consistently applying a penalty assessment to all business property accounts that file late or fail to file a BPS in accordance with section 463; and (2) requesting a property statement, conducting an audit, or performing a field review to update taxable value estimates every three or four years.

**Response:** We agree that the Business Property Statement program is an important aspect of business property valuation but respectfully disagree with the findings and recommendation. Specifically:

- (1) We do consistently apply a penalty assessment to all business property accounts that file late or fail to file a BPS. There are no penalties that have not been applied.
- (2) Requesting a property statement, conducting an audit, or performing a field review may be a good practice. But, it is not required by the Revenue & Taxation Code and is not possible at the level recommended due to budget and staffing constraints.

**Recommendation 11:** Improve the discovery process for the BPS program.

**Response:** We agree that there is always room for improvement of the discovery process for the BPS program but respectfully disagree with the reported process as it misrepresents what we do. Appraisers who are in the field regularly report new businesses to the personal property appraiser; we review legal notices, bulk sales, and other advertisements; and visit commercial areas regularly to update our records. We also become aware of new businesses via social media and other announcements. The business license process is a good source of information but it is not the only source.

**Recommendation 12:** Improve the business equipment valuation program by: (1) using the Board-prescribed factor tables as intended when valuing business equipment, (2) correctly classifying taxable trade fixtures, and (3) properly valuing structural leasehold improvements reported on the BPS.

**Response:** We agree. We have implemented training in these areas.

**Recommendation 13:** Grant the historical aircraft exemption only when all conditions have been satisfied pursuant to section 220.5.

**Response:** We agree and we have corrected the problem. We no longer have historical aircraft to exempt.