

# **Assessor's Office Response to Declining Real Estate Values**

## **Summary**

Nevada County has been in a declining real estate market for several years. The Nevada County Grand Jury (Jury) was asked to investigate how the Assessor's Office was accounting for reduced home values in their assessments. The Jury interviewed members of the Assessor's Office and the Office of the Treasurer and Tax Collector, and reviewed applicable sections of the Revenue and Taxation Code.

Though not required to do so, the law allows the Assessor's Office to adjust property assessments downward when the current market value is less than the assessed value. For the preparation of the 2008/2009 assessment roll, which the County Auditor/Controller's Office uses to calculate property taxes, the Assessor's Office analyzed many of the homes in Nevada County to see if adjustments could be made and thus lower homeowners' property taxes.

The Assessor's Office developed a computer program to compare assessed values with the current market for basic single family homes between 800 and 3500 square feet without additions such as swimming pools or guest houses. It excluded properties with transfers of ownership before July 2004 on the assumption that the assessed values of earlier properties would be lower than their market value. After analyzing the result, the Assessor's Office reduced assessed values to match current market value for over 3,000 properties.

In addition to the computer analysis, the Assessor's Office reviewed and reduced many assessments at the homeowners' request. This is a standard practice in the Assessor's Office and can be initiated by any property owner. The property tax bill and the Assessor's Office website, <http://mynevadacounty.com/assessor/>, contain instructions.

The Jury commends the Assessor's Office for taking proactive action to help homeowners in a declining market. The Jury believes, however, that more could be done. For instance, the Jury found that many homeowners are not aware of their rights to ask for re-evaluation of their properties' assessments. More communication with homeowners, using the website and other media, could better inform the public of their rights. The Assessor's Office informed us that the computer analysis was only performed for the 2008/2009 assessment roll and was not repeated for the 2009/2010 roll. Since the analysis was such an effective tool for one roll, the Jury believes it should be used every year when the real estate market is depressed.

The Assessor's Office is not required to proactively adjust assessed values. It is ultimately the homeowner's responsibility to be aware of a property's assessed value and to request a review in a depressed market. Nevertheless, the Jury believes that the Assessor's Office has

a duty to assist the public by providing better communication and performing periodic analysis of the market.

During the span of the Jury investigation, the elected Assessor resigned and the Board of Supervisors appointed an interim Assessor to fill the balance of the term.

## **Reasons for Investigation**

The Jury received a citizen's complaint regarding procedures in the Nevada County Assessor's Office concerning property assessments. Given the state of the real estate market in Nevada County, the Jury determined that the issue merited investigation.

## **Background**

Proposition 13, enacted by California voters in 1978, amended the California Revenue and Taxation Code (R&T) and the California Constitution to limit the amount of increase to a property's base value to a maximum of two percent per year or the percentage of increase in the California Consumer Price Index, whichever is less. When the assessed value is increased, the resulting value is referred to as the factored-base year value. Base values may be adjusted when a property is purchased, newly constructed, or a change in ownership occurs.

Proposition 8, also passed by California voters in 1978, further amended the R&T to allow the county assessor to annually use either a property's factored-base year value (Proposition 13 value) or its current market value, whichever is less. When the current market value is less than the Proposition 13 value, that lower value is commonly referred to as a "Prop 8 value".

R&T Section 51 (e) clearly states that "Nothing in this section shall be construed to require the assessor to make an annual reappraisal of all assessable property."

Assessed property values, referred to collectively as the assessment roll, are determined by the assessor as of 12:01 a.m. on January 1. The assessment roll closes on June 30 and is available to the public on July 1. This information is used by the Auditor/Controller to calculate the tax bill. For example, the tax bill mailed in October 2009 was based on the assessed value on January 1, 2009 and was labeled 2009-2010 for fiscal year July 1, 2009 to June 30, 2010.

The tax bill, mailed in October to each property owner, currently contains the following statement:

If you disagree with the Assessed Value, Revenue and Taxation Code Section §2611.6 states the following:

- (a) That if the taxpayer disagrees with the assessed value as shown on the tax bill, the taxpayer has the right to an informal assessment review by contacting the assessor's office.
- (b) That if the taxpayer and the assessor are unable to agree on a proper assessed value pursuant to an informal assessment review, the taxpayer has the right to file an application for reduction in assessment for the following year with the county assessment appeals board, during the period from July 2 to November 30, inclusive.
- (c) The address of the assessment appeals board is as follows:
  - Assessment Appeals Board
  - Clerk of the County Board of Supervisors
  - 950 Maidu Avenue
  - Nevada City, CA 95959

Nevada County has been in a declining real estate market for several years, as has much of California.

During the span of the Jury investigation, the elected Assessor gave notice that he would not fill the remainder of his term. An interim Assessor was appointed by the Board of Supervisors effective December 28, 2009 to serve until a permanent Assessor takes office in January 2011.

## **Procedures Followed**

The Jury interviewed members of the Assessor's Office and of the Office of the Treasurer and Tax Collector. The Jury reviewed applicable sections of the Revenue and Taxation Code, the California Constitution, and material provided by the Assessor's staff.

## **Findings**

- F.1.** Proposition 8 allows but does not require reassessments.
- F.2.** Proposition 8 does not require the Assessor's Office to publicize the possibility of a reduction in assessed value.
- F.3.** The Assessor's Office determined that a proactive posture would benefit many Nevada County property owners and instituted a computer-assisted process. Analysis indicated that some adjustments were warranted. The process was used only for the 2008-2009 assessment roll.

- F.4.** The Assessor's Office elected to exclude from the study properties that changed ownership prior to July 2004. The rationale given for this was that it was unlikely that the analysis would result in a lower assessed value.
- F.5.** The criteria used to select the properties for the analysis included:
- a. Transfer of ownership between July 2004 and December 2008
  - b. 800-3500 square feet
  - c. Standard sales only (no foreclosures or short sales)
  - d. No swimming pools
  - e. Single family residences only
  - f. No guest houses
  - g. No extra garages
- F.6.** Properties not meeting the analysis criteria were excluded unless the property owner called the Assessor's Office to request a manual review.
- F.7.** Based on the computer-assisted analysis, a total of 3183 properties had their assessed values for the 2008-2009 tax year reduced.
- F.8.** Additional properties were reduced because of owner-initiated requests to the Assessor's Office.
- F.9.** The Assessor's Office provides information entitled "Property Assessment Basics" only on the website, <http://mynevadacounty.com/assessor/>. This information describes the procedures to follow in order to initiate a review by the Assessor's Office.

## **Conclusions**

- C.1.** The Assessor's Office complied with the provisions of Proposition 8. (F1)
- C.2.** Using computer-assisted analysis made identification of properties potentially qualified for Proposition 8 adjustments much easier and more efficient. (F3)
- C.3.** Properties excluded from the computer-assisted analysis may be eligible for reduction. (F4, 5, 6)
- C.4.** Any property owner may request a review of the assessed value. (F8, 9)
- C.5.** Ultimate responsibility to initiate an assessment review resides with the property owner. (F1, 9)

- C.6.** More effective communication from the Assessor's Office would help the public understand their rights. (F2, 9)

### **Recommendations**

- R.1.** The Assessor's Office should expand the computer-assisted analysis to include more properties. (C2, 3, 4)
- R.2.** The Assessor's Office should perform this computer-assisted analysis annually to support assessment decisions. (C2, 3)
- R.3.** Property owners should promptly review their tax bills. If they believe that the assessed value is too high, they should contact the Assessor's Office to request a review. (C4, 5)
- R.4.** In addition to maintaining the website, the Assessor's Office should issue press releases at least twice yearly, in April and October, to inform the public of their rights. (C5, 6)

### **Responses**

Nevada County Assessor. June 1, 2010

# COUNTY OF NEVADA

*JAMES J. DAL BON*

*ASSESSOR*

950 Maidu Avenue  
Nevada City, CA 95959-8600  
(530) 265-1232  
FAX 265-9858

May 18, 2010

The Honorable Tom Anderson  
Presiding Judge of the Grand Jury  
201 Church Street  
Nevada City, CA 95959

Re: Assessor's Response to Nevada County Grand Jury report regarding the Nevada County Assessor's Office published April 1, 2010 on the Assessor's Office Response to Declining Real Estate Values

Dear Judge Anderson:

The following is my response to the report referenced above:

## 1. SUMMARY

Comment regarding first sentence in paragraph two quoted as follows:  
"Though not required to do so, the law allows the Assessor's Office to adjust property assessments downward when the current market value is less than the assessed value".

### Clarification

If the Assessor discovers that the current market value of a property is less than the assessed value the law requires that the Assessor enroll the lesser of the values. Section 51. (a) (2) is quoted as follows:

"For purposes of subdivision (b) of Section 2 of Article XIII A of the California Constitution, for each lien date after the lien date in which the base year value is determined pursuant to Section 110.1, the taxable value of real property shall, except as otherwise provided in subdivision (b) or (c), be the lesser of :

(2) Its full cash value, as defined in Section 110, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a decline in value.

## 2. FINDINGS

F.1. Proposition 8 allows but does not require reassessments.

### **Disagree**

When the market value of a property on the January 1<sup>st</sup> lien date falls below the factored base year value (also known as taxable value, Proposition 13 value and assessed value) the assessor is obligated to review the property and enroll the lesser of: the factored base year value or the market value of the real property.

### **3. Conclusions**

C.5. Ultimate responsibility to initiate an assessment review resides with the property owner.

### **Disagree**

California law requires that the Assessor assess all taxable property in accord with the provisions of the California Constitution, the Revenue and Taxation Code and the State Board of Equalization Property Tax Rules. Regardless of whether an assessee initiates a review of their property assessment, the ultimate responsibility to assess property in accord with the law resides with the assessor and this includes the act of initiating a review of the assessment.

C.6. More effective communication from the Assessor's Office would help the public understand their rights

### **Agree**

A new public information pamphlet has been published and a copy is attached to this response.

### **4. Recommendations**

R.1. The Assessor's Office should expand the computer-assisted analysis to include more properties.

### **Agree**

This will be part of our analysis for the 2010/2011 assessment roll.

R.2. The Assessor's Office should perform this computer-assisted analysis annually to support assessment decisions.

### **Partially Agree**

We will utilize the computer resources as required.

R.3. Property owners should promptly review their tax bills. If they believe that the assessed value is too high, they should contact the Assessor's Office to request a review.

**Agree**

Every taxpayer should be aware of the details of their property tax assessment.

R.4. In addition to maintaining the website, the Assessor's Office should issue press releases at least twice yearly, in April and October, to inform the public of their rights.

**Partially Agree**

As a service to the public the Assessor should be proactive in keeping taxpayers informed as to assessment information that could impact their property assessments.

Respectfully Submitted,



James J. Dal Bon, Assessor  
County of Nevada

Cc: Nevada County Board of Supervisors

**What the Assessor will do:**

When there is evidence that property value is declining the Assessor is obligated to conduct a review of property assessments.

The Assessor must value your real property, as of the January 1st lien date, at the lower of your property's Proposition 13 or market value.

Properties that decline in value can be difficult to identify. If you believe that your assessment exceeds the market value of your property you can apply for a review of the assessment.

**Applying for a value review:**

You may initiate a review of your property's assessment by phone, in writing or by visiting our office. You may also go to our website by following the prompts on the "mynevadacounty.com" home page.

**Any property owner who has real property in Nevada County can apply for a market value review (Prop 8). For property in another county please contact that specific county.**

If you received a Proposition 8 reduction it is not necessary to re-apply each year. Any property on Proposition 8 is automatically reviewed annually based on market value as of the January 1st lien date.

**Disclaimer**

This pamphlet is a general summary and is not a comprehensive guide to Proposition 8, Proposition 13, or property valuation. If you require assistance please contact the Nevada County Assessor's Office.

**Office Address & Hours**

**Nevada County Assessor**  
950 Maidu Ave.  
Nevada City, CA 95959  
Phone: 530-265-1232  
Fax: 530-265-9858

[Mynevadacounty.com/assessor](http://Mynevadacounty.com/assessor)

**Hours**

Monday – Friday  
8:00a.m.-5:00p.m.

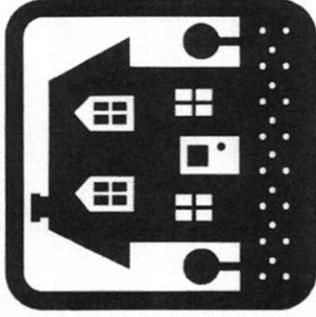


Email: [assessor@co.nevada.ca.us](mailto:assessor@co.nevada.ca.us)

Nevada County  
Assessor

**Decline in  
Market Value  
(Proposition 8)**

What happens when the  
value of your real estate  
declines?



**Nevada County Assessor**  
**James J. Dal Bon**

## Decline in Value

### Proposition 13:

Proposition 13, passed in 1978, established a new method for property tax assessments. Under this proposition the market value assessments for the 1975-76 tax year serve as the original base-year values. Thereafter, a new base-year value is established whenever there is a change of ownership or assessable new construction. The base-year value is adjusted each year for inflation based on the California "Consumer Price Index," to a maximum of 2 percent.

### Proposition 13 Assessment Example:

A home is purchased and is assessed at a market value of \$374,000 by the Assessor's office.

Home values go up 12% the next year and the home's actual market value is \$ 418,880. The owner is not taxed on the new \$418,880 market value. Under Prop. 13, the taxable value can only go up 2% or less for an inflationary adjustment. The maximum new taxable value would be \$381,480, (\$374,000 x 1.02). In each succeeding year during the same ownership the assessment will be subject to the inflationary adjustment.

### Proposition 8:

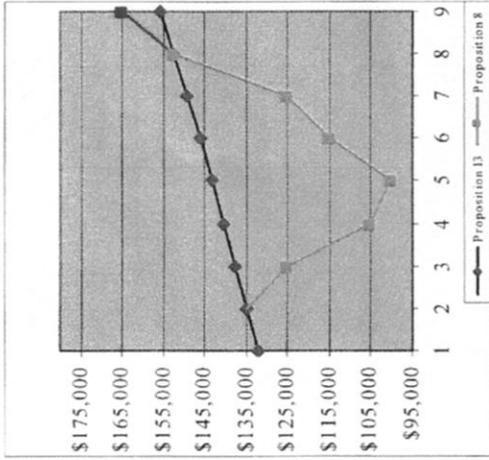
Proposition 8, passed in 1979, requires that your assessed value never exceed actual market value. When the market value of a property on the January 1 lien date falls below the factored base year value (assessed value), the assessor is obligated to review the property and enroll the lesser of: the factored base-year value (Proposition 13 value) or the current market value (Proposition 8 value) of the real property.

If the January 1st factored base year (Prop 13) value of a home is higher than its market value then the owner will qualify for the lower market value assessment (Proposition 8). This provides tax relief to taxpayers in a declining real estate market.

### A Proposition 8 Example:

Assume that your Prop. 13 assessed value is \$135,000. Assume that sales of similar homes around the January 1st lien date have been about \$125,000. This indicates that your home could qualify for a lower assessed value and the resulting tax relief.

Below is a graphic example of a home's assessed values over a nine year period under Prop. 8 and Prop.13.



In this example, the property was assessed at the Proposition 13 value for years 1 and 2; however, in years 3, 4, 5, 6 and 7 the market value was below the Prop. 13 value and the taxpayer paid taxes on the lower market value, which has become the taxable value.

In year 6 the market begins to recover and continues to recover each year until the value is brought back to the original Proposition 13 factored base value in year 8. In year 9 the market value rises above the Prop. 13 value.

A property can be under Proposition 8 for multiple years depending on the severity and length of the market decline. Once a property is assessed in accord with Proposition 8 the value is reviewed annually to determine the value as of January 1st.

# COUNTY OF NEVADA

*JAMES J. DAL BON*

*ASSESSOR*

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June 16, 2010

The Honorable Thomas M. Anderson  
Presiding Judge of the Civil Grand Jury  
201 Church Street  
Nevada City, CA 95959

Re: Assessor's Response to Nevada County Grand Jury report regarding the Nevada County Assessor's Office published April 1, 2010 on the Assessor's Office Response to Declining Real Estate Values

Dear Judge Anderson:

This is in response to your letter of June 14, 2010 stating that my original response did not comply with Penal Code Section 933.05. Regrettably I misunderstood the requirement that I respond to each finding whether I agreed or disagreed and apologize for any inconvenience resulting from my confusion.

The following is my response to each of the findings:

Findings

F.1. Proposition 8 allows but does not require reassessments.

Disagree

When the market value of a property on the January 1<sup>st</sup> lien date falls below the factored base year value (also know as taxable value, Proposition 13 value and assessed value) the assessor is obligated to review the property and enroll the lesser of: the factored base year value or the market value of the real property.

F.2.

Agree

F.3.

Agree

F.4.

Agree

F.5.

Agree

F.6.

Agree

F.7.

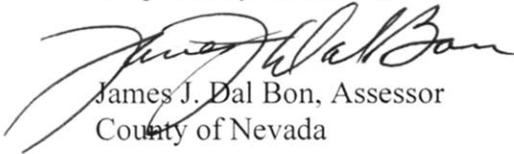
Agree

F.8.

Agree

If you have any questions please contact me.

Respectfully submitted,



James J. Dal Bon, Assessor  
County of Nevada

Cc: Diana Beer, Foreman Pro-Tempore  
Nevada County Grand Jury 2009-2010