Del Norte County
Assessment Practices Survey

April 2017

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
1-916-274-3350 ● FAX 1-916-285-0134
www.boe.ca.gov

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TO COUNTY ASSESSORS:

DEL NORTE COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Del Norte County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in 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 Jennifer Perry, Del Norte 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 Del Norte County Board of Supervisors, and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from July through August 2015. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Perry 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/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

TABLE OF CONTENTS

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 Del Norte 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 Del Norte County Board of Supervisors, and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Jennifer Perry, Del Norte County 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."[1] 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[2] 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 Del Norte County Assessor's Office for the 2014-15 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 Del Norte 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 Del Norte County who provided information relevant to the property tax assessment program.

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[1] Government Code section 15642.

[2] 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.

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,* available on the BOE's 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.

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 the assessor's budget and staffing, workload, assessment appeals, disaster relief, and exemptions.

- 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, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as timberland production zone, taxable possessory interests, and mineral property.

- 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, manufactured home assessments, aircraft assessments, and vessel assessments.

EXECUTIVE SUMMARY

We examined the assessment practices of the Del Norte County Assessor's Office for the 2014 -15 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit - the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

In the area of administration, the assessor is effectively managing staffing and workload, assessment appeals, and disaster relief. However, we made recommendations for improvement in the exemptions program.

In the area of real property assessment, the assessor has effective programs for changes in ownership, declines in value, and timberland production zone properties. However, we made recommendations for improvement in the new construction, taxable possessory interests, and mineral property programs.

In the area of personal property and fixtures assessment, the assessor has effective programs for business property statement processing and for the assessment of manufactured homes. However, we made recommendations for improvement in the audit, business equipment valuation, aircraft assessment, and vessel assessment programs.

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

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

OVERVIEW OF DEL NORTE COUNTY

Del Norte County is situated in the most northwestern corner of California. The county encompasses 1,006 square miles and has one incorporated city, Crescent City, which is the county seat. Del Norte County is bounded on the north by the state of Oregon, on the east by Siskiyou County, on the south by Humboldt County, and on the west by the Pacific Ocean. Governed by a five-member board of supervisors, Del Norte County has a population of 27,212.

Del Norte County's local assessment roll value ranks 54th among the 58 California counties for the 2014-2015 assessment year.[3]

During the periods reviewed, the Governor proclaimed disasters due to rainstorms and a tsunami in Del Norte County in March of 2011, and disasters due to drought in all 58 counties in January 2014.[4] As a result, those governor-proclaimed disasters that caused physical damage in Del Norte County may have rendered assessed properties eligible for property tax relief.

[3] From the BOE Annual Report, Table 7, Assessed Value of County-Assessed Property Subject to General Property Taxes, inclusive of the Homeowners' Exemption, by Class of Property and by County, sorting the net total assessed value from highest to lowest.
[4] From the *Chronological List of Governor-Proclaimed Disasters for Property Tax Purposes*, available on BOE's website at *www.boe.ca.gov/proptaxes/pdf/Disasterlist.pdf*.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Del Norte 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.

ADMINISTRATION

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 certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.[5]

Our review of the assessor's exemptions program included the church and religious, welfare, and disabled veterans' exemptions.

Welfare Exemption

We reviewed a number of welfare claims and discovered areas where improvement is needed.

RECOMMENDATION 1: Improve the administration of the welfare exemption program by: (1) requiring a valid Organization Clearance Certificate (CCC) prior to granting the welfare exemption, (2) conducting field inspections on all first-time filing claims and claims filed for new locations, (3) properly applying the provisions of section 270 for exemption claims that are not timely filed, and (4) exempting only those areas of veterans' organizations used exclusively for exempt purposes.

Require a valid Organizational Clearance Certificate (OCC) prior to granting the welfare exemption.

We found the assessor grants the welfare exemption to organizations that do not have OCCs. If an organization indicates on the welfare exemption claim that an OCC claim was filed with the BOE, the assessor will grant the welfare exemption the first year. If an OCC is not issued after the first year, the assessor removes the exemption.

Section 254.5 states that the assessor may not approve a welfare exemption claim until the BOE has issued a valid OCC. Granting the exemption when an organization does not yet hold a valid OCC is contrary to statute and allows for an exemption on property that does not qualify to receive the exemption.

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

Conduct field inspections on all first-time filing claims and claims filed for new locations.

We found the assessor does not conduct field inspections for all first-time filing claims and claims filed for new locations. The assessor should conduct a field inspection on all property for which an exemption is claimed for the first time as directed in Assessors' Handbook section 267, *Welfare, Church, and Religious Exemptions*. A field inspection is essential to ensure that the property use meets exemption requirements and to determine what portion of the property is eligible for exemption. The assessor's failure to conduct field inspections on these new claims may result in an improper exemption of property.

Properly apply the provisions of section 270 for exemption claims that are not timely filed.

We found that in some instances the assessor granted 90 percent of the eligible exemption amount on property, but did not cap the penalty at $250. Section 255(a) provides that annual claims for the welfare exemption must be filed with the assessor between January 1 and 5 p.m. on February 15. Section 270(a) provides that late-filed claims for the welfare exemption may be allowed 90 percent of the full exemption if the claim is filed after February 15 but before the following January 1 lien date, and 85 percent if the claim is filed after January 1 of the next calendar year. However, section 270(b) limits the total tax or penalty and interest for late filing to a maximum of $250 for each year in question. The assessor's method of applying the late-filing penalty is not in accordance with section 270.

Exempt only those areas of veterans' organization properties used exclusively for exempt purposes.

For the veterans' organization that owns its land and building, the assessor has exempted all of the organization's property.

Section 215.1 allows the exemption of veterans' organization property used exclusively for exempt purposes. The exemption should only be extended to that portion of property used exclusively for exempt activity. The adjutant's office used for counseling, for example, could be considered for exemption. Non-exempt activity includes areas used for social and fraternal purposes, bar areas, food service areas available to the public, game areas, and the locker room.

The assessor should perform a field inspection of the property and note those areas used for exempt activity versus areas used for non-qualifying purposes. The appropriate proration may then be applied to the exemption of land and improvements. The business property statement associated with the property should also be reviewed to ensure exemptions are only applied to the value of items used exclusively for exempt purposes.

Exemption of non-qualifying areas is contrary to statute and provides an unfair benefit over compliant exempt properties, as well as for-profit venues.

Disabled Veterans' Exemption

We reviewed a number of disabled veterans' exemption files in Del Norte County and found an area in need of improvement.

RECOMMENDATION 2: Require an annual filing of a BOE-261-G prior to granting the low-income exemption for disabled veterans.

We found that for first-time filings of the disabled veterans' low-income exemption, the assessor does not require the claimant to file separate claims for each year of eligibility before granting the exemption on all eligible years. For example, the assessor granted a low-income exemption for the 2010-11, 2011-2012, 2012-2013 and 2013-2014 roll years, even though the claimant only filed a claim for the 2010-11 roll year.

Under section 205.5, only a one-time filing is required for the disabled veterans' $100,000 basic exemption. However, an annual filing is required for the disabled veterans' $150,000 low-income exemption. This requirement is to ensure or certify that the claimant continues to meet the household income limit restriction each year. Separate claims are required for each year when filing the low-income exemption.

By granting the disabled veterans' low-income exemption for years in which a valid claim was not filed, the assessor is unable to verify whether the claimant met the household income limit restriction for that year and may be granting low-income exemptions on properties that are not eligible.

ASSESSMENT OF REAL PROPERTY

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.[6]

Overall, the assessor has an effective program in place for the valuation of new construction. However, we did note an area in need of improvement.

RECOMMENDATION 3: Obtain copies of well permits from the county health department.

The assessor receives building permits from three permit-issuing agencies: the Building Inspections Division of the Del Norte County Community Development Department, the City of Crescent City Building Department, and the State of California's Department of Housing and Community Development. The assessor, however, does not receive copies of permits issued by the Del Norte County Health and Human Services Department's Public Health Division for the drilling of new water wells. Permits from the health department issued for water wells are used for both agricultural and domestic purposes.

Section 72 requires county or city agencies to furnish copies of building permits to the assessor. To ensure the assessor discovers all qualifying new construction, a copy of every approved building permit must be received. Well and septic system permits can indicate further development and assist the assessor in discovering new construction that might otherwise go undetected. By not obtaining these permits from the health department, the assessor may miss an assessment for new construction, resulting in escaped assessments.

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

[6] For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/newconstruction_general.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.

the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.[7]

The assessor enrolled 210 taxable possessory interests on the 2014-15 roll with a total assessed value of $7,167,017. The majority of taxable possessory interests are private interests at the Crescent City Harbor District and at the Del Norte County Regional Airport. Other types of taxable possessory interests include interests held at the Del Norte County Fair, 41st District Agricultural Association, cable television rights-of-way, private recreational pier leases, and employee housing.

We reviewed a number of taxable possessory interest records and found areas in need of improvement.

RECOMMENDATION 4: Improve the taxable possessory interest program by: (1) properly identifying the name of the specific government agency controlling the use of a property, (2) correctly classifying cable television rights-of-way on privately owned lands, (3) obtaining current copies of all lease agreements or permits for taxable possessory interests, (4) establishing the reasonably anticipated term of possession in accordance with Rule 21(d)(1), and (5) properly issuing supplemental assessments for taxable possessory interests.

Properly identify the name of the specific government agency controlling the use of a property.

We found several taxable possessory interests associated with cable and video franchises where the assessor's records did not identify which agency controls the use of the parcels. All taxable possessory interests are given an account number that identifies the name of the possessor. The corresponding fee parcel number is noted on the taxable possessory interest appraisal record. Several of the appraisal records did not indicate the name of the agency. A search of the assessor's computer system indicated "no file found" and did not identify any ownership.

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

Correctly classify cable television rights-of-way on privately owned lands.

The assessor improperly classifies some cable television rights-of-way and improvements on privately owned land as taxable possessory interests. Proper classification of the improvements

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[7] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/tpi_general.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.

should be either as a foreign improvement or an improvement on leased land. The rights-of-way on privately owned lands are not assessable to the cable television company unless a lease in excess of 35 years created such an interest, thereby causing a change in ownership of the interest. Improper classification of property which should not be a taxable possessory interest may result in incorrect valuation and assessments of such property.

Obtain current copies of all lease agreements or permits for taxable possessory interests.

Many of the taxable possessory interest files we reviewed did not contain copies of leases for the interests being assessed. The assessor relies on tenant lists, historical information, information obtained from the public agencies, or a county-created questionnaire to value taxable possessory interests.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Rule 21(d)(1) explains that the stated term of possession is deemed to be the reasonably anticipated term of possession except in certain situations. Rule 21(e)(3)(C) explains how to determine the net operating income for capitalization purposes.

These steps in the valuation process cannot be completed if the contract conveying the taxable possessory interest is not reviewed. For example, the assessor may have some information relating to the initial lease term, but may not know of any renewal options contained in the lease or know the lessor/lessee expense allocations.

By not obtaining copies of current leases or permits, the assessor is unable to determine what terms were agreed to between the parties and, therefore, would be unable to accurately value the taxable possessory interests.

Establish the reasonably anticipated term of possession in accordance with Rule 21(d)(1).

In our review of the assessor's appraisal records for taxable possessory interests, we discovered that a number of taxable possessory interests created by a contract with a term of one year were being assessed using a reasonably anticipated term of possession longer than the one-year stated term.

Rule 21(d)(1) provides that the term of possession for valuation purposes shall be the reasonably anticipated term of possession. 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.

We found no evidence in the files demonstrating that the stated term of possession should not be deemed to be the reasonably anticipated term of possession. Therefore, the assessor should use the stated term of possession for valuation. The assessor's practice of assigning a reasonably anticipated term of possession in excess of the stated term without clear and convincing evidence is contrary to Rule 21.

Properly issue supplemental assessments for taxable possessory interests.

We reviewed several supplemental assessments issued by the assessor for changes in ownership. We found in some instances, the assessor was properly issuing supplemental assessments. However, the assessor does not issue supplemental assessments for taxable possessory interests with a stated term of one year where the assessor has used a reasonably anticipated term of possession other than one year. Instead, for purposes of a supplemental assessment, the assessor treats the taxable possessory interests as if they were month-to-month agreements and no supplemental assessment is issued.

In situations where the term of the existing taxable possessory interests expired, the assessor considered the interests to be month-to-month taxable possessory interest with a reasonably anticipated term of possession based on the history of the tenant. Supplemental assessments again were not issued.

The assessor also advised that some public agencies are not forthcoming in providing annual requested information. Therefore, the assessor has not been able to obtain current or correct tenant information to determine if a change in ownership had occurred. The BOE contacted the Crescent City Harbor District. The agency was cooperative in providing updated tenant information. We were able to confirm new stated terms to support the issuance of supplemental assessments.

Taxable possessory interests, like other real property, are subject to supplemental assessments whenever there is a change in ownership or completed new construction. Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction. Assessors' Handbook section 510, *Assessment of Taxable Possessory Interests* (AH 510), advises that the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

By not consistently issuing supplemental assessments, the assessor's practice is contrary to statute and results in unequal treatment of taxpayers.

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.[8]

After reviewing unpatented mining claims located in Del Norte County, we have one recommendation.

RECOMMENDATION 5: Review possessory interest valuation parameters to reflect 2012 federal changes regarding how annual maintenance fees are paid.

Unpatented mining claims represent a mineral right interest on federal land. Claim holders can locate a claim and by either paying a maintenance fee or, for those holding fewer than ten claims, performing annual assessment work on the claim to retain the exclusive right to develop the minerals on a claim. There is no stated term of possession in the federal law governing mining claims. The assessor may choose an anticipated term of possession to use in the valuation procedure. The Del Norte County Assessor uses a one-year term of possession to value the unpatented mining claims. While most claims in the county are only 20 acres in size, a few are larger and the annual fees are now calculated on a fee of $155 for every 20 acres or portion thereof. This change in the fee structure will cause the value of the possessory interest to increase. Failure to account for the change in fee structure will result in an underassessment of these properties.

[8] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.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.

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 at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.[9]

Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors (LTA) No. 2009/049, the statute requires the assessor to complete seven audits per year.

In Del Norte County, the assessor does not have an auditor-appraiser on staff. Section 670(d) cites specific qualifications that must be met before an employee of the assessor can perform the duties of an auditor-appraiser. However, the assessor has the authority under section 670(d) to perform audits.

RECOMMENDATION 6: Establish an audit program and audit the books and records of professions, trades, or businesses, pursuant to section 469.

No formal audits have been performed by the assessor's office since the 2012-2013 roll year.

An audit program is an essential component of an equitably administered assessment program. An effective audit program verifies the reporting of business property accounts and helps to prevent any potential errors or escape assessments. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well-managed assessment program. Assessors' Handbook section 506, *Property Tax Audits and Audit Program*, details the basic framework for a supportable property tax audit and cites generally accepted audit principals set forth by the American Institute of Certified Public Accountants (AICPA).

By failing to conduct the required number of audits, the assessor is out of compliance with the minimum audit workload requirements of section 469 and risks the possibility of allowing taxable property to escape assessment permanently.

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[9] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.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.

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.[10]

Classification

For assessment purposes, machinery and equipment costs reported on Schedule A of the BOE-571-L, *Business Property Statement* (BPS), may represent either personal property, or fixtures, or both. Business trade fixtures are also reported on Schedule B of the BPS. A fixture is an item of tangible property that was originally personal property but is now classified as real property for property tax purposes because it has become physically or constructively annexed to real property with the intent that it remain annexed indefinitely. We reviewed a number of business property accounts likely to include taxable trade fixtures and found some classification problems.

RECOMMENDATION 7: Correctly classify taxable trade fixtures.

We found a number of instances where fixtures were enrolled as personal property on the assessment roll. First, we found the assessor does not allocate a percentage of machinery and equipment to fixtures when acquisition costs are reported in bulk. 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 determinations, assessors must estimate the percentage of fixtures likely to be included in reported machinery and equipment. Secondly, we observed some service station and agricultural fixtures classified as personal property upon enrollment.

Classification is an important element of the local assessment function for several reasons. Principally, it is important 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 causes incorrect assessments.

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[10] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.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.

Mobile Agricultural and Construction Equipment Valuation Factors

The assessor currently utilizes separate factor tables for new and used mobile agricultural and construction equipment in accordance with the instructions pertaining to Table 5 and Table 6 in the Assessors' Handbook section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581). Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile agricultural and mobile construction equipment when the taxpayer does not indicate on the BPS whether the equipment was first acquired new or used. Where the condition is indicated, the assessor should use the "new" or "used" table. We reviewed the assessor's valuation tables related to this issue and found them to be correctly compiled in conformance with BOE-recommended cost index and depreciation factors. However, we found some problems with a number of the valuation calculations made in relation to this type of taxable equipment.

RECOMMENDATION 8: Apply the agricultural percent good factors, prescribed in Table 6 of the AH 581, as intended.

We observed a number of instances where the assessor applied mobile agricultural equipment valuation tables to other agricultural related personal property. We also identified an instance where valuation factors from a table intended for non-mobile agricultural personal property were applied to mobile agricultural equipment cost data. The BOE-prescribed percent good factors published in Table 6 of the AH 581 are intended solely for the valuation of self-propelled machinery and related implements. Therefore, when the assessor applies these tables to other non-mobile agricultural equipment, including bins, air compressors, portable calf pens, portable pumps, welders, irrigation pipe, and generators, the resulting value conclusion will likely be inaccurate. The mobile agricultural equipment percent good factors indicated in the AH 581 are based upon an exclusive set of market parameters. Accurate assessments depend on the judicious application of these tables.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business, but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards.[11]

For the 2014-15 roll year, the assessor enrolled 13 general aircraft with an assessed valuation of $577,852. Overall, the county has a well-administered aircraft assessment program. However, we found one area in need of improvement.

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[11] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Aircraft*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/aircraft_general.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.

RECOMMENDATION 9: Properly apply adjustments to the average retail value in accordance with the guidelines set forth in Assessors' Handbook section 577, *Assessment of General Aircraft* (AH 577).

The assessor uses published value guides, including the *Aircraft Bluebook-Price Digest*, to value general aircraft. These values are adjusted to reflect local market conditions, sales tax, unusual condition, equipment installed, and engine and airframe hours. However, we found that the assessor was adjusting the published average wholesale value rather than the average retail value as directed in AH 577.

According to AH 577, when calculating the market value using a published value guide, the assessor should apply a 10 percent adjustment to the listed retail values to account for dealer incentives and reconditioning to value an aircraft in average condition on the lien date. Then, as deemed appropriate by the assessor, other adjustments may be made, such as overall condition, equipment installed, hours since a major engine overhaul, and total airframe hours. Sales tax should be applied to the final adjusted value.

The assessor's practice of adjusting the average wholesale value rather than the average retail value found in the *Aircraft Bluebook-Price Digest* when valuing general aircraft is contrary to the BOE's valuation guidelines contained in AH 577, and may lead to erroneous values.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.[12]

The assessor enrolled 458 pleasure vessels with an assessed valuation of $2,625,070 and 88 documented vessels with an assessed valuation of $680,985 for the 2014-15 roll.

We reviewed several vessel assessments in detail. Our sampling included individual vessel appraisals and vessel valuations subject to the assessor's application of an annual depreciation rate. We found that the assessor has adopted the BOE-developed depreciation schedule in accordance with Letters to Assessors No. 2013/009. We also found that the assessor correctly adds a sales tax component to the value and makes adjustments for vessel condition, motor and motor condition, accessories, and deductions for trailers when information is available.

We sampled several vessels that were partially exempt under the preferential 4 percent assessment ratio and found that the exemption forms were sufficiently completed and exemptions were appropriately granted when the qualifications stipulated in section 227 were met.

[12] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Vessels*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/vessels_general.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.

Overall, the assessor's vessel assessment program is well administered. However, we did find an area in need of improvement.

RECOMMENDATION 10: Annually assess documented vessels at market value.

Although pleasure vessels are being correctly assessed annually to reflect market values, we found instances where documented vessel assessments were not updated annually to reflect current market value. This practice appears particularly prevalent with commercial vessels. The assessor has applied valuation factors that have increased assessed values of documented vessels in recent years. The increasing valuation factors do not appear to take into account the condition of the vessel, or whether the equipment of the subject vessel is above or below average.

Article XIII, section 1 of the California Constitution states that unless otherwise provided by the constitution or the laws of the United States, all property is taxable and shall be assessed at the same percentage of fair market value. Assessors' Handbook section 576, *Assessment of Vessels*, further states that vessels are to be valued at their fair market value every year as of the January 1 lien date. This value can be estimated from the sale price or published vessel value guides. For mass appraisal purposes, a value estimate can also originate from the application of sufficiently specific depreciation rates derived from market data. Appreciating values by applying valuation factors that do not take into account the condition of the subject vessel will likely result in inaccurate assessments and is contrary to statutory guidelines.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2014-15 assessment roll:[13]

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	$682,003,932
	Improvements	$1,016,658,617
	Fixtures	$11,085,234
	Personal Property	$53,815,617
	Total Secured	$1,763,563,400
Unsecured Roll	Land	$4,944,475
	Improvements	$3,795,250
	Fixtures	$5,798,336
	Personal Property	$21,408,380
	Total Unsecured	$35,946,441
Exemptions[14]		($100,846,979)
	Total Assessment Roll	$1,698,662,862

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:[15]

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2014-15	$1,698,663,000	-0.1%	6.2%
2013-14	$1,700,827,000	-2.8%	4.3%
2012-13	$1,750,327,000	1.9%	1.4%
2011-12	$1,718,494,000	-0.8%	0.1%
2010-11	$1,732,391,000	-0.4%	-1.9%

[13] Statistics provided by BOE 822, *Report of Assessed Values by City*, 8 Del Norte County.
[14] The value of the Homeowners' Exemption is excluded from the exemptions total.
[15] Roll Values and Statewide changes are from the California State Board of Equalization Annual Reports, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from $655,713 in 2010-11 to $783,311 in 2014-15.

As of the date of our survey, the assessor had nine budgeted permanent staff. This included the assessor, assistant assessor, one appraiser III, three appraiser-aides, one office technician, one assessment analyst, and one mapping/document transfer technician.

The following table identifies the assessor's budget and staffing over recent years:[16]

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2014-15	$783,311	5.2%	9
2013-14	$744,749	6.0%	8
2012-13	$702,325	1.4%	8
2011-12	$692,536	5.6%	8
2010-11	$655,713	-6.7%	8

Table 4: Assessment Appeals

The following table shows the assessment appeals filed over recent years:[17]

YEAR	ASSESSMENT APPEALS FILED
2014-15	29
2013-14	11
2012-13	22
2011-12	24
2010-11	8

[16] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.
[17] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:[18]

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2014-15	41	$75,247,985
2013-14	48	$85,004,375
2012-13	46	$32,666,069
2011-12	46	$69,393,293
2010-11	50	$69,819,979

Table 6: Change in Ownership

The following table shows the total number of transfer documents received and the total number of reappraisable events in recent years.[19]

ROLL YEAR	TRANSFER DOCUMENTS RECEIVED	REAPPRAISABLE EVENTS
2014-15	5,465	N/A
2013-14	4,896	2,769
2012-13	5,177	2,964
2011-12	5,290	1,241
2010-11	5,662	628

[18] Statistics provided by BOE-802, *Report on Exemptions*.
[19] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 7: New Construction

The following table shows the total number of new construction permits received and the total number of new construction assessments in recent years:[20]

ROLL YEAR	NUMBER OF PERMITS RECEIVED	NEW CONSTRUCTION ASSESSMENT
2014-15	594	N/A
2013-14	668	21
2012-13	581	25
2011-12	477	27
2010-11	550	25

Table 8: Declines in Value

The following table shows the total number of decline-in-value assessments in recent years.[21]

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2014-15	1,670
2013-14	1,645
2012-13	1,550
2011-12	1,631
2010-11	424

[20] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.
[21] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Del Norte County

Chief

David Yeung

Survey Program Director:

Diane Yasui	Manager, Property Tax

Survey Team Supervisor:

Andrew Austin	Supervising Property Appraiser

Survey Team Leader:

Tammy Aguiar	Senior Specialist Property Appraiser

Survey Team:

James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Cheron Burns	Associate Property Appraiser
Robert Marr	Associate Property Appraiser
Jeff Arthur	Associate Property Auditor-Appraiser
Cyrus Haze Ghazam	Assistant Property Auditor-Appraiser
Lisa Law	Junior Property Appraiser

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	
Government Code	
§15640	**Survey by board of county assessment procedures.**
§15641	**Audit of records; appraisal data not public.**
§15642	**Research by board employees.**
§15643	**When surveys to be made.**
§15644	**Recommendations by board.**
§15645	**Survey report; final survey report; assessor's report.**
§15646	**Copies of final survey reports to be filed with local officials.**
Revenue and Taxation Code	
§75.60	**Allocation for administration.**
Title 18, California Code of Regulations	
Rule 370	**Random selection of counties for representative sampling.**
Rule 371	**Significant assessment problems.**

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

COUNTY OF DEL NORTE

OFFICE OF THE ASSESSOR

981 "H" Street, Suite 120
Crescent City, California 95531

Phone (707) 464-7200
Fax (707) 464-3115

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MAR 16 2017

County-Assessed Properties Division
State Board of Equalization

March 14, 2017

Mr. David Yeung, Chief
County Assessed Properties Division
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0064

Re: Del Norte County Assessment Practices Survey Response

Dear Mr. Yeung,

Enclosed is Del Norte County's response to the State Board of Equalization's recent Assessment Practices Survey and resulting recommendations. This response is made pursuant to section 15645 of the Government Code for inclusion with the final published survey report.

We would like to thank the survey team for their professionalism and courtesy during our audit. We value the opportunity to collaborate closely with the State Board and receive constructive feedback on our practices and procedures. During a time when our office has endured substantial turnover and a number of retirements, we are suffering from a loss of professional knowledge and experience. The positive interaction with the Board serves as a useful tool for ensuring the continual compliance of state laws by our office, and allows us to provide the utmost quality of service to our community.

I would like to express my deepest appreciation and thanks to the staff of the Del Norte County Assessor's office. The results of this audit indicate their dedication and hard work to produce an accurate assessment roll and provide excellent service for our taxpayers. I am extremely proud to achieve our department goals with this highly committed and professional team.

Sincerely,

Jennifer Perry

Jennifer Perry
Del Norte County Assessor

Enclosure

Assessor's Response to BOE Recommendations

Recommendation 1: Improve the administration of the welfare exemption program by:

(1) requiring a valid OCC prior to granting the welfare exemption

Response: We concur, and our office procedures do require welfare exemption applicants to provide proof of a valid OCC prior to granting an exemption. Unfortunately, this particular finding was an anomaly which occurred in error, and is not representative of the work generally conducted by our office. We will continue to require a valid OCC prior to granting welfare exemptions.

(2) Conducting field inspections on all first-time filing claims and claims filed for new locations

Response: We concur. Our office has utilized the appraisal staff already conducting field inspections for new construction as a method of confirming the use of the property. However, we will conduct a second field inspection by the staff member responsible for granting the welfare exemptions.

(3) Properly applying the provisions of section 270 for exemption claims that are not timely filed

Response: We concur, and our office procedures do follow the provisions of section 270(b) by limiting the total tax liability to a maximum of $250 per year for late filed claims. Unfortunately, this particular finding was an anomaly which occurred in error, and is not representative of the work generally conducted by our office. We will continue to limit late filing penalties to $250.

(4) Exempting only those areas of veterans' organizations used exclusively for exempt purposes.

Response: We concur. Though one of our veterans' organization locations is owned by local government and is non-taxable, the other is located on a fee parcel and has been receiving a full exemption. We were unaware of any non-exempt use of the property which would affect the exemption, as our office has not seen any advertisement or received notification indicating the availability of the property for use by the general public or others. However, the BOE was able to obtain such information during their audit. We will follow up with this finding and reconsider the available exemption based on use of the property.

Recommendation 2: Require an annual filing of a BOE-261-G prior to granting the low-income exemption for disabled veterans.

Response: We concur, and our office procedures do require the annual filing of a BOE-261-G prior to granting the low-income disabled veteran exemption. Unfortunately, this particular finding was an anomaly which occurred in error, and is not representative of the work generally conducted by our office. We have reviewed and corrected our disabled veterans' records to better indicate those individuals required to provide the annual filing prior to granting the low-income veterans' exemption.

Recommendation 3: Obtain copies of well permits from county health department.

Response: We concur. Our office was unaware that we were not receiving all well permits from our county health department pursuant to Section 72. Though we have no jurisdiction over other offices, we have collaborated with the health department to ensure we will now receive all permits required by law to be provided to the assessor.

Recommendation 4: Improve the taxable possessory interest program by:

(1) Properly identifying the name of the specific government agency controlling the use of the property

Response: We concur. In some instances, the agency name was listed several pages back in the file, but was not brought forward on subsequent appraisal records. In the case of our data system listing "no file found" for corresponding fee parcels: parcel history indicated a change in the assessor's parcel number due to mapping completed subsequent to the original preparation of the possessory interest file. Assessor parcel numbers are correct in our data system, but had not been updated and hand-written in the paper file. We will continue to identify the controlling government agency, and will improve our records by reviewing our possessory interest files to reflect all updates so as to match our data system.

(2) correctly classifying cable television right-of-way on privately owned lands

Response: We concur. Due to the age and complexity of these files, historical research is necessary to complete our review and make adjustments as needed to the accounts. We are currently researching the file history of the cable television possessory interest accounts in Del Norte County, and will update files as needed in order to comply with the Revenue and Taxation code.

(3) obtaining current copies of all lease agreements or permits for taxable possessory interests

Response: We concur. After the completion of the audit, we found several long term contracts that were located in a separate filing area from the possessory interest appraisal files. This separation would lend itself to concluding that we did not have lease contracts on file. We are currently reorganizing our possessory interest files to insure all data is accessible in a consistent location. In other instances, no lease agreement was provided to our office after our requests for information. This has been a historical hurdle for our office, and we are now considering the possibility of a Revenue and Taxation code 480.5 ordinance request in order to assist in our efforts. We will continue to request copies of lease/rent agreements as necessary for taxable possessory interests.

(4) establishing the reasonably anticipated term of possession in accordance with Rule 21(d)(1)

Response: We concur. Our office is reviewing all possessory interest files to ensure contract terms are being used, unless it is demonstrated by clear and convincing evidence that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. We are also taking steps to ensure such evidence is documented in detail within the valuation file.

(5) properly issuing supplemental assessments for taxable possessory interests

Response: We concur. Our office has corrected the procedures for supplemental processing on possessory interests with month to month tenancies where a term of possession of one year or more has been used, as well as expired contracts.
In instances where our office was not provided information on new or renewed contracts from the governing agency: we do not have control over these agencies or their decision to comply with our requests. We cannot issue supplemental assessments on activity that we are unaware of. In addition to written requests and phone calls, we will implement a field visit (as necessary) to local controlling agencies to request documentation in-person. As previously indicated, we are considering the request of a Revenue and Taxation code 480.5 ordinance to assist in our efforts.

Recommendation 5: Review possessory interest valuation parameters to reflect 2012 federal changes regarding how annual maintenance fees are paid.

Response: We concur. Our office has now implemented the new 2012 federal changes on annual maintenance fees for mining claims.

Recommendation 6: Establish an audit program and audit the books and records of professions, trades, or businesses, pursuant to section 469.

Response: We concur. Our office has been without an Auditor-Appraiser since 2012. We will reinstate our audit program as budget and staffing allow.

Recommendation 7: Correctly classify taxable trade fixtures.

Response: We concur. Though property assets have been enrolled and have not escaped taxation, our office has not allocated an estimated percentage as fixture value. We are working with fellow counties to verify research in order to determine an appropriate percentage for fixtures to use for industry bulk reporting.

Recommendation 8: Apply the agricultural percent good factors, prescribed in Table 6 of the AH 581, as intended.

Response: We concur. We are reviewing our agriculture files to ensure all assets have a correctly prescribed depreciation table.

Recommendation 9: Properly apply adjustments to the average retail value in accordance with the guidelines set forth in Assessors' Handbook section 577, *Assessment of General Aircraft* (AH 577).

Response: We concur. Our office has historically valued general aircraft with an adjustment to the listed *wholesale* prices found in the Aircraft Bluebook price digest. Adjusting the wholesale price yields a lower value than the adjustment of the average retail price. Our office considers this practice a method which values general aircraft more appropriately for our region. Assessors' Handbook 577 states, "*Appraisers should make any adjustments to the base value in the guides as necessary to achieve fair market value assessments of aircraft*". Though our opinion is that our method is appropriate and accurate for our county, we will proceed with updating our procedures to reflect the adjustment of *retail* value versus wholesale value, as recommended by the BOE. We will then apply additional adjustments to the resulting value as deemed appropriate to reflect market or aircraft condition.

Recommendation 10: Annually assess vessels at market value.

Response: We concur. There is a substantial lack of comparable market sales for valuing documented vessels, as well as a lack of resources for a documented vessel cost guide. Therefore, we use income evidence as represented from the annual fishing season as an indicator of value fluctuation. We will continue to exhaust all efforts to obtain market evidence for documented vessel valuations, and will adhere to the recommended practices to the extent that our information will allow.