

SONOMA COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2015

CALIFORNIA STATE BOARD OF EQUALIZATION

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December 29, 2015

CYNTHIA BRIDGES
Executive Director

No. 2015/062

TO COUNTY ASSESSORS:

**SONOMA COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Sonoma County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable William F. Rousseau, Sonoma County Assessor/Recorder/Clerk, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, 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 Sonoma 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 2014. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Rousseau and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK: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 every county assessor's office. This report reflects the BOE's findings in its current survey of the Sonoma County Assessor/Recorder/Clerk's Office.¹

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Sonoma 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 William F. Rousseau, Sonoma County Assessor/Recorder/Clerk, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

¹ This review covers only the assessment functions of the office.

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."² 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, review each county's property assessment practices and procedures once every five years, and publish 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 Code³ 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 included an assessment sample of the 2013-14 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.

Our survey methodology of the Sonoma County Assessor/Recorder/Clerk's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with

² Government Code section 15642.

³ 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.

officials in other public agencies in Sonoma 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*, 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, staff property and activities, assessment appeals, 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 California Land Conservation Act (CLCA) property, taxable possessory interests, historical property, 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, and vessel assessments.

EXECUTIVE SUMMARY

We examined the assessment practices of the Sonoma County Assessor's Office for the 2013-14 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, workload, staff property and activities, assessment appeals, and the exemptions programs.

In the area of real property assessment, the assessor has an effective program for historical property. However, we made recommendations for improvement in the change in ownership, new construction, declines in value, California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property programs.

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

The Sonoma County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2013-14 assessment roll indicated an average assessment ratio of 100.04 percent, and the sum of the absolute differences from the required assessment level was 0.64 percent. Accordingly, the BOE certifies that Sonoma County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF SONOMA COUNTY

Sonoma County is located along the Pacific coastline in Northern California. The county encompasses an area of 1,768 square miles, consisting of 1,576 square miles of land area and 192 square miles of water area. Created in 1850, Sonoma County was one of California's original 27 counties. Sonoma County is bordered by Mendocino County to the north, Lake and Napa Counties to the east, and Marin County to the south.



As of 2013, Sonoma County had a population of 495,025. Sonoma County has nine incorporated cities: Cloverdale, Cotati, Healdsburg, Petaluma, Rohnert Park, Santa Rosa, Sebastopol, Sonoma, and Windsor. The county seat is the city of Santa Rosa.

Much of the land within Sonoma County is used for agricultural purposes. The total gross production value of agricultural commodities in 2013 was over \$848 million, with wine grapes being the leading crop at over \$605 million.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Sonoma 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.

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RECOMMENDATION 9: Improve the manufactured home program by: (1) enrolling manufactured homes situated on fee owned land as personal property and (2) periodically reviewing manufactured homes situated on fee owned land for declines in value.18

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.⁴

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. 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.

⁴ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_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>.

We reviewed several records involving legal entities having experienced a change in control or a change in ownership. We found an area in need of improvement.

RECOMMENDATION 1: Improve the change in ownership program by properly notifying taxpayers of any penalty added in compliance with section 482(f).

Whenever a change in control or change in ownership of a legal entity occurs and a *Statement of Change in Control and Ownership of Legal Entities* is not timely filed, the assessor notifies entities of the penalties being applied. Although the notice apprises taxpayers of their right to an informal review and their right to file an appeal, they do not notify them of a remedy to request penalty abatement.

Section 482(f) requires that the assessor mail notice of any penalty added to either the secured or the unsecured roll to the transferee. Further, section 483(c), provides that an entity may file a written application to request penalty abatement with the county board of equalization or assessment appeals board within 60 days of the assessor's penalty notice. The current method of notifying the property owner of a penalty does not inform the property owner of their right to have the penalty abated.

By not providing property owners information about their right to file a written request to have the penalty abated, the property owner may be unaware of the penalty abatement process, and may be required to pay a penalty that could have been abated if they had been properly informed.

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.⁵

We reviewed a number of records that had new construction activity and found the records to be well documented and the appraisal to be clear and concise. However, we found one area of concern regarding the assessor's new construction program.

⁵ 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>.

RECOMMENDATION 2: Properly classify structural improvements in accordance with Rule 124.

We found that the assessor continues to enroll completed new construction of septic systems as a component of the land value. Rule 124 provides that buried tanks are improvements. Although septic systems function in ground, they are not a component of the land value. The value of septic systems should be correctly assigned as an improvement. Classification of septic systems as land instead of improvements results in incorrect special assessments based on land and improvement values.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.⁶

In our review of the assessor's decline-in-value program, we recognized an area in need of improvement.

RECOMMENDATION 3: Improve the decline-in-value program by including all information required by section 619(b) on the decline in value notice when fully or partially restoring the factored base year value.

Although the assessor's value notice sets forth the procedure for filing an appeal, the notice does not contain an explanation of the stipulation procedure. Section 619(b) provides that the information given by the assessor to the assessee must include an explanation of the stipulation procedure set forth in section 1607. By not including all required information in the notices sent to taxpayers, the assessor is not in compliance with current statutes and taxpayers are not being properly notified of the information concerning the stipulation procedure.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses such

⁶ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Declines in Value*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/declinesinvalue_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>.

as hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.⁷

We reviewed several CLCA assessments and found the assessor has an efficient and well-organized program in place to value these properties. However, we found some areas where improvement is needed.

RECOMMENDATION 4: Improve the valuation of CLCA properties by:
(1) capitalizing compatible use income; (2) deducting a charge for a return of the well value from income attributable to the property; (3) valuing vineyard trellising as unrestricted improvements; and (4) properly accounting for deductions for expense charges from the income stream attributable to the real property.

Capitalize compatible use income.

We found the assessor is not recognizing compatible use income for properties having additional income from cell tower leases. The appropriate manner to value this income, according to the guidance provided in Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), page II-16, is for the appraiser to estimate the duration of the lease and capitalize the rent received as a level annuity. The present worth of the restricted reversionary value is then added to the present worth of the annuity.

We also found the assessor allocates an estimated acreage for winery sites, assigns the site a base year value, and adjusts the base year value for inflation each lien date. The assessor should value permitted commercial sites allowed under open-space restrictions, such as wineries, by capitalizing an economic site rent using the open-space capitalization rate.

Property encumbered by a CLCA contract is assessed on the basis of its agricultural income producing ability, including any compatible use income. In defining the income to be capitalized when valuing open-space properties subject to enforceable restrictions, section 423(a)(2) provides that revenue shall be the amount of money which the land reasonably can be expected to yield to an owner-operator. Although this income can be derived from any permitted use of the land under the terms by which it is enforceably restricted, section 428 prohibits residential uses from receiving a restricted valuation. Under these provisions, and in accordance with Government Code sections 51238, 51238.1, 51238.2 and 51238.3, the assessor must assume any use – other than a residential use – allowed by a contract is a compatible use. When income generated by this use is attributable to the land, it must be capitalized in the manner specified for restricted properties.

⁷ For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/clca_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>.

By not including all compatible use income in the valuation process, the assessor's income approach valuation will yield an incorrect value indicator for those open-space properties that have additional income from allowed compatible uses.

Deduct a charge for a return of the well value from income attributable to the property.

We found the assessor does not deduct a charge for the return of the well value in irrigation wells (recapture) when using the income approach to arrive at the restricted land value. Wells are classified as land for property tax purposes and a return on the well value is included in the land capitalization rate. As described in AH 521, wells are wasting assets. Therefore, a charge for a return of the well value must be subtracted from the income stream.

By not deducting a charge for the recapture of the investment in the well, the assessor is overstating the net income of the property and, therefore, overvaluing the property.

Value vineyard trellising as unrestricted improvements.

The assessor values trellises as unrestricted fixed equipment during the period when the vines are exempt. When the vines become taxable, the factored base year value of the trellises and wire is deleted from the assessment roll and the trellis value is considered as part of the income attributable to the vines. The assessor does not allow for a return on and of the trellis investments in CLCA vine calculations.

Article XIII, section 3(i) of the California Constitution exempts from property tax grape vines until three years after the season first planted. Rule 131(h) defines structural improvements as stakes, trellises, fences, and other structural orchard and vineyard improvements. These improvements are taxable both during and after the exemption period for trees and vines. Section 423(e) provides that CLCA contracts may allow nonliving improvements to be valued as restricted property; however, Sonoma County has not adopted such an ordinance. As a result, nonliving improvements such as trellises are not restricted and should not be valued by the restricted valuation method. Pursuant to AH 521, the assessor should allow for a return on and of the value of improvements from the income stream before capitalizing the residual income into the value of the restricted property. This step is necessary because the income to be capitalized in open-space valuation is the net income attributable only to the land and restricted living improvements.

By improperly classifying vineyard trellises, wire, and stakes, the assessor has incorrectly assessed the vines and their accompanying improvements on both restricted and unrestricted vineyard properties. Additionally, deleting trellises from the assessment roll when the vines become taxable results in the omission and miscalculation of supplemental assessments should the property sell.

Properly account for deductions for expense charges from the income stream attributable to the real property.

The assessor is not deducting an expense charge for management, insurance, or maintenance from the income stream. According to the assessor, they are accounting for these expenses by using a lower land rent than they would normally use when calculating the restricted land value.

According to AH 521, expense charges for property management, insurance, and maintenance are legitimate deductions from the gross income attributable to the property. Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to the improvements must be subtracted from the expected gross income prior to capitalization. Expenses that can properly be deducted from the gross income attributable to the real property are those incurred by the owner in managing their investment in the real property.

The assessor's practice of accounting for expenses based on the use of lower rents could be justified provided there was a sufficient study and analysis of rents and expenses to indicate those expenses were accounted for. However, the assessor does not have documentation to support this claim.

By not deducting appropriate expenses, the assessor may be overstating the income to be capitalized, leading to an incorrect restricted land value. If this occurs, the assessor may incorrectly enroll the factored base year value according to section 423.3 as the lower of the calculated values.

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.⁸

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

RECOMMENDATION 5: Improve the taxable possessory interest program by:
(1) discovering and assessing all potential taxable possessory interests and (2) issuing supplemental assessments on taxable possessory interests.

Discover and assess all potential taxable possessory interests.

We discovered potential taxable possessory interests at Sonoma State University that have not been recognized by the assessor.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide a private benefit. Some uses at Sonoma State University appear to meet these requirements and should be reviewed for possible assessment as taxable possessory interests.

⁸ 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>.

Private uses of public school property may be considered "used exclusively for public schools" and therefore fall within the scope of the exemption provided in section 3(d), article XIII, of the California Constitution. These uses should be assessed as taxable possessory interests and exempted under section 254 only upon proper application by the possessor. Failure to assess all potential taxable possessory interests results in escaped assessments.

Issue supplemental assessments on taxable possessory interests.

It is the assessor's practice and unwritten policy not to issue supplemental assessments for changes in ownership of taxable possessory interests.

Taxable possessory interests, like other real property, are subject to supplemental assessment 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. In addition, Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, states 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.

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.⁹

Mineral properties within Sonoma County include sand and gravel mining operations and high temperature geothermal energy properties. Assessor's staff appraises the mining operations. A third party mineral consultant appraises the geothermal energy properties. We reviewed several mineral property appraisals, including geothermal and mining properties. Geothermal energy properties are generally assessed correctly. However, in the assessment of mining properties, we found an area in need of improvement.

Mining Properties

There are several mining properties located in Sonoma County that extract sand and gravel for various purposes throughout the area. Reduced demand for these products has led to fewer quarries in operation compared to prior years, although many operating quarries have accelerated

⁹ 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>.

extraction beyond normal demand, stockpiling the sand and gravel for future demand. Streambed operations, which had been plentiful in the county, are no longer actively mining.

RECOMMENDATION 6: Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

The assessor uses the royalty method to determine the value of the mineral rights. The assessor's business property unit assesses the associated extraction-related fixtures and equipment separately from the mineral rights. The assessor reviews reserves and enrolls additions to reserves when indicated in the appraisal. However, declines in value are not measured using the entire appraisal unit as required in Rule 469(e)(2)(C).

In accordance with article XIII A of the California Constitution, 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 purposes of determining declines 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, improvements including fixtures, and reserves. The assessor should use this unit for measuring possible declines in value.

Failure to properly determine the decline in value 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 at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.¹⁰

Audit Quality

Overall, the assessor's audit program is well administered. However, we found an area in need of improvement.

RECOMMENDATION 7: Improve the audit program by enrolling all escaped assessments and over assessments discovered during the course of an audit.

The assessor typically does not enroll escape assessments that amount to differences of 5 percent or less of the original value of audited business property, with a cap of \$250,000 in value.

Section 531.9 allows a county board of supervisors to adopt an ordinance to prohibit the assessor from making an escape assessment of an appraisal unit where the assessment would result in an amount of taxes due which is less than the cost of assessing and collecting the tax. However, Sonoma County does not have such an ordinance in place. While the assessor's practice may be expedient, the assessor does not have the authority to avoid enrolling escaped property discovered by 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." 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. The assessor's failure to enroll escapes makes it very difficult for the assessee to exercise that right of appeal.

The current arbitrary minimum audit enrollment policy fails to meet the assessor's obligation to assess all property subject to taxation.

¹⁰ 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 Property Statement Program

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

Overall the assessor's BPS processing program is well administered. However, we found an area in need of improvement.

RECOMMENDATION 8: Value taxable business property in accordance with section 501 when a property owner fails to file a business property statement.

When a completed BPS is submitted late, the assessor correctly calculates the current market value of reported taxable business property owned and controlled by the property owner and applies the statutorily defined 10 percent penalty assessment. However, in cases where the BPS is not returned, the assessor does not calculate the current market value of the known taxable business property; he simply carries forward the previous year's enrolled value and adds a 10 percent penalty assessment under section 463. When applied over two or more consecutive years, this policy results in a fixed escalation of previous years enrollments.

Section 441(b) provides that a BPS is considered late if it is not filed by May 7. If an assessee does not file a BPS by May 7, section 501 provides that the assessor shall estimate a value based on available information and, under section 463, the assessor shall add a 10 percent penalty to that estimated value. By carrying forward previous year's assessed values, without considering new information or applying current percent good and trend factor tables, the assessor is enrolling values with no supporting basis. When allowing estimated assessments to continue for several years without new information, the values become increasingly susceptible to error. Any estimated values should be supported by available information in conformance with section 501.

The assessor's current enrollment methodology, as applied to nonfiling business property accounts, likely leads to erroneous value conclusions and is an improper application of the late or nonfiling penalty provided for in section 463.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property

¹¹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Property Statement Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_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>.

taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.¹²

We recognized two areas in need of improvement when assessing manufactured homes.

RECOMMENDATION 9: Improve the manufactured home program by: (1) enrolling manufactured homes situated on fee owned land as personal property and (2) periodically reviewing manufactured homes situated on fee owned land for declines in value.

Enroll manufactured homes situated on fee owned land as personal property.

The BOE discovered manufactured homes situated on fee owned land that were classified as structural improvements rather than personal property. According to assessor's staff, past practice was to classify all manufactured homes situated on fee owned land as structural improvements. Currently, manufactured homes that changed ownership prior to 2005 remain classified as structural improvements, while those that changed ownership in 2005 or after are classified as personal property.

Section 5801(b)(2) provides that manufactured homes not affixed to land on a permanent foundation system shall not be classified as real property for taxation purposes. If special assessments are levied, improper classification of manufactured homes as real property rather than personal property can affect the taxes due. Special assessments are levies upon real property in a particular district that are intended to pay for improvements in that district, and are not typically imposed on items of personal property. Thus, classification of manufactured homes as structural improvements, and therefore as real property, may result in the inappropriate application of special assessments.

Periodically review manufactured homes situated on fee owned land for decline in value.

The BOE discovered that assessments for manufactured homes situated on fee owned land, recently reclassified as personal property, have not been periodically reviewed for declines in value. Instead, the values have remained constant for several years.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value as of the lien date, considering reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. Though not required to reappraise all properties each year, the assessor should periodically review the assessments of all manufactured homes to ensure that declines in value of manufactured homes are recognized accurately and consistently.

The assessor's practice may lead to the overassessment of manufactured homes.

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

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2013-14 assessment roll:¹³

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$26,225,299,580
	Improvements	\$40,263,332,406
	Personal Property	\$609,078,420
	Total Secured	\$67,097,710,406
Unsecured Roll	Land	\$32,507,350
	Improvements	\$872,896,128
	Personal Property	\$1,571,774,399
	Total Unsecured	\$2,477,177,877
Exemptions¹⁴		(\$2,187,981,093)
	Total Assessment Roll	\$67,386,907,190

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
2013-14	\$67,386,907,000	3.3%	4.3%
2012-13	\$65,248,557,000	-0.3%	1.4%
2011-12	\$65,427,532,000	-2.0%	0.1%
2010-11	\$66,772,344,000	-2.2%	-1.9%
2009-10	\$68,303,109,000	-1.3%	-2.4%

¹³ Statistics provided by BOE-822, *Report of Assessed Values By City*, 49 Sonoma County for year 2013.

¹⁴ The value of the Homeowners' Exemption is excluded from the exemptions total.

¹⁵ State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has increased from \$8,883,198 in 2009-10 to \$8,693,671 in 2013-14.

As of the date of our survey, the assessor had 73.73 budgeted permanent staff. This included the assessor, chief deputy assessor, 4 managers, 22.98 appraisers, 7 auditor appraisers, 4 cadastral mapping staff, 3.75 computer analysts, and 30 support staff.

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

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2013-14	\$8,693,671	2.9%	73.73
2012-13	\$8,445,542	-0.2%	73.73
2011-12	\$8,460,983	8.4%	71.73
2010-11	\$7,806,734	-12.1%	71.73
2009-10	\$8,883,198	8.9%	70.25

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:¹⁷

YEAR	ASSESSMENT APPEALS FILED
2013-14	951
2012-13	1,595
2011-12	2,374
2010-11	2,513
2009-10	3,663

¹⁶ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

¹⁷ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

Table 5: Exemptions – Welfare

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

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2013-14	1,106	\$1,933,125,262
2012-13	1,001	\$1,776,427,081
2011-12	969	\$1,680,776,600
2010-11	963	\$1,639,491,561
2009-10	1,066	\$1,558,810,956

Table 6: Change in Ownership

The following table shows the total number of reappraisable transfers due to changes in ownership processed in recent years:¹⁹

YEAR	REAPPRAISABLE TRANSFERS
2013-14	9,938
2012-13	11,059
2011-12	10,007
2010-11	9,895
2009-10	15,103

¹⁸ Statistics provided by BOE-802, *Report on Exemptions*, for years 2009 through 2013.

¹⁹ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

Table 7: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years.²⁰

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2013-14	32,781
2012-13	50,168
2011-12	55,519
2010-11	51,866
2009-10	46,259

²⁰ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Sonoma County

Chief

David Yeung

Survey Team Supervisor:

Ronald Louie

Supervisor, Property Tax

Survey Team Leader:

Tammy Aguiar

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Julie Warren

Senior Specialist Property Appraiser

Robert Marr

Associate Property Appraiser

Cheron Burns

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Cyrus Haze Ghazam

Assistant Property Auditor-Appraiser

Nancy Le

Assistant Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

Evan Becker

Staff Services Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	
<i>Government Code</i>	
§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.
<i>Revenue and Taxation Code</i>	
§75.60	Allocation for administration.
<i>Title 18, California Code of Regulations</i>	
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 Sonoma County Assessor's response begins on the next page. The BOE has no comments on the response.



SONOMA COUNTY

Clerk-Recorder-Assessor

www.sonoma-county.org/cra

ASSESSOR DIVISION

William F. Rousseau
Clerk-Recorder-Assessor
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Santa Rosa, CA 95403
Tel: (707) 565-1877
Fax: (707) 565-1364

October 30, 2015

RECEIVED

Mr. David Yeung
Chief of County Assessed Properties
State Board of Equalization
P.O. Box 942879
Sacramento, CA 95279

NOV 05 2015

**County-Assessed Properties Division
State Board of Equalization**

RE: Sonoma County Assessment Practices Survey

Dear Mr. Yeung:

Pursuant to Section 15645 of the California Government Code, I am providing our written response to the Assessment Practices Survey report. Please include the attached responses in your final Assessment Practices report.

We view the survey process as an opportunity to measure our performance, reexamine our processes, and gain constructive input from your staff. On behalf of the office, I would like to thank the survey team for their cooperation, professionalism and courtesy.

I'd also like to express my appreciation to the staff of the Sonoma County Assessor's Office, whose dedication, competence and efficiency, year after year produce an accurate and timely assessment roll.

Sincerely,

A handwritten signature in cursive script that reads "William F. Rousseau".

William F. Rousseau
Clerk Recorder Assessor

Attachment

Sonoma County's Response to BOE Assessment Practice Survey dated October 2015

RECOMMENDATION 1: Improve the change in ownership program by properly notifying taxpayers of any penalty added in compliance with section 482(f).

Response: We concur. The recommended changes were already implemented while this survey was being conducted.

RECOMMENDATION 2: Properly classify structural improvements in accordance with Rule 124.

Response: We concur that septic systems should be classified as improvements and not land improvements. While the property assessment impact of this difference in classification is de minimis, we will implement this recommendation as time and staffing allow.

RECOMMENDATION 3: Improve the decline-in-value program by including all information required by section 619(b) on the decline in value notice when fully or partially restoring the factored base year value.

Response: We concur. As requested our property tax software vendor has made this change.

RECOMMENDATION 4: Improve the valuation of CLCA properties by: (1) capitalizing compatible use income; (2) deducting a charge for a return of the well value from income attributable to the property; (3) valuing vineyard trellising as unrestricted improvements; and (4) properly accounting for deductions for expense charges from the income stream attributable to the real property.

Response: We concur. Recommended changes will be made as time and staffing allow.

RECOMMENDATION 5: Improve the taxable possessory interest program by: (1) discovering and assessing all potential taxable possessory interests and (2) issuing supplemental assessments on taxable possessory interests.

Response: We concur. Recommend changes will be implemented as time and staffing allow.

RECOMMENDATION 6: Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

Response: We concur. Recommend changes will be implemented as time and staffing allow.

RECOMMENDATION 7: Improve the audit program by enrolling all escaped assessments and over assessments discovered during the course of an audit.

Response: We concur. Recommendations have been implemented.

RECOMMENDATION 8: Value taxable business property in accordance with section 501 when a property owner fails to file a business property statement.

Response: We do not fully concur with this recommendation. Our Auditor-Appraiser staff are required annually to enroll market value for business property. For non-filers the enrollment of the original assessed value is an opinion of value. This value is reviewed annually and estimated based on the best information possible. If the original value is deemed to be within a reasonable range, then only a ten percent penalty is added. In the future we will better document our non-filer procedures and supply our value range study for select business types.

RECOMMENDATION 9: Improve the manufactured home program by: (1) enrolling manufactured homes situated on fee owned land as personal property and (2) periodically reviewing manufactured homes situated on fee owned land for declines in value.

Response: We concur with this recommendation as it pertains to manufactured homes on fee owned land. Please note that manufactured homes on fee owned land account for an extremely low number of the total assessments that we make on manufactured homes. We will review and implement this recommendation as time and staffing allow.