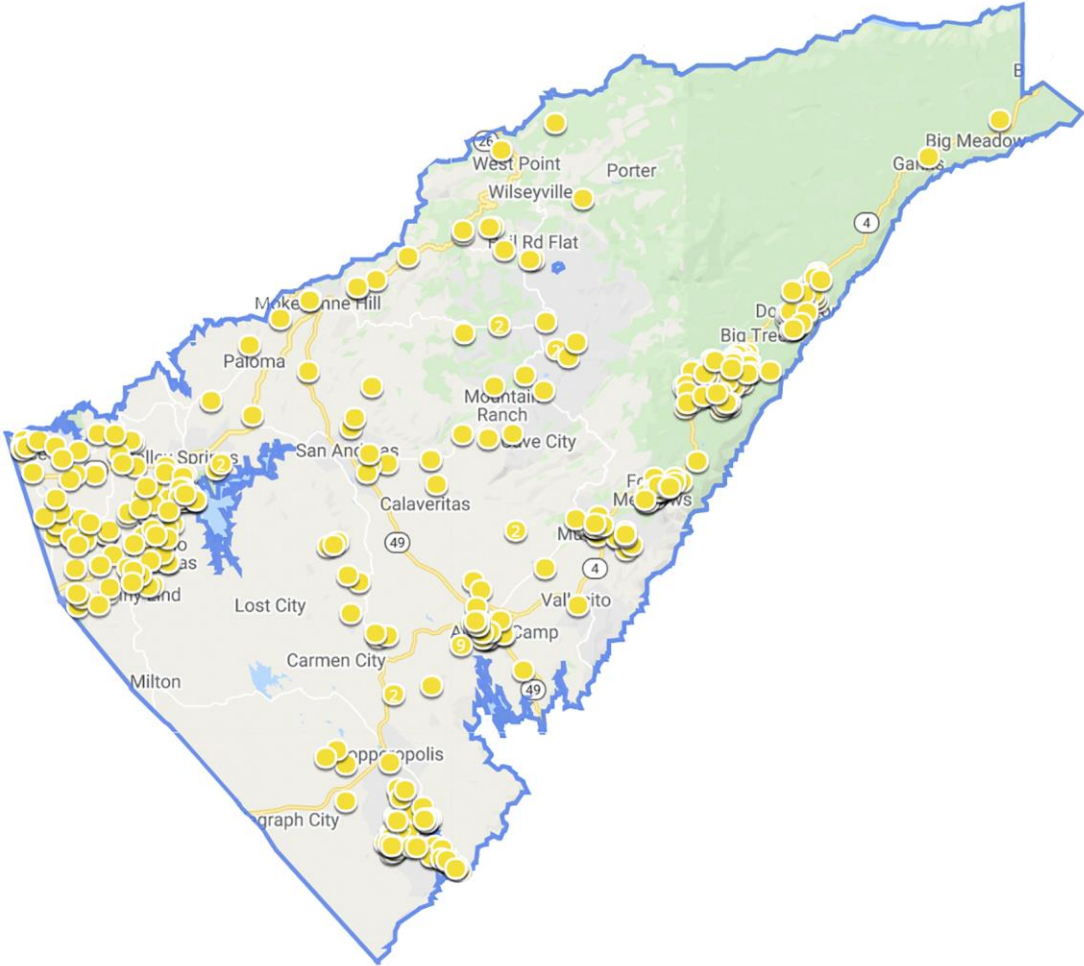


Calaveras County Civil Grand Jury

Assessor's Office

December 16, 2020



Sample of Properties Recently Sold - Per Zillow in November 2020

SUMMARY

Numerous citizens have expressed concern regarding the Calaveras County Assessor's Office being significantly behind in property reassessments. The backlog results in delayed property reassessments, which in turn causes the need for multiple supplemental bills, leading to taxpayer confusion. There was also concern over office management, specifically employee retention, and how it affects productivity and the work environment.

The Calaveras County Grand Jury last investigated the Calaveras County Assessor's Office in 2016-2017. For many years the Calaveras County Assessor's Office has been unable to close an approximate three-year gap on residential property reassessments and approximately a four-year gap on commercial property reassessments. This problem was exacerbated by the Butte Fire in 2015. The backlog remains due to several factors. Additionally, recommendations of the 2016-2017 Calaveras County Grand Jury were never acted upon.

Many citizens in Calaveras County are upset with the Calaveras County Assessor's Office because late reassessments are creating unexpected tax bills. Different processes are available to assessors in order to address their workload. The potential delayed or lost revenue due to multiyear backlogs is an important consideration.

The Calaveras County Assessor's Office has found it difficult to recruit and retain qualified employees. Additionally, the Calaveras County Assessor's Office staff is under constant pressure to address the backlog which has no end in sight.

GLOSSARY

| | |
|------|---|
| AO | Calaveras County Assessor's Office |
| BOE | California State Board of Equalization |
| BOS | Calaveras County Board of Supervisors |
| CAO | Calaveras County Administrative Office |
| CCGJ | Calaveras County Grand Jury |
| FIFO | First In, First Out (a workflow method) |
| FY | Fiscal Year (July 1 – June 30) |
| FBYV | Factored Base Year Value |

METHODOLOGY

The Calaveras County Grand Jury (CCGJ) conducted numerous interviews, researched wage & benefit data, reviewed previous CCGJ reports and conducted internet research of relevant agency sites.

The CCGJ interviewed the following:

- Current and former Calaveras County Assessor's Office (AO) personnel
- Calaveras County Administrative Office (CAO) personnel
- Calaveras County Auditor/Controller Office personnel
- Calaveras County Treasurer/Tax Collector Office personnel
- California State Board of Equalization (BOE) personnel
- BOE Taxpayers Rights Advocate personnel

- Assessors from other California counties
- Real Estate Broker

BACKGROUND

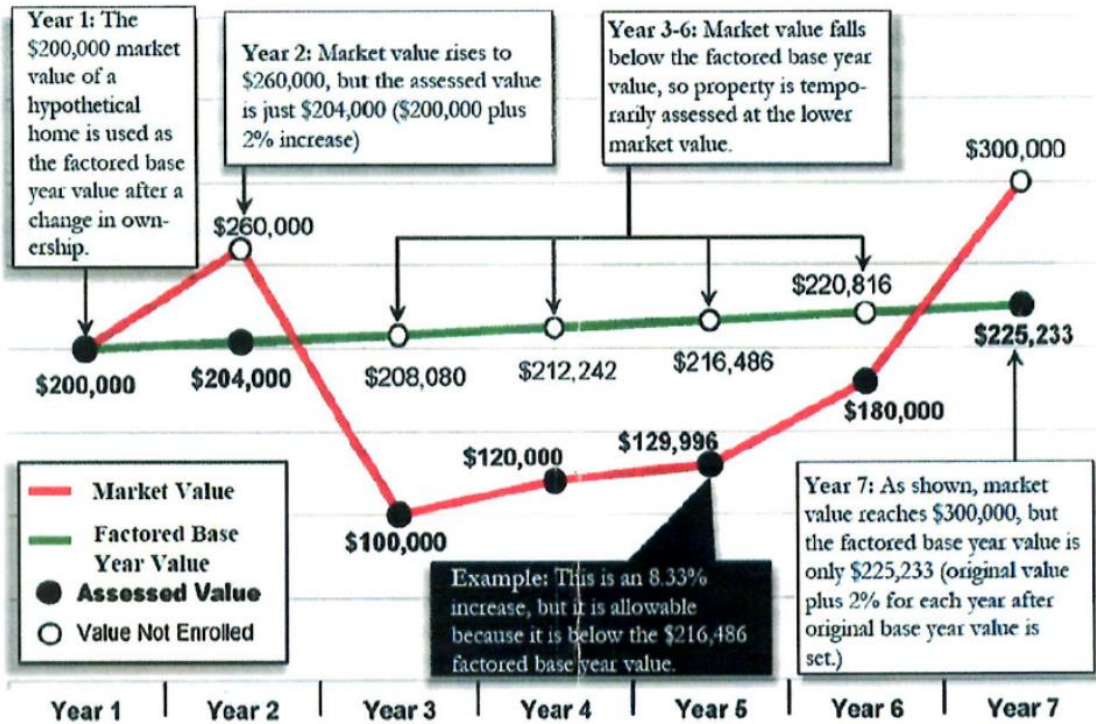
Fundamentals

Property reassessments are a process that local government uses on a regular basis to keep property values up to date. This is an extraordinarily complicated process. Many factors contribute to the final assessed value for a given parcel. The AO has experienced a backlog for the past several years. This backlog results in a delay in the change to the assessed value of properties that undergo a re-appraisable event. Property tax bills are issued on an annual basis and due in two parts.

A correction to an assessment where the AO misses a re-appraisable event in a prior year(s) results in an “escape assessment” tax bill. Examples of an escape assessment are for unreported construction, unreported change in ownership, or as the result of a multi-year backlog. A “supplemental assessment” tax bill is issued when there is a change in ownership or new construction that increases the value of a property. Such bills are necessary for each Fiscal Year (FY) in which the new value is not updated. The current backlog can sometimes result in the need for years of supplemental bills to be issued for residential properties. Sometimes the taxpayer receives these supplemental bills at or near the same time. Significant issues can arise if the property changes hands multiple times before a reassessment is completed. Property owners may be unaware that additional tax bills will be issued.

The Factored Base Year Value (FBYV) is established when a property last changed ownership or was modified due to construction. The maximum amount of property tax cannot exceed 1% of a property’s taxable value, plus bonds, service fees and special assessments. There are many factors that cause property values to fluctuate (e.g. loss in market value, destruction, sale, new construction/improvements, exclusions). Two California ballot propositions passed by voters in 1978 contribute to the determination of the assessed value of real property on an annual basis. Proposition 13 (Article XIII A of the California State Constitution) limits the increase to 2% per year. This is the amount the value of property can increase annually in relation to the FBYV. However, since real estate values can also decrease, Proposition 8 permits the decrease in property value. This decrease must be reflected in the assessed value of a property within one year of the decrease. When real estate values rebound after a decline in value adjustment is made, a property assessment can then increase greater than 2% per year, as long as the assessment does not exceed the accrued annual 2% increase from the FBYV.

The following is an excerpt from the AO brochure which shows an example of fluctuations in property value and underscores the many factors that influence assessed property values.



Assessors have the option to use Rule 2 of the California Board of Equalization (BOE) property tax rules, the “Value Concept.” This concept bases property value on the sales price, and applies to the vast majority of change in ownership reassessments. Rule 2 adjustments are fairly straightforward. There is a presumption that the sales price is the market price. As an alternative to Rule 2, assessors have the discretion to conduct a comparative market analysis, a more time-intensive method. This comparative analysis is mainly done when the sales price does not seem to accurately reflect the true market value of the property. The reassessed value becomes the new FYBV.

Workload and Workflow

The AO generally manages workflow using a first-in, first-out (FIFO) process. Property reassessments subject to Rule 2 still move through the queue in the same way as all other re-appraisable events. This workload management choice significantly impacts the timeliness of reassessments. Any annual increases in the assessed values then result in escape/supplemental bills.

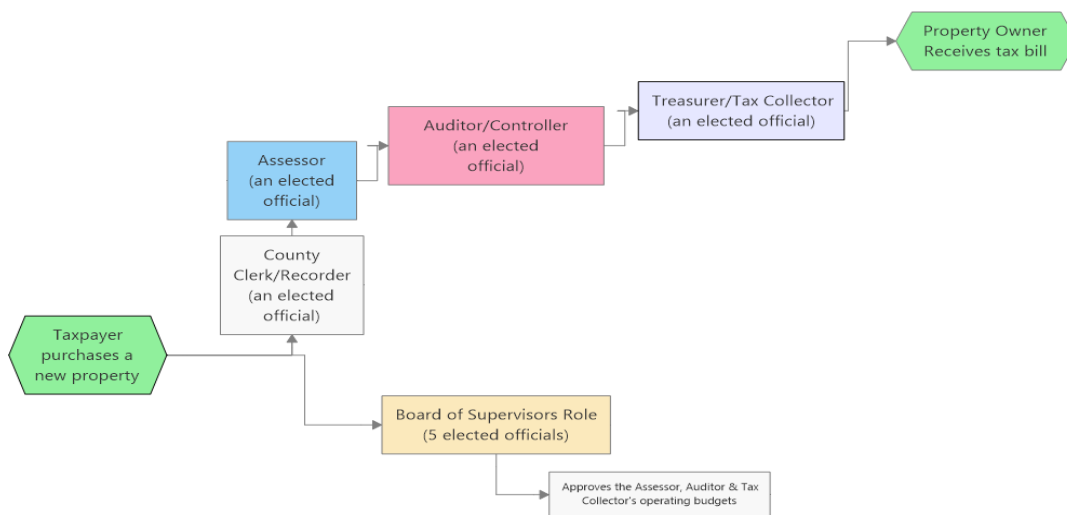
The following table sets forth the total number of re-appraisable transfers resulting in reassessments in Calaveras County, for the past 15 years.



Staffing & Budget

The Assessor is an elected official. The current Assessor has held this title for the past 12 years and is currently the longest serving department head in Calaveras County. She is well known and valued among her peers and has served as president of the California Assessors' Association. All County Assessors interviewed expressed their respect for her knowledge of assessment law and her willingness to share information.

The Calaveras County Board of Supervisors (BOS) has budget authority over the offices of the Assessor, Auditor/Controller and Treasurer/Tax Collector all of whom are elected officials. The following diagram illustrates the relationship between the different county departments and the BOS, as well as how tax data flows from one department to the next:



After years of fluctuating budgeted positions, the current AO has the same number of budgeted full-time equivalent positions (17) as the AO had 15 years ago. Note that there was only a budget increase of approximately \$100,000. The chart below shows the relationship between the gross budget and authorized budgeted staff.

| <i>Gross Budget and Staffing</i> | | |
|----------------------------------|---------------------|------------------------|
| BUDGET YEAR | GROSS BUDGET | PERMANENT STAFF |
| 2019-20 | \$ 1,295,736 | 17.0 |
| 2018-19 | \$ 1,012,251 | 16.0 |
| 2017-18 | \$ 1,326,560 | 14.0 |
| 2016-17 | \$ 1,417,712 | 13.0 |
| 2015-16 | \$ 1,080,276 | 13.0 |
| 2014-15 | \$ 1,034,117 | 12.4 |
| 2013-14 | \$ 1,065,665 | 13.0 |
| 2012-13 | \$ 1,086,830 | 13.0 |
| 2011-12 | \$ 959,289 | 11.3 |
| 2010-11 | \$ 995,512 | 12.0 |
| 2009-10 | \$ 1,137,768 | 14.5 |
| 2008-09 | \$ 1,348,152 | 18.0 |
| 2007-08 | \$ 1,355,694 | 19.0 |
| 2006-07 | \$ 1,362,920 | 19.0 |
| 2005-06 | \$ 1,192,657 | 17.0 |

DISCUSSION

The 2016-2017 CCGJ conducted an investigation of the AO to address a citizen complaint. Finding #1 of the report stated “There is a significant backlog within the Assessor’s Office” and Recommendation #1 stated “The County needs to develop a plan to address this issue through a comprehensive staffing and work methods analysis.” The CAO at the time agreed with Finding #1 and in response to Recommendation #1 stated “This recommendation will be implemented and analysis of the findings will be presented to the Board of Supervisors and County Assessor by the end of the 2017/18 fiscal year.” Fast forward to today, there is no apparent plan to address the backlog in the AO and there was no report presented to the BOS within the specified time.

Taxpayer Confusion

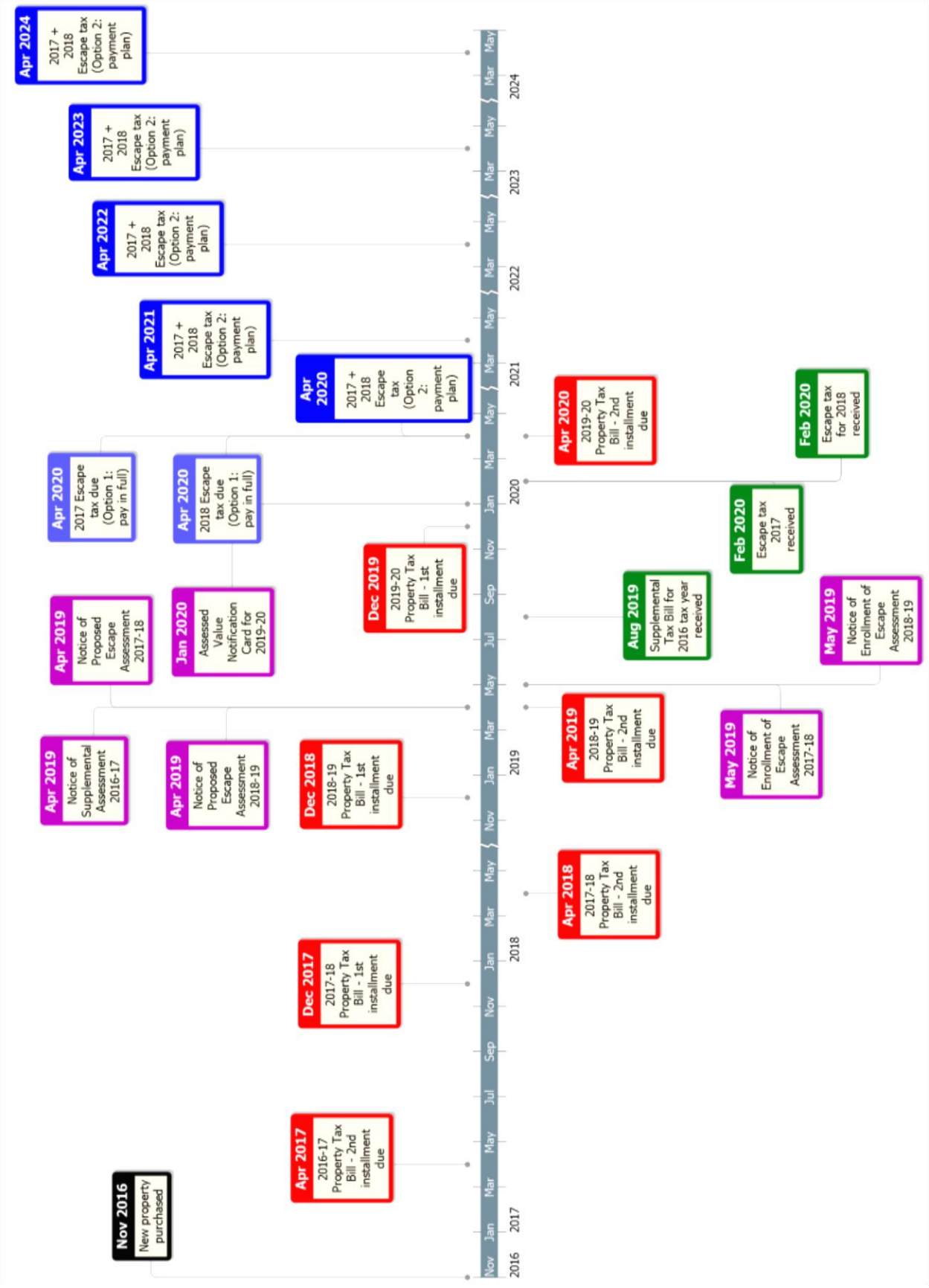
Property assessment law in California is complicated and confusing. Many taxpayers do not understand how Proposition 13 and Proposition 8 work in relationship to each other – namely that a property can decrease in value and be assessed at a lower rate, only to have the market influences raise the price up again to the original price, plus the allowed increase of 2% per year.

The process of reassessment becomes even more complex when the reassessment occurs years after the re-appraisable event. The three to four-year backlog of property reassessments in Calaveras County results in public confusion. While a delayed tax bill may be optimistically considered an interest-free loan, it is often unexpected and can result in a significant amount of money being owed. Payment plans do exist. However, further complications may occur if the property changes hands before all necessary tax bills are issued. If property owners are sufficiently

notified about possible forthcoming supplemental tax bills with the issuance of the initial tax bill, taxpayers would be prepared in the event supplemental tax bills are issued. Currently, there is no information on annual tax bills regarding the potential for future supplemental bills.

Calaveras property owners have publicly voiced concerns regarding fluctuating tax bills and multiple years of supplemental bills, at community meetings, BOS meetings, and to the State Board of Equalization (BOE). Many citizens have expressed their concern with receiving supplemental or escape tax bills issued years after the purchase of a home or property.

In order to illustrate the notices and escape and supplemental tax bills sent to a property owner, an actual example is used from a property sold in November 2016. The following diagram shows the timeframe and process (at the time of this writing) illustrating one property owner's experience:



As illustrated by the previous chart, please note that the property was purchased in 2016. The new owner received annual tax bills based on the previous owner's property value. The new owner received no notifications regarding pending adjustments until 2019. The new owner did not receive the additional 2016 tax bill until August 2019, and the additional 2017 and 2018 tax bills until 2020. The new owner had the option to pay in full (Option 1) or exercise "Option 2," an interest-free payment plan for taxes in excess of \$500. In this case, the County would not receive full payment until eight years after the property changed hands.

In the event a property changes hands after a re-appraisable event, but before a reassessment is completed and a supplemental bill is issued, the former owner may be unaware that additional taxes may be owed. A tax bill that is owed on property no longer in the possession of the seller becomes unsecured, although is still the seller's responsibility. Unsecured tax bills have a higher rate of default.

Another significant issue which impedes timely reassessments is the failure of a personal representative (e.g. trustee, executor, beneficiary) to notify the AO of a property owner's death. The law requires this notification be made on the proper AO form within one hundred fifty days of the property owner's date of death. A new document is also subsequently recorded with the Recorder's Office, along with a "Change of Ownership" form that goes to the AO.

The backlog of all re-appraisable events in Calaveras County is over 6,800. This is in addition to new ongoing transfers in ownership and new construction. For every fiscal year, or portion of a fiscal year, in which an assessment adjustment is made, a supplemental bill is issued to collect the difference in the tax based on the new assessed value. Conversely, if a property is sold for less and a new FBV is established, the property owner must pay the previous higher rate, pending the filing of an appeal of the assessed value until the new lower value is accepted. The appeals process requires diligence on behalf of the new property owner and must be done annually.

Calaveras County has several unique considerations when it comes to the value of property. The topography and types of homes vary widely throughout the County. Many regions of the County are remote, very private, and have remained in a single family for many decades. Therefore, it is very challenging to create comparable property values on a large scale. Reassessing properties on an individual basis is a time-intensive process.

In the case of the Butte Fire, property loss and damage were significant. Land values following the fire took a surprising upward spike, counterintuitive perhaps, but clearly what the market indicated. To further confuse matters, the fire occurred two and a half months into the fiscal year which meant that for that period, a destroyed or damaged home was assessed at full value, while for the remainder of the fiscal year it was assessed at the reduced value. The AO reduced the land value of all properties within the Butte Fire footprint by 10% for total losses and 5% for partial losses. Due to the variability of damage across properties affected by the fire, the AO sent staff to all properties to complete an appraisal. This approach was very labor and time-intensive, but was determined by the Assessor as the best approach for completing accurate values for the damaged properties.

The following value fluctuation factors affected properties damaged in the Butte Fire:

- Loss in property value as a result of damage or destruction to land and/or additions (structures/improvements).
- Increase in land and/or improvements value as a result of market conditions.
- Increase of greater than 2% in value if the property was in “decline in value” status under Prop 8, but significantly increased in market value after the fire.
- Increase in value if previously unknown improvements were discovered during the post-fire field appraisals.
- Lower than expected adjusted value if the damaged or destroyed improvements were not included in the original assessed value.
- Non-current (not up-to-date at the time of the fire) property values at the AO due to the backlog in property reassessments.

Property owners who experienced an unexpected increase in values after losing property in the fire were especially concerned. The public outcry following tax bills issued after the Butte Fire underscores the confusion that exists with respect to property assessments and the effects of the backlog.

Accuracy vs. Expediency

In all other counties interviewed by the CCGJ, the Assessors’ backlogs for reassessments were in the range of two months to two years. Accuracy was considered paramount in all counties, but it was acknowledged that less than 100% accuracy was sometimes acceptable in order to keep up with the workload. In these counties, Rule 2 was applied without other considerations (e.g. comparative market analysis and/or FIFO). It was acknowledged that a lower assessment value was acceptable in order to move through reassessments in a timely manner.

The 2015 Butte Fire affected property values and created the need for reassessments. The CCGJ interviewed Assessors from other counties, some of whom had also experienced disasters. In most cases, reassessments were made a priority in each county in order to create a timely adjusted property tax roll. Most of the reassessments were conducted without field visits. This resulted in more timely reassessments, but lower accuracy. As a result, some property owners were over-assessed and some were under-assessed. None of the Assessors felt that any under-valued reassessments had a significant impact on their county general funds.

In Calaveras County, with respect to the Butte Fire, the opposite strategy was followed. The AO chose accuracy of reassessments as the priority, creating a delayed but more precise result. While the reassessments were more accurate, the delay in supplemental tax bills caused property owners to be confused by supplemental bills and fluctuating property values. From a financial perspective, the backlogs result in delayed property tax revenue. Additionally, the commitment to accuracy in the wake of the Butte Fire further exacerbated the existing backlog.

Taxpayers have the right to an informal review with the AO. Additionally, an appeal can be filed with the County Assessment Appeals Board within 60 days of the date of notice in question. In FY 2019-2020, there were 108 appeals filed.

While the Assessor is directly responsible to the voters, the BOE has oversight of Assessors, and Assessors have an obligation to report statistics to the BOE. The County Property Tax Division of the BOE is responsible for promoting statewide compliance and uniformity in county assessment procedures and practices. The BOE has a department that can assist taxpayers to evaluate the accuracy or fairness of a property assessment. The Taxpayers’ Rights Advocate can ensure that an Assessor is following California property tax law, but is not in a position to question the timeliness of an assessment as long as an Assessor is complying with the law.

Value and Loss Due to Backlog

All taxes comprise about 25% of the total projected General Fund revenue for FY 2020-2021. This tax revenue is in part comprised of real property and personal property taxes. Understanding the value and economic loss to the county as a result of the backlog is difficult to determine. Until a reassessment occurs, the accurate assessed value cannot be taxed. If the AO were to apply Rule 2 (“Value Concept”) on all changes in property ownership, without any other considerations, the revenue from tax rolls would more accurately reflect the current value of property in Calaveras County. At the time of this writing, according to the AO, if the residential reassessments were updated to within six months from the time of a title change, a one-time increase to General Fund revenues would be approximately \$2 million to schools and approximately \$1 million to county, city and special districts.

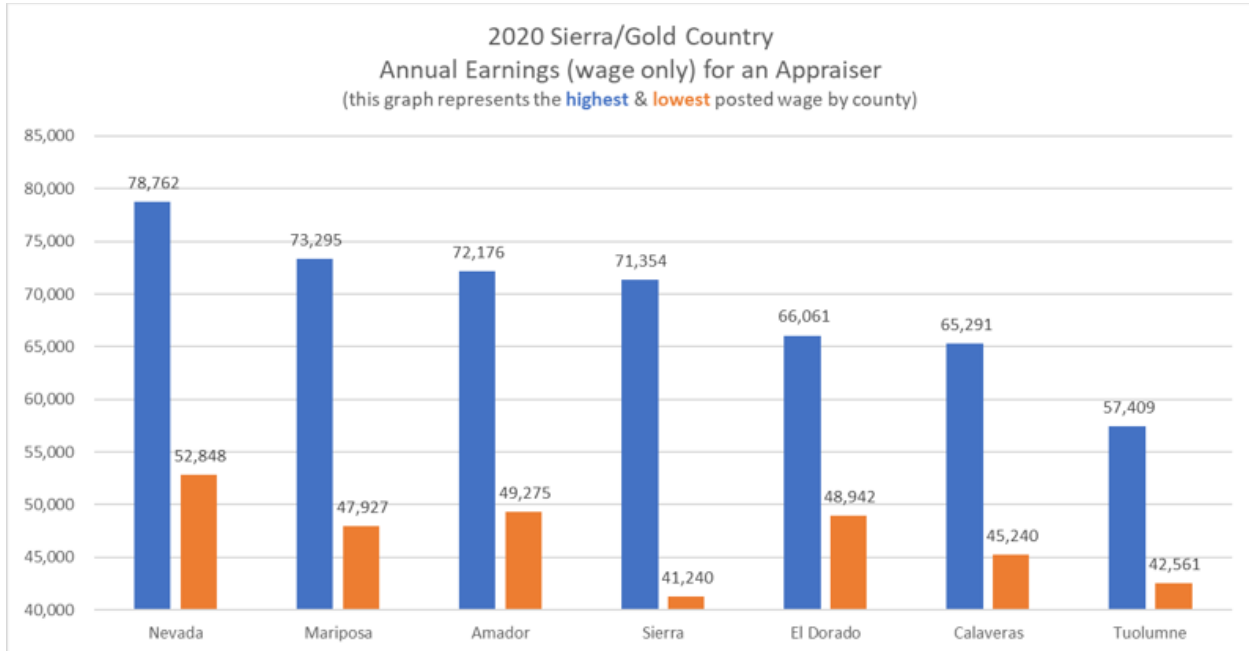
In addition, taxes from supplemental assessments are only collectable if made within the period of the statute of limitations in Revenue and Taxation Code §75.11 in effect at the time the supplemental assessment is made. Currently the statute of limitations is four years. Therefore, while annual tax bills are still issued, any revenue from any increased value is lost after four years due to this statute of limitations.

Staffing Issues

Along with the chronic backlog of property tax reassessments, there is persistent understaffing and high turnover in the AO. Recruitment and retention of qualified staff is a significant challenge. The following table shows the number of budgeted full-time positions and unfilled positions over the past five years. Even with the addition of three positions between 2017 and 2019, the AO is still unable to increase staff sufficiently to fill those vacant positions. Pre-COVID, half of the employees at that time had been employed for less than three years. Other counties acknowledged being short staffed at times, but no other county interviewed appeared to have the staffing and retention issues found in Calaveras County. Additionally, numerous Assessors interviewed acknowledged the learning curve in an Assessor’s office may take up to two years.

| BUDGET YEAR | BUDGETED STAFF | POSITIONS FILLED | UNFILLED POSITIONS |
|--------------------|-----------------------|-------------------------|---------------------------|
| 2019-20 | 17.0 | 13.7 | (3.3) |
| 2018-19 | 16.0 | 13.9 | (2.1) |
| 2017-18 | 14.0 | 13.6 | (0.4) |
| 2016-17 | 13.0 | 11.5 | (1.5) |
| 2015-16 | 13.0 | 11.5 | (1.5) |

The most current appraiser wage information compiled from the various county websites supports the information obtained from interviews conducted by the CCGJ. Calaveras County wages for higher-level appraisers are lower than most foothill counties and lower than most foothill counties for entry-level appraiser positions. Of the ten counties agreed upon by Calaveras County and the Union (Service Employees International Union) for compensation comparison analyses, only two are foothill counties. It appears that wages for Calaveras County are lagging behind other foothill counties by up to 21% for experienced appraisers and up to 14% for entry level appraisers. This may explain in part the reason for the difficulty in filling positions and retaining employees. The following graph demonstrates this disparity:



The AO is behind three years on residential and four years on commercial reassessments. The AO needs all positions filled with qualified employees. Once qualified people are hired, the AO is obligated to the public/property owners to engage in practices which actively and successfully fosters retention of employees. With current management practices and procedures, and staffing levels, the AO is unable to catch up with the workload. There is also no allowance for overtime.

Many hours and dollars are spent on fully training an AO employee, whether they are in the Valuation Division which includes the appraisers, or in Assessment Services which includes the assessment techs and mapping. At the very outset of training, the Assessor personally spends two weeks with each new employee. There is also formal training and certification which occurs within the first year of employment. This culminates in passing State exams in order to become a Certified Appraiser or a Certified Assessment Analyst. In Calaveras County it takes two to four years of on-the-job training for new employees to be brought up to an acceptable level of proficiency. Continuing education courses also occur on an annual basis for all employees. Various Assessors interviewed discussed the use of creative training techniques, including cross training. An example of a previously successful training and recruitment strategy in Calaveras County was an internship program with a local high school.

FINDINGS, RECOMMENDATIONS, AND RESPONDENTS

Pursuant to Penal Code §933 and §933.05, the Grand Jury requests responses within 60 days from elected county official(s), and within 90 days from governing bodies. In order to be included and published in the next Grand Jury report, invited responses must be received within 90 days.

After conducting interviews and reviewing reference documents, the Grand Jury findings and recommendations are as follows:

F1. The Calaveras County Administrative Office responded to Finding #1 and Recommendation #1 in the 2016-2017 Calaveras County Grand Jury Report titled “Assessor’s Office” and agreed to complete a “comprehensive staffing and work methods analysis.” This analysis was never presented to the Calaveras County Board of Supervisors.

R1. The Calaveras County Grand Jury recommends the Calaveras County Administrative Office develop a plan to address the backlog issue in the Calaveras County Assessor’s Office through a “comprehensive staffing and work methods analysis” and present the findings to the Calaveras County Board of Supervisors and the Calaveras County Assessor’s Office by June 30, 2021.

Required Responses

- Calaveras County Board of Supervisors
- Calaveras County Assessor

Invited Responses

- Calaveras County Administrative Officer

F2. The Calaveras County Assessor’s Office is more than three years behind on residential property reassessments and four years behind on commercial property reassessments which leads to property owner confusion regarding supplemental and/or escape tax bills.

R2.a. The Calaveras County Grand Jury recommends the Calaveras County Assessor’s Office develop a plan by April 30, 2021, to bring all reassessments up to within one year of the re-appraisable events by June 30, 2022.

R2.b. The Calaveras County Grand Jury recommends the Calaveras County Assessor’s Office begin authorizing overtime by April 30, 2021, using current appraisers and staff, in order to reduce the backlog by June 30, 2022.

R2.c. The Calaveras County Grand Jury recommends the Calaveras County Board of Supervisors continue to maintain sufficient funding in the Calaveras County Assessor’s Office budget to bring all reassessments to within one year of all re-appraisable events by June 30, 2022.

R2.d. The Calaveras County Grand Jury recommends the Calaveras County Assessor’s

Office develop a plan by April 30, 2021, to provide outreach using public forums and/or notifications to educate property owners about the effects of the backlog.

Required Responses

- Calaveras County Board of Supervisors
- Calaveras County Assessor

Invited Responses

- None

F3. The Calaveras County Assessor’s Office generally uses a more time-intensive comparative market analysis to determine the new values of properties rather than exclusively using the sales price as the new value.

R3. The Calaveras County Grand Jury recommends the Calaveras County Assessor’s Office use “Rule 2” beginning April 30, 2021 for all real property ownership changes until these reassessments are completed within one year of the event.

Required Responses

- Calaveras County Assessor

Invited Responses

- None

F4. The Calaveras County Assessor’s Office currently operates using a first in, first out process that perpetuates the backlog of reassessments often resulting in retroactive adjustments and additional tax bills.

R4. The Calaveras County Grand Jury recommends that by April 30, 2021, the Calaveras County Assessor’s Office enact more effective work flow processes in order to complete more timely reassessments.

Required Responses

- Calaveras County Assessor

Invited Responses

- None

F5. The Calaveras County Board of Supervisors is not regularly informed regarding the backlog of real property reassessments.

R5. The Calaveras County Grand Jury recommends, beginning April 30, 2021, the Calaveras County Assessor’s Office provide quarterly progress reports to the Calaveras County Board of Supervisors containing information regarding how

many reassessments were not completed prior to the expiration of the statute of limitations, as well as the number that are pending/backlogged.

Required Responses

- Calaveras County Board of Supervisors
- Calaveras County Assessor

Invited Responses

- None

F6. The Calaveras County Assessor’s Office has had a challenging time recruiting and retaining qualified staff.

R6. The Calaveras County Grand Jury recommends that by April 30, 2021 the Calaveras County Assessor’s Office work in conjunction with the Calaveras County Human Resources & Risk Management Office to develop a recruitment/retention plan in order to attract and retain qualified applicants.

Required Responses

- Calaveras County Assessor

Invited Responses

- Calaveras County Human Resources & Risk Management Director

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| Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code §929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury. |
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REFERENCE SOURCES

- Anonymous Residential Taxpayer Tax/Escapes/Supplemental Bills
- Calaveras County Assessor’s Office website
- Calaveras County Treasurer/Tax Collector “Calaveras County Property Taxes and You” CCAO Public Pamphlet
- CCGJ Citizen Complaints – Confidential
- 10/10/2011 Recordnet.com “Calaveras Officials Say Computerized Tax System A Bust”
- 06/28/2016 CAO’s Office/Smith & Newell “Agreement for Services between County of Calaveras and Smith & Newell, CPAs”
- 2017/2018 CA Legislative Analyst’s Office Evaluating State-County Assessors’ Partnership Agreement Program
- 04/13/2018 Calaveras Enterprise Tim “Muetterties Challenges Leslie Davis for Assessor”
- 06/30/2018 County Auditor-Controller “County of Calaveras, State of CA Comprehensive Annual Financial Report”
- 06/30/2018 CAO’s Office/Smith & Newell “Single Audit Act Reports Schedules for the FY ended 6/30/18”

- 06/15/2019 CAO's Office/Smith & Newell “Engagement Letter Agreed-Upon Procedures Appropriation Limit”
- 06/30/2019 CAO's Office/Smith & Newell “Single Audit Act Reports Schedules for the FY ended 6/30/19”
- 02/03/2020 Calaveras Treasurer-Tax Collector “Notice of Installment Payment Provision”
- 2014/2015 CCGJ Grand Jury Report “CAO & Budget Process”
- 2015/2016 CCGJ Grand Jury Report "CAO & Budget Process"
- 2018/2019 CCGJ Grand Jury Report “CAO & Budget Process”

APPENDIX

Re-appraisals:

Change in Ownership - When a change in ownership (or transfer) occurs, the Assessor will receive a copy of the deed and determines if a reappraisal is required under State law. If required, an appraisal is made to estimate the new full value of the property, as of the date of transfer. The property owner is then notified of the new assessment and that creates the right to appeal the value.

New Construction - Copies of all building permits are sent to the Assessor by the building officials of the County and each City within the County. If the construction is new, a reappraisal is required that estimates the value added to the full value of the improvements. Maintenance, such as new roofing, is exempt. So is the construction of improvements replacing those damaged or unintentionally destroyed.”

Excerpts from Calaveras County Assessor’s Home Page

Proposition 13

Real property can only be reappraised upon a change in ownership or new construction. Business personal property, including boats and airplanes, and certain restricted properties remains subject to annual appraisal. Except for these two instances, no increase in the assessed value of any real property can exceed 2% each year, regardless of the rate of inflation. (This limitation does not apply to increases in values resulting from Statutory reductions pursuant to R&T Code Section 51 - Proposition 8)

Supplemental Assessments

In 1983, state law was changed to require taxes to be adjusted as of the exact day of the change in ownership. The Assessor is required to reappraise property immediately upon change of ownership or completion of new construction. The Assessor will issue a notice of supplemental assessment which reflects the difference between the prior and the new assessed values. (The tax liability is prorated based on the number of months remaining in the fiscal year, ending each June 30. Special tax bills are issued in addition to the regular tax bill.)

Changes in Value

When Proposition 13 became law in 1978, it required continuous annual increases in base year values of no more than 2% per year. The resulting assessed values are called "Factored Base Year Values" (FBYV). There was no provision in the new law for reductions in assessed value; even though it appeared that some properties could be declining in value. This dilemma was

addressed in 1978 with the passage of Proposition 8. New provisions were added to tax law that allow the Assessor to take "...into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a decline in value." (R&T Section 51b) Pursuant to these provisions, assessed values are required to be the lower of FBYV or Full Value.

Section 51e of the Revenue and Taxation Code (R&T) states that "Nothing in this section shall be construed to require the assessor to make an annual reappraisal of all assessable property." In the course of day to day operations, the assessor may discover situations that warrant special reviews and that could lead to reductions. In most cases, however, factors believed to be damaging to value are commonly brought to the attention of the assessor by knowledgeable property owners. Once a reduction is made, this same R&T Section requires the assessor to perform annual reviews of affected properties to ascertain that the assessed value is still the lower of FBYV (Prop 13) or Full Value (Proposition 8). In order to do this, the original FBYV must be computed forward. When a recovering market indicates that the force of the factor causing a loss has dissipated; the assessor will enroll a higher value not to exceed the FBYV and annual reviews will be discontinued. (The change from year to year is not limited to 2%, since Proposition 8 procedures govern.)