TO COUNTY ASSESSORS:

CONTRA COSTA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Contra Costa 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 Gus S. Kramer, Contra Costa County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, the Legislature, and the Contra Costa 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 September 2007 through February 2008. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Kramer 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.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
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 funding level, 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 Contra Costa County Assessor's Office.

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

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see Scope of Assessment Practices Surveys) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.
SCOPE OF ASSESSMENT PRACTICES SURVEYS

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 assessment work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code\(^1\) 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. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Contra Costa County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Contra Costa County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2007 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. The sampling program is described in detail in Appendix B.

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.

\(^1\) Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.
EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas for improvement since our last assessment practices survey.

The assessor has improved his operation by embracing new technology. Following are a few examples:

- The assessor has developed and implemented a mass appraisal computer program which provides appraisers with the ability to:
  1) Review property characteristics of all residential properties in the county;
  2) Calculate value estimates from comparable sales data;
  3) Value residential subdivisions; and
  4) Track all public service inquiries.

- The assessor has redesigned and enhanced the taxable possessory interest computer program to accommodate yearly assessment analysis of most taxable possessory interests; and

- The assessor participated in the development and implementation of a computer application that enables electronic filing of business property statements.

The assessor generally has effective programs for the assessment of real and personal property, and for the more general assessment programs. We noted, however, some areas that need improvement within the business and personal property programs and one area within the administrative programs. This report includes recommendations for these programs.

Our review of the assessor's office found most properties and property types are assessed correctly. The Contra Costa County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2007-08 assessment roll indicated an average assessment ratio of 99.34 percent, and the sum of the absolute differences from the required assessment level was 0.95 percent. Accordingly, the Board certifies that Contra Costa County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

**RECOMMENDATION 1:** Use certified appraisers to value vessels and aircraft. .................7
RECOMMENDATION 2: Annually submit to the tax collector a listing of all taxpayers receiving form BOE-571-J, Annual Racehorse Tax Return, pursuant to Rule 1045(c)(2). .......................................................... 16

RECOMMENDATION 3: Revise general aircraft assessment procedures by: (1) adding sales tax to the acquisition cost of general aircraft when calculating a value estimate, and (2) making engine hour and optional equipment adjustments when appraising aircraft. ........39

RECOMMENDATION 4: Revise general historical aircraft assessment procedures by: (1) applying a reduced exemption to qualifying historical aircraft when an affidavit is not timely submitted, and (2) annually appraising and enrolling the current market value of historical aircraft................................................................. 42
OVERVIEW OF CONTRA COSTA COUNTY

Contra Costa County was incorporated in 1850 as one of California's original 27 counties. Since incorporation, the city of Martinez has served as the county seat. Contra Costa is one of nine counties in the San Francisco-Oakland Bay Area. The county is bordered on the north by Solano and Sacramento Counties, on the east by San Joaquin County, on the south by Alameda County, and on the west by the San Francisco Bay. The county encompasses 720 square miles, of which approximately 220 square miles are within 19 incorporated areas. Contra Costa County is the ninth most populous county in California, with a population of approximately 1,014,687 as of July 2007.

The following table displays information pertinent to the 2007-08 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>337,858</td>
</tr>
<tr>
<td>Commercial/Industrial</td>
<td>12,562</td>
</tr>
<tr>
<td>Agricultural</td>
<td>2,765</td>
</tr>
<tr>
<td>Other Secured</td>
<td>284</td>
</tr>
<tr>
<td>Total Secured</td>
<td>353,469</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Personal Property &amp; Fixtures</td>
<td>50,467</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>403,936</td>
</tr>
</tbody>
</table>

The next table illustrates the growth in assessed values from 2002-03 to 2007-08:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>INCREASE</th>
<th>STATEWIDE INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>$156,754,245,000</td>
<td>8.9%</td>
<td>9.6%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$143,934,748,000</td>
<td>12.1%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2005-06</td>
<td>$128,370,557,000</td>
<td>10.8%</td>
<td>11.1%</td>
</tr>
<tr>
<td>2004-05</td>
<td>$115,909,491,000</td>
<td>9.6%</td>
<td>8.3%</td>
</tr>
<tr>
<td>2003-04</td>
<td>$105,721,716,000</td>
<td>7.2%</td>
<td>7.3%</td>
</tr>
<tr>
<td>2002-03</td>
<td>$98,581,430,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

2 State Board of Equalization Budget, Staff, and Assessment Roll Data 2007-08, Table E
3 State Board of Equalization Annual Report, Table 7
ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, staff property procedures, assessment appeals, disaster relief, assessment roll changes, low-value property tax exemptions, other exemptions, and the racehorse administrative tax.

Budget and Staffing

To enable the assessor to perform his duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments as required before an appellate body, and provide information and service to the public as needed.

As shown in the following table, the assessor's budget has grown slightly more than 47 percent over recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>NET BUDGET</th>
<th>ANNUAL INCREASE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>$14,633,360</td>
<td>15.3%</td>
<td>135</td>
</tr>
<tr>
<td>2005-06</td>
<td>$12,688,931</td>
<td>4.5%</td>
<td>133</td>
</tr>
<tr>
<td>2004-05</td>
<td>$12,143,225</td>
<td>20.6%</td>
<td>136</td>
</tr>
<tr>
<td>2003-04</td>
<td>$10,069,300</td>
<td>1.2%</td>
<td>137</td>
</tr>
<tr>
<td>2002-03</td>
<td>$9,949,357</td>
<td>N/A</td>
<td>137</td>
</tr>
</tbody>
</table>

It is important to note that the budget increase from 2005-06 to 2006-07 is primarily due to adjustments to the assessor's budget to make up for the loss of revenue resulting from the cancellation of the state's Property Tax Administration Grant Program.\(^4\) Funds were also provided to the assessor in a similar manner for 2005-06, but this occurred after both the cancellation of the grant program and approval of the assessor's budget and is not reflected in the net budget amount.

The assessor has a staff of 135 full-time employees. The assessor's office is divided in two divisions: valuation and administration. Each division is administered by an assistant assessor. The Valuation Division is divided into three sections: residential,

\(^4\) Section 95.31 of the Revenue and Taxation Code was added in 1995 to establish the State-County Property Tax Administration Loan Program. This program, which was later entitled the State-County Property Tax Administration Grant Program, provided state-funded loans to eligible counties for the improvement of property tax administration. This program has since been cancelled.
commercial/industrial, and business property. The Administration Division is divided into three sections: information systems support, standards and drafting, and clerical support.

**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes as an employee of any county or city and county unless he or she holds a valid certificate issued by the BOE. There are a total of 59 certified appraisers on staff, including the assessor; 42 hold advanced certificates and 17 have permanent certification. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d).

The assessor does not use contract appraisers. However, the assessor does use consultants to provide expert testimony during assessment appeals. Since these consultants do not make any appraisals, they do not need to be certified.

We reviewed the certification status and the training records maintained by the BOE’s training unit, as well as the training records maintained by the assessor for all staff required to be certified. We found, except as noted below, all staff, including the assessor, were appropriately certified and current in their training hours.

**RECOMMENDATION 1:** Use certified appraisers to value vessels and aircraft.

We found that a technician assistant - a non-certified staff member - values vessels and the majority of the aircraft. There is no systematic review of the value indicators being prepared by the technician assistant. Upon receipt of the completed aircraft property statement, the technician assistant generates a value conclusion based upon value indicators from the *Aircraft Bluebook-Price Digest*. An auditor-appraiser only reviews the more complex or problematic assessments.
Section 670 provides that no person shall perform the duties or exercise the authority of an appraiser for property tax purposes as an employee of the state, any county or city and county, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificate issued by the BOE. In addition, Letter To Assessor 2003/068, Guidelines for Appraiser's Certification and Training, dated October 29, 2003, provides that assistants may input the year of acquisition and cost information from source documents and select and apply full value and percent good factors subject to instruction and review by a certified auditor-appraiser or appraiser. However, a technician is not authorized to generate value conclusions without review from a certified auditor-appraiser.

The assessor's practice of using non-certified staff to value vessels and aircraft without review by a certified auditor-appraiser or appraiser is contrary to section 670 and may lead to erroneous value conclusions.

**Staff Property Procedures**

The BOE's current survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties. This review is to ensure there are adequate and effective controls in place to prevent the assessor's staff from valuing their own property.

The assessor has a formal policy to provide guidance in the valuation of employee-owned property. The assessor requires staff, who are BOE-certified, to perform appraisals or audits, as well as technicians, to complete and sign a Statement of Economic Interests on an annual basis. The statement requests information regarding employee ownership of property or businesses, including the nature of the interest and the percentage of ownership.

The assessor becomes aware of employee-owned property either from voluntary disclosure by the employee or name recognition on permits and deeds processed by the Standards and Drafting Section of the assessor's office. When staff recognizes an employee name, a "Blue Tag" is attached to the document. This identifies it as an employee-owned property.

Employees are not allowed to value property that they own in Contra Costa County. Appraisals of employee-owned properties are handled in the same manner as all other real property. The appraiser for the geographical area in which the property is located is responsible for its valuation, unless he or she is are an owner, in which case the property is reassigned to another appraiser. When the appraisal is completed, it is reviewed by a supervising appraiser as well as a principal appraiser before it is enrolled.

We reviewed a number of employee-owned property appraisal files. We did not find any instances where an appraiser was involved in the assessment of any property in which they had an ownership interest. We found no problems with the valuation of staff-owned property.

**Assessment Appeals**

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by
Government Code section 15606, the BOE has adopted Rules\(^5\) 301 through 326 to regulate the assessment appeal process.

Contra Costa County Ordinance 73-45, dated May 29, 1973, provides for the creation and defines the duties of the county's assessment appeals board. Currently, there is one appeals board consisting of three members and two alternates. The board of supervisors appoints members of the assessment appeals board.

The form used for filing an assessment appeal, *Application for Changed Assessment*, is available from the Clerk of the Board of Supervisors' public service counter, on the Clerk of the Board's website, or through the mail. Appeal applications are received by the clerk of the assessment appeals board, who forwards copies to the assessor's office. The clerk of the assessment appeals board enters appeals data into a computerized database. The assessor has "read only" access to the database, except for a few areas where the assessor may enter the assigned supervisor's name, the appraiser's name, crew name, and any remarks.

The following table illustrates the assessment appeals workload for recent years:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeals Filed</td>
<td>987</td>
<td>602</td>
<td>845</td>
<td>1,214</td>
<td>1,333</td>
</tr>
<tr>
<td>Carried Over from previous year</td>
<td>710</td>
<td>726</td>
<td>996</td>
<td>1,337</td>
<td>1,117</td>
</tr>
<tr>
<td><strong>Total Appeals Workload</strong></td>
<td><strong>1,697</strong></td>
<td><strong>1,328</strong></td>
<td><strong>1,841</strong></td>
<td><strong>2,551</strong></td>
<td><strong>2,450</strong></td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hearing-reduced</td>
<td>14</td>
<td>4</td>
<td>15</td>
<td>36</td>
<td>8</td>
</tr>
<tr>
<td>Hearing-upheld</td>
<td>7</td>
<td>11</td>
<td>14</td>
<td>25</td>
<td>44</td>
</tr>
<tr>
<td>Stipulation</td>
<td>10</td>
<td>8</td>
<td>69</td>
<td>76</td>
<td>19</td>
</tr>
<tr>
<td>Withdrawn</td>
<td>696</td>
<td>477</td>
<td>933</td>
<td>1,321</td>
<td>962</td>
</tr>
<tr>
<td>Denied - Lack of appearance</td>
<td>88</td>
<td>118</td>
<td>84</td>
<td>97</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total Resolved</strong></td>
<td><strong>815</strong></td>
<td><strong>618</strong></td>
<td><strong>1,115</strong></td>
<td><strong>1,555</strong></td>
<td><strong>1,113</strong></td>
</tr>
<tr>
<td>Carried over to next year</td>
<td>882</td>
<td>710</td>
<td>726</td>
<td>996</td>
<td>1,337</td>
</tr>
</tbody>
</table>

The assistant assessor assigns the appeal to the appraiser who is responsible for the area in which the property under appeal is located. The assessor's staff reviews each filed application.

The appraiser prepares and presents the assessor's case at the hearing. The assistant assessor and the clerk of the assessment appeals board both track the progress of assessment appeals to ensure all appeals are resolved timely. No appeal in the last five years has gone unresolved for more than two years without a timely filed extension.

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\(^5\) All rule references are to sections of the California Code of Regulations, Title 18, Public Revenues.
We reviewed several appeal cases prepared by the assessor's staff. In each case we found the assessor's opinion of value to be supported by market data and well documented. Overall, the assessor's assessment appeal program is well administered.

**Disaster Relief**

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding $10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment without the need for an application if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by $10,000 or more, the assessor shall then determine the percentage of value reductions in current market value and reduce the assessed values by those percentages. However, the amount of the reduction shall not exceed the actual loss.

The Contra Costa County Board of Supervisors adopted a disaster relief ordinance in June 1982 and updated the ordinance on March 11, 2003. This ordinance enables the assessor to apply mid-year section 170 disaster relief provisions only to Governor declared disasters. Only three claims were filed over the last five years and those were filed in the 2006-07 roll year.

The assessor also grants relief for loss in value caused by a disaster or calamity through section 51(a)(1) and (2). Section 51 requires the assessor to value a property at the lesser of its factored base year value or its full cash value reflecting reductions in value due to damage, destruction, and depreciation. Unlike section 170, which allows mid-year value adjustments, section 51 adjustments are made only as of the January 1 lien date.

The assessor discovers disasters or calamities through reviewing monthly fire reports, building permits issued for repairs, newspaper articles, field investigation, and taxpayer notification, among other things. The assessor's disaster relief program is current and reflects accurate value calculations.
**Assessment Roll Changes**

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of the unpaid taxes requires the consent of the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessees.

The following table shows the number of roll changes processed by the assessor for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>ROLL CHANGES</th>
<th>NET VALUE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>7,059</td>
<td>$144,881,536</td>
</tr>
<tr>
<td>2005-06</td>
<td>6,311</td>
<td>$114,318,351</td>
</tr>
<tr>
<td>2004-05</td>
<td>5,125</td>
<td>$115,181,953</td>
</tr>
<tr>
<td>2003-04</td>
<td>5,799</td>
<td>$131,419,277</td>
</tr>
</tbody>
</table>

Appraisers initiate roll changes and are responsible for citing the proper statutory authority for the change. An appraiser and a control clerk are responsible for completing the Roll Correction Input Form. The appraiser is responsible for entering the parcel number, use code, roll year, reason code, appraiser number, and the new values. The roll correction form is reviewed by the supervising appraiser and then forwarded to the principal appraiser for final approval, which is subsequently inputted into the computer system. The computer system automatically calculates the amount of change, generates the appropriate notices to be sent to the taxpayer, and transmits the new values to the county auditor.

We reviewed the notice the assessor uses to advise taxpayers of a decreased assessment, as well as the Notice of Proposed Assessment and the Notice of Enrollment of Escape Assessment. We found that all required elements were incorporated in these documents.

We also found that roll corrections are made within the authorized time period, the Notice of Proposed Escape Assessment is mailed to taxpayers at least ten days prior to enrolling an escaped assessment, the Notice of Enrollment of Escaped Assessment is mailed immediately after enrollment of each escape assessment, and the assessor complies with the requirements of the statute of limitations for escape assessments.

We found no issues of noncompliance with the assessor's practices with respect to assessment roll changes.
Low-Value Property Tax Exemption

Section 155.20 authorizes a county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt from property taxation property with a total base year value or full value of more than $5,000, or more than $50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property tax exemption ordinance before the lien date for the fiscal year to which the tax exemption is to apply. At the option of the board of supervisors, the tax exemption may continue in effect for succeeding fiscal years.

Section 75.55(b) allows the board of supervisors to grant authority to the assessor to cancel any supplemental assessment that would result in a tax bill less than the cost of assessing and collecting the tax.

In Contra Costa County, the board of supervisors has adopted a resolution that grants the assessor authority to cancel all supplemental assessments where the taxes resulting from the assessment do not exceed $20. While small supplemental assessments are not billed, the new values are added to the regular assessment roll on the following lien date.

The assessor's program is in compliance with the county's ordinance and is effectively administered.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has implemented the religious exemption in section 207, which exempts from property taxation property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade.)

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the
religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The assessor processed 30 church exemption claims and 467 religious exemption claims for the 2006-07 assessment roll. The following table illustrates the number of church and religious exemptions and the amount of assessed value exempted in Contra Costa County for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>CHURCH</th>
<th>EXEMPTED VALUE</th>
<th>RELIGIOUS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>30</td>
<td>$15,402,657</td>
<td>467</td>
<td>$511,143,060</td>
</tr>
<tr>
<td>2005-06</td>
<td>25</td>
<td>$14,884,901</td>
<td>473</td>
<td>$468,010,338</td>
</tr>
<tr>
<td>2004-05</td>
<td>29</td>
<td>$11,373,818</td>
<td>468</td>
<td>$446,825,958</td>
</tr>
<tr>
<td>2003-04</td>
<td>28</td>
<td>$10,495,014</td>
<td>469</td>
<td>$424,705,318</td>
</tr>
<tr>
<td>2002-03</td>
<td>31</td>
<td>$10,679,489</td>
<td>470</td>
<td>$396,568,537</td>
</tr>
</tbody>
</table>

In Contra Costa County, church and religious claims are processed by a lead exemption clerk. If the property is not fully used for religious purposes, an appraiser will calculate the percentage of the property eligible for exemption, and the appraisal record will be documented with the appraiser's calculations.

The assessor has written procedures in place to properly administer the church and religious exemption program in compliance with sections 206 and 207. Our review found both programs to be well documented and effective.

**Welfare Exemption**

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

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing Organizational Clearance Certificates (OCCs) to qualified organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE; and, if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC
holder) as the managing general partner, then it must also hold a valid Supplemental Clearance Certificate (SCC) issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the Board has issued an OCC or SCC to the claimant.

The following table illustrates the number of welfare exemptions and the amount of assessed value exempted in Contra Costa County for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>WELFARE</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>699</td>
<td>$2,348,353,758</td>
</tr>
<tr>
<td>2005-06</td>
<td>723</td>
<td>$2,097,715,771</td>
</tr>
<tr>
<td>2004-05</td>
<td>632</td>
<td>$1,936,423,445</td>
</tr>
<tr>
<td>2003-04</td>
<td>593</td>
<td>$1,713,262,512</td>
</tr>
<tr>
<td>2002-03</td>
<td>545</td>
<td>$1,624,754,245</td>
</tr>
</tbody>
</table>

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We reviewed claims for low-income housing property, including properties owned by a limited partnership holding an SCC. Our review indicated that the assessor is properly administering the welfare exemption program.

Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218 of the Revenue and Taxation Code, exempts $7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5 of the Revenue and Taxation Code, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or a deceased disabled veteran's unmarried surviving spouse). The amount of exemption is $100,000 or, for qualifying low-income veterans, $150,000. Both these amounts are adjusted annually by a cost of living index.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. The $100,000 disabled veterans' exemption requires a one-time filing; annual filing is required if the $150,000 low-income veterans' exemption is claimed to determine continued eligibility.

The assessor processed 221,528 homeowners' exemption claims and 812 disabled veterans' exemption claims for the 2006-07 assessment roll. The following table illustrates the number of
properties and the amount of assessed value exempted under the homeowners' and disabled veterans' exemptions for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>HOMEOWNERS'</th>
<th>EXEMPTED VALUE</th>
<th>DISABLED VETERANS'</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>221,528</td>
<td>$1,547,942,449</td>
<td>812</td>
<td>$79,699,263</td>
</tr>
<tr>
<td>2005-06</td>
<td>221,436</td>
<td>$1,545,150,289</td>
<td>795</td>
<td>$74,864,664</td>
</tr>
<tr>
<td>2004-05</td>
<td>224,280</td>
<td>$1,567,044,914</td>
<td>772</td>
<td>$70,175,938</td>
</tr>
<tr>
<td>2003-04</td>
<td>226,094</td>
<td>$1,568,896,002</td>
<td>719</td>
<td>$66,136,279</td>
</tr>
<tr>
<td>2002-03</td>
<td>223,558</td>
<td>$1,562,522,323</td>
<td>653</td>
<td>$59,455,011</td>
</tr>
</tbody>
</table>

Our review of the exemption records indicated the assessor is properly processing these exemptions. Accordingly, we have no recommendations in this area.

**Racehorse Administrative Tax**

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 and 1046. Rule 1045(c)(1) requires the assessor to furnish no later than December 15 every year Board-prescribed forms to racehorse owners for reporting the in-lieu tax.

Racehorses within the state are registered with the California Horse Racing Board (CHRB). For property tax purposes, "racehorse" means a horse that is or will be eligible to participate in a horseracing contest in California where pari-mutuel racing is permitted. Qualifying horses include stallions, mares, geldings, ridgelings, colts, fillies, and foals as provided in section 5703.

The assessor annually sends form BOE-571-J1, *Annual Report of Boarded Racehorses*, to each recipient of form BOE-571-F, *Agricultural Property Statement*. However, they are rarely returned. Consequently, the discovery of taxable racehorses in Contra Costa County relies almost entirely upon an annual listing of registered racehorses the assessor requests from the CHRB. Pursuant to Rule 1045(c)(1), a copy of form BOE-571-J, *Annual Racehorse Tax Return*, is mailed to each registered racehorse owner appearing on this listing prior to the December 15 deadline.

In accordance with Rule 1045(c)(3), the assessor retains copies of all tax returns filed by taxpayers for the past five years. Rule 1045(d)(1) requires the assessor to audit the tax records of any racehorse owner who, according to the assessor's records, had a gross tax liability (before addition of any penalties) that exceeds $4,000 for each of four consecutive calendar years. Our review of the racehorse tax returns for the 2007 lien date found that there are no racehorse owners currently in Contra Costa County whose gross tax liabilities exceed the statutory threshold for a mandatory audit. However, we did find one problem.

We found the assessor does not annually submit to the tax collector a listing of those property owners who are believed to have owned taxable racehorses on the lien date, and who were furnished a copy of form BOE-571-J, *Annual Racehorse Tax Return*. Rule 1045(c)(2) requires the assessor to maintain a record of those persons believed to be liable for the annual racehorse tax and to whom the assessor has furnished copies of the forms. A copy of this record shall be provided to the tax collector within ten days of the date when tax returns are furnished to the taxpayer. This requirement informs the tax collector of those individuals who should be filing an annual racehorse tax return.

The taxpayer should submit the completed tax returns, along with payments directly to the tax collector. If applicable, the tax collector applies the appropriate interest and penalties for late filings. This effort is made possible only if a full population of racehorse owners is provided by the assessor to the tax collector.
ASSOCIATION OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership;
- Valuation of new construction;
- Annual review of properties that have experienced declines in value; and
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts and taxable government owned property.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, adjusted annually for inflation by a factor not to exceed two percent.

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 change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor's primary source of discovering properties which have changed ownership is through review of deeds and other documents recorded at the county recorder's office. The recorder's office requires form BOE-502-A, Preliminary Change of Ownership Report (PCOR), to accompany documents submitted for recordation of a transfer of ownership of real property. If a transfer document is received without a PCOR, the recorder's office will apply a $20 charge to the recording fee.

Over the past five years, 91.8 percent of transfer documents were accompanied by a PCOR. Most transferred properties which were not accompanied by a PCOR involved commercial and industrial properties.
The following table shows the number of recorded documents received by the assessor's office and the number of those determined to result in reappraisable transfers in Contra Costa County for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>RECORDED DOCUMENTS</th>
<th>RESULTING CHANGES IN OWNERSHIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>66,431</td>
<td>26,494</td>
</tr>
<tr>
<td>2006-07</td>
<td>77,824</td>
<td>27,303</td>
</tr>
<tr>
<td>2005-06</td>
<td>77,041</td>
<td>35,356</td>
</tr>
<tr>
<td>2004-05</td>
<td>81,231</td>
<td>37,154</td>
</tr>
<tr>
<td>2003-04</td>
<td>71,850</td>
<td>32,356</td>
</tr>
</tbody>
</table>

All recorded documents are scanned by the recorder's office and sent electronically to the assessor. The assessor's staff reviews the scanned documents and determines which documents involve a transfer of property, and which qualify for reappraisal. Staff will print the scanned document and attach it along with the returned PCOR to the appraisal record. The package is then routed to the data entry unit, where information from the documents is entered into the computer system, creating a Property Data Record Worksheet (PDRW). The documents are then matched to the corresponding PDRW and sent to the appraisal staff to be valued.

Overall, the assessor has an effective program for the assessment of changes in ownership.

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 its subsidiaries. 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 corresponding 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 notice of changes in control of legal entities, and thus, no corresponding recorded notice of any real property transfers.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county 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, many of the acquiring entities do not provide information sufficient to identify the real property involved. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.
Each month the assessor's staff receives from the BOE a listing of changes in control and ownership of legal entities. The listing is reviewed to confirm whether changes in control indicated by the BOE are valid transfers of real property owned by the legal entity. We reviewed a number of properties owned by legal entities that were reported to have experienced a change in control and ownership and found the assessor properly identified the parcels transferred and completed the appraisals in a timely manner.

**Section 408.1 Transfer Lists**

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The list is available both in hard copy and at computer terminals in the lobby of the assessor's office. As required by section 408.1(b), the transfer list is divided into geographical areas and revised each calendar quarter. The hard copy transfer list provides the names of the transferor and transferee, the assessor's parcel number, the address of the property sold or transferred, the sales price (as indicated by documentary transfer tax), the date of recording, and the recording reference number. Although the hard copy transfer list does not include the date of transfer, the information is obtainable at the computer terminals in the lobby.

The assessor is in full compliance with the requirements of section 408.1(c) and the confidentiality provisions of section 481.

**Section 63.1 Change in Ownership Exclusions and Section 69.5 Base Year Value Transfers**

Section 63.1 excludes from the definition of change in ownership the purchase or transfer of the principal residence and the first $1 million of other real property between parents and their children. Certain transfers from grandparents to their grandchildren are also excluded.

An appraiser reviews all section 63.1 applications. Whether or not a claim is accepted or denied, the assessor sends the taxpayer a letter of disposition. Qualifying applications are logged into the computer. The assessor submits quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence.

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner is at least 55 years of age, the owner files a timely claim, and the properties are located within the same county. By ordinance a county may also elect to accept base year value transfers from other counties. However, Contra Costa County has not enacted such an ordinance.

Section 69.5 transfers are reviewed by the Standards and Drafting Section of the assessor's office for acceptance or denial. Whether or not a claim is accepted or denied, the assessor sends the taxpayer a letter of disposition. The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. Applications and information regarding the exclusions are available to the public at the assessor's office and on the assessor's website.

The following table shows the number of section 63.1 and 69.5 claims granted in Contra Costa County in recent years:
We found the assessor has effective programs for processing claims under sections 63.1 and 69.5.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically enroll the assessment of properties meeting certain criteria. Contra Costa County utilizes a direct enrollment program to enroll qualifying single-family residences and condominiums. Approximately 75 percent of all eligible transfers, accounting for $15 billion in annual assessed value for the 2006-07 roll year, were directly enrolled.

Clerical staff determines if the parameters have been met for a direct enrollment, but do not make valuation decisions. Some of the parameters required to qualify for a direct enrollment include:

- The transfer must take place in the current year;
- The parcel must be zoned residential;
- The transfer must be accompanied by a PCOR; and
- The transfer must be a typical sale or involve a documentary transfer tax amount computed based on the total sales price.

After the clerical staff makes the initial determination that the direct enrollment criteria have been met, they forward the PDRW, deed, and PCOR to an appraiser. The appraiser reviews the valuation factors and may make adjustments to override the stated sales price. Tasks completed by the appraiser may include:

- Comparing the cost indicator to the sales price, transfer tax amount, and PCOR to confirm that all figures agree within $500;
- Adding the principle balance of any bonds to the reported sales price, if needed; and
- Reviewing any remarks on the PCOR which could affect the sales price.
The appraiser makes the final value determination and decides whether the transfer qualifies for direct enrollment.

**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.


There are several statutory exclusions from what constitutes new construction; sections 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

**Discovery**

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from 15 permit-issuing agencies: the county of Contra Costa and the cities of Antioch, Brentwood, Danville, El Cerrito, Hercules, Pinole, Richmond, San Pablo, San Ramon, Concord, Martinez, Pittsburg, Pleasant Hill, and Walnut Creek. Methods used for the discovery of non-permitted new construction include field inspections, aerial photos, and review of business property statements.

**Permit Processing**

All cities within Contra Costa County send permits to the assessor on a monthly basis. Permit information from the Building Inspection Division of the Contra Costa County Department of Conservation and Development is directly accessible via an online link on the assessor's computer system.

The processing of permits is the responsibility of the Clerical Support Section. Permits are divided into two categories: those requiring further action, such as sending a questionnaire or performing field review, and those requiring no further action, such as permits for maintenance or repair. All permits are logged in the computer system for future reference. The permits requiring further action are forwarded to the property appraisers for review and valuation.

An appraiser determines the value of new construction and forwards the completed appraisal file to a supervisor for approval. If approved, the new values are entered into the computer system;
once the values are inputted into the computer system, any applicable supplemental assessments are automatically generated.

The following table shows the assessor's permit workload for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>PERMITS RECEIVED</th>
<th>PERMITS GENERATING VALUE</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>36,264</td>
<td>19,568</td>
<td>$2,216,356,238</td>
</tr>
<tr>
<td>2005-06</td>
<td>35,644</td>
<td>20,167</td>
<td>$2,450,743,563</td>
</tr>
<tr>
<td>2004-05</td>
<td>37,860</td>
<td>19,202</td>
<td>$1,928,915,589</td>
</tr>
<tr>
<td>2003-04</td>
<td>35,512</td>
<td>22,653</td>
<td>$1,823,699,790</td>
</tr>
<tr>
<td>2002-03</td>
<td>37,571</td>
<td>20,872</td>
<td>$2,167,094,893</td>
</tr>
</tbody>
</table>

The assessor's processing procedures for permits are thorough and provide for effective retrieval of information upon which an appraiser may make informed decisions.

Self-Reporting

The assessor sends self-reporting new construction questionnaires to owners of all properties with assessable permit activity. Questionnaires sent to owners of income producing properties also request income, expense, and cost information.

Returned questionnaires are forwarded to the appropriate appraiser for review and valuation. The appraiser decides in each case whether a follow up field inspection is warranted.

The following table shows the number of self-reporting forms mailed and received by the assessor for recent years:

<table>
<thead>
<tr>
<th>CALENDAR YEAR</th>
<th>FORMS MAILED</th>
<th>FORMS RECEIVED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>19,072</td>
<td>7,986</td>
</tr>
<tr>
<td>2005</td>
<td>21,686</td>
<td>9,636</td>
</tr>
<tr>
<td>2004</td>
<td>20,132</td>
<td>8,692</td>
</tr>
<tr>
<td>2003</td>
<td>17,243</td>
<td>7,790</td>
</tr>
</tbody>
</table>

The self-reporting program is clearly a valuable and productive method for confirming new construction. This program has reduced the need to field review all new construction and provides valuable cost, income, and expense data for appraising commercial and industrial properties.
Valuation

The assessor values new construction by estimating the full value of the new construction as of the date of completion. The appraiser determines the status of new construction from an on-site review, notices of completion from the building department, or from the taxpayer.

The cost approach is the main valuation method used by the assessor. Sources of cost information include: value guides published by Marshall and Swift, BOE cost manuals, new construction questionnaires, local cost surveys, and costs provided by the taxpayer. We have no recommendations in this area.

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 adjusted for inflation up to two percent.

Due to the weakening of the local real estate market, the number of properties experiencing a decline in value below their factored base year value has increased dramatically. Residential parcels make up the majority of the new parcels in decline in value status.

The following table shows the number of decline-in-value properties for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DECLINE-IN-VALUE PROPERTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>24,861</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,918</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,976</td>
</tr>
<tr>
<td>2004-05</td>
<td>2,083</td>
</tr>
<tr>
<td>2003-04</td>
<td>2,056</td>
</tr>
</tbody>
</table>

The assessor is using a computer program to annually discover and value single family residences affected by a decline in value. This program reviews the assessment of single family residences in subdivisions and generates an estimate of current market value based on comparable sales.

For multi-residential and commercial/industrial properties, the decline-in-value review is initiated by taxpayer request. When a review is conducted and the appraiser concludes a reduction in the taxable value is warranted, the appraiser will also review the assessments of similar properties in the same neighborhood. The assessor does not believe, however, that the
recent real estate downturn is having as broad an effect on the values of commercial/industrial properties.

We reviewed the assessments of several residential parcels valued by the computer program and commercial/industrial and multi-residential properties for the 2003 through the 2007 roll years. We found the decline-in-value program performs supportable appraisals and maintains sufficient documentation for each record. The assessor's staff properly enrolled all value changes, and the inflation factor was applied to all properties where the value was fully restored. The assessor's decline-in-value program is effective and well run.

**California Land Conservation Act Properties**

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, for example, hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

For 2007-08, Contra Costa County had a total of 48,475 acres under contract with a total assessed value of $67,266,863. There are 138 CLCA contracts covering 418 parcels, none of which are in non-renewal status. There are no scenic easement contracts.

Most of the rural property in Contra Costa County consists of grazing lands, vegetable cropland, nursery crops (for example, bedding plants and ornamental trees), and some orchards and vineyards. The bulk of the agricultural revenue generated in Contra Costa County is derived from nursery and vegetable crops.

The CLCA land assessment program is computerized, but valuations for living improvements are manually calculated. The computer program calculates the restricted values and then compares the restricted values to their factored base year values to determine the taxable value. The current market value is rarely the lowest value indicator, and it is presumed to set the upper limit of value.

Homesites are valued according to section 428. The assessor issues supplemental assessments on homesites and nonrestricted improvements on CLCA properties that experience changes in ownership, and for any subsequent new improvements. Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land and living improvements.
The assessor utilizes appropriate capitalization rates that include a component for risk, when determining the restricted values of CLCA properties. We found the assessor has an effective CLCA program and is in compliance with all applicable statutes.

**Taxable Government-Owned Properties**

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11 provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

For 2007-08, the assessor valued 197 parcels owned by government agencies and located outside of the agency's boundaries. These parcels have a total assessed value of $23,441,216.

By comparing tax-rate area maps to the county's list of government agencies located within each tax-rate area, the assessor determines the taxability of government-owned properties at the time of acquisition by a local agency. The assessor reviews the assessment history of each parcel to determine if the parcel was taxable when acquired.

Once the base year value is established, the assessor's computer program annually updates the factored base year value of each taxable government-owned property and calculates the restricted value using the BOE's annually announced factor. In addition, the appraiser determines the current market value. In each case, the lowest of the three values is enrolled.

We reviewed several assessments of taxable government-owned properties and found they were being properly assessed. We also found the assessor properly handles changes in ownership as well as new construction on taxable government-owned properties.

Our review of the taxable government-owned properties in Contra Costa County confirmed the program is well-managed and in compliance with existing property tax law.

**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.
In Contra Costa County, the assessor enrolled 2,024 taxable possessory interests on the 2007-08 assessment roll totaling approximately $312.6 million. The following table lists the distribution of these assessments for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL COUNT</th>
<th>ROLL VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>2,024</td>
<td>$312,597,912</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,827</td>
<td>$317,658,249</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,712</td>
<td>$283,357,874</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,700</td>
<td>$266,043,490</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,762</td>
<td>$255,661,519</td>
</tr>
</tbody>
</table>

The assessor is responsible for identifying the existence of taxable possessory interests and valuing those interests upon their creation, renewal, or assignment of the lease, and upon the construction of new improvements on the property.

The assessor's primary means of discovering taxable possessory interests is through reports from government agencies, information from taxpayers, data provided on business property statements, a review of building permits, information on recorded leases and agreements, and field inspections of existing taxable possessory interests. The assessor annually sends property usage questionnaires to 133 public agencies requesting a list of tenants with their names, addresses, rents, terms of possession, property descriptions, and dates of possession. The assessor will follow up these written inquiries through telephone calls, emails, letters, or personal visits.

The government agencies in Contra Costa County are typically cooperative and responsive. The assessor reports approximately 98 percent of the questionnaires are returned properly completed.

After the questionnaires are returned, an appraiser reviews the lists, values any new taxable possessory interest(s), makes appropriate remarks on the computerized appraisal record, and forwards the assessment for enrollment. Taxable possessory interests are assessed on the unsecured tax roll; the assessments are the responsibility of one appraiser plus a new appraiser in-training, and are overseen by one supervising appraiser.

The types of taxable possessory interests found in Contra Costa County include private uses in fairgrounds, convention centers, public marinas, and airports; redevelopment agency properties; property owned by public employees' retirement systems; as well as cable television franchises, grazing permits, and public employee housing.

We reviewed the assessor's written taxable possessory interest procedures and a number of taxable possessory interest records. We found the valuation typically involves the use of contract rent to estimate income, deductions for vacancy and operating expenses chargeable to the public lessor, and the use of the contract term of possession. The capitalization rate used includes the elements required by statute.
We also found the assessor uses a reasonable term of possession when estimating the value of a taxable possessory interest, revalues taxable possessory interests at the end of the reasonably anticipated term of possession, correctly issues supplemental tax bills, and annually assesses all taxable possessory interests at the lower of current market value or factored base year value. The assessor's tracking system alerts appraisers when a term of possession expires or other information indicates a reappraisal may be necessary.

Overall, we found the assessor's taxable possessory interest assessment program to be effective, comprehensive, and in compliance with statutory requirements.

**Restricted Historical Properties**

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily prescribed capitalization of income method. For assessment purposes, qualified historical property under such a contract is referred to as "restricted historical property." Section 50280.1 provides that in order for a property to qualify as a historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Restricted historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method, as provided in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

For the 2006-07 roll, the assessor properly valued seven qualifying historical properties at a taxable value of $5,692,364. One appraiser is responsible for valuing and annually reviewing each of the properties. The appraisal files contain copies of the contracts with the local governments and the ordinances establishing the historical preservation district or historical preservation zone. The assessor annually enrolls historical properties at the lowest of their factored base year value, current market value, or restricted value.

We found the assessor's historical property assessment program to be current and reflect accurate value calculations.
Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on form BOE-571-L, Business Property Statement (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment are being made by each division and to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

When new construction by a tenant adds value to a property, the assessor must review those changes and reflect them in a property's assessed value. Means of discovering this new construction include tenant improvement construction permits, questionnaires, examining rent rolls to look for tenant changes and rent changes, and coordination between the business property and real property staff.

The most common methods of discovery are reviews of the BPS and building permits. Schedule B of the BPS is also a useful source for discovering tenant improvements. It is the practice of the business property staff to refer these expenditures, along with the Business/C&I Improvement Referral form, to the real property staff for review. New leasehold improvements valued by the real property staff are supplementally assessed, and the base year values of any existing improvements are adjusted annually by the BOE-announced inflation factor.

We compared BPSs with the corresponding real property appraisal records. We found coordination between the two units was consistent and in compliance with the current statutes.

Our review of leasehold improvements also included review of assessments of foreign improvements and cell towers. We found all were properly assessed.

Classification

A determination should be made as to whether leasehold improvements are structural items, fixtures, or non-assessable items such as maintenance, repairs, or remodeling. Proper classification is important because fixtures are treated differently than structures for assessment purposes. Fixtures are a separate appraisal unit when measuring declines in value; in certain
cases, fixtures are not subject to supplemental assessments. Additionally, fixtures and personal property are components in the value criteria for audit selection pursuant to section 469.

The Business Property Section assesses all fixtures reported on the BPS while the real property staff assesses all structure improvements.

**Water Company Properties**

Taxable water company properties may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues. There is no taxable property owned by government-owned water systems in Contra Costa County.

**Regulated Water Companies**

Private water companies, both regulated and unregulated, are utility companies that earn a profit from the sale of water. The California Public Utilities Commission (CPUC) regulates the rates charged by private water companies, limiting profits to an authorized return on the companies' investment. The market values of real property owned by regulated companies are tied directly to those rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value.

Contra Costa County has one regulated water company which is state-assessed. The assessor enrolls the value determined by the BOE.

**Mutual Water Companies**

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to property owned by the water company, because the values of these properties are reflected in the assessments of the member or stockholder parcels. We were able to identify 117 mutual water companies in Contra Costa County. However, if the ownership in a mutual water company is not appurtenant to the served parcels, its land, improvements, and personal property must be assessed separately from the served parcels.

We found the assessor's water company program to be in compliance with all statutory requirements.

**Mineral Properties**

By statute and case law, mineral properties are taxable as real property. These properties are subject to special rules designed to accommodate their unique characteristics. 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. While there are assessable petroleum and mining properties in Contra Costa County, there are no assessable geothermal properties.

**Petroleum Properties**

Currently, Contra Costa County ranks 15th in the state in gas production. There are approximately 20 active gas wells in the county producing 1,870 million cubic feet annually. The total assessed value for petroleum properties in Contra Costa County for 2007 was $21,256,000. The properties are valued by an associate property appraiser. We have no recommendations regarding petroleum properties in Contra Costa County.

**Mining Properties**

There are seven mining properties in the county with a total value of $37,119,000. These properties are valued by an associate property appraiser. The assessor uses the royalty method to value the mining properties in the county.

Values for the fixtures and personal property are provided by the Business Property Section and forwarded to the Commercial/Industrial Section. The values are then combined and the totals compared to determine whether to enroll the current market value or the factored base year value for each component of the appraisal unit.

**Pipeline Rights-of-Way**

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, which govern the valuation of intercounty pipeline lands and rights-of-way.

For the 2007-08 roll, Contra Costa County had ten intercounty pipeline right-of-way assessments with a total assessed value of $9,777,646. One associate appraiser and one supervising appraiser are responsible for all pipeline right-of-way assessments. The assessor has written procedures for assessing pipeline rights-of-way, and has developed a database which tracks and adjusts the base year value of each pipeline right-of-way value by assessee.

When valuing the pipeline rights-of-way prior to the appellate court decision, the BOE developed "density classifications" for appraisal purposes. Assessors are generally using the BOE classifications. Should an assessor use different classifications or associated values, the assessor loses the benefit of a statutory presumption of correctness. Contra Costa County uses the three density classifications found in section 401.10(a)(1)(A). The 1975-76 base year values for these classifications are:

- high density, valued at $20,000 per mile;

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• transitional density, valued at $12,000 per mile; and

• low density, valued at $9,000 per mile.

Contra Costa County has intercounty pipeline rights-of-way in all three density categories. We reviewed the records of all ten pipeline right-of-way assessments and confirmed the values had been correctly factored from their 1975 base year. We found all pipeline right-of-way assessments in Contra Costa County are correctly valued pursuant to sections 401.8 through 401.12.
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures;
- Mailing and processing of annual property statements and questionnaires;
- Annual revaluation of taxable personal property and fixtures; and
- Auditing taxpayers whose assessments are based on information provided in property statements.

The assessor's staff assigned to the Business Property Section consists of one principal appraiser, two supervising auditor-appraisers, five senior auditor-appraisers, three auditor-appraisers, and one senior real property technical assistant. The technical assistant works in conjunction with the auditor-appraisers to ensure the correct classification and allocation of real and personal property items assessed to businesses. This staffing mix maximizes the coordination of real property and business property assessments.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business property, discovering and assessing leased equipment, and assessing manufactured homes, aircraft, and vessels.

Audits

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.
The following table indicates the total number of audits completed for recent years:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit Workload</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandatory</td>
<td>318</td>
<td>306</td>
<td>285</td>
<td>321</td>
</tr>
<tr>
<td>Non-mandatory</td>
<td>43</td>
<td>3</td>
<td>6</td>
<td>52</td>
</tr>
<tr>
<td>Total audits scheduled</td>
<td>361</td>
<td>309</td>
<td>291</td>
<td>373</td>
</tr>
<tr>
<td>Unfinished from prior year</td>
<td>71</td>
<td>80</td>
<td>94</td>
<td>44</td>
</tr>
<tr>
<td>Total audit workload</td>
<td>432</td>
<td>389</td>
<td>385</td>
<td>417</td>
</tr>
<tr>
<td><strong>Audits completed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandatory</td>
<td>263</td>
<td>309</td>
<td>302</td>
<td>302</td>
</tr>
<tr>
<td>Non-mandatory</td>
<td>21</td>
<td>9</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td>Total audits completed</td>
<td>284</td>
<td>318</td>
<td>305</td>
<td>323</td>
</tr>
<tr>
<td><strong>Audits carried forward</strong></td>
<td>148</td>
<td>71</td>
<td>80</td>
<td>94</td>
</tr>
</tbody>
</table>

Contra Costa County is a participant in the California Counties Cooperative Audit Service Exchange (CCCASE). As a participant in CCCASE, the Contra Costa County Assessor completes audits of locally sited taxpayers for other participating California counties and, occasionally, contracts with other California counties to complete audits of remotely sited taxpayers on their behalf. The 263 mandatory audits completed during the 2006-07 tax year include 79 audits contracted for and completed by other CCCASE participating counties.

The Business Property Section also maintains a database of business accounts that may potentially be subject to nonmandatory audits. These business accounts are placed in this database because of irregularities or inconsistencies discovered during statement processing. Once the auditor-appraiser charged with processing the property statement discovers an audit candidate, an internal document, referred to as a "Recommended Audit" card, is prepared and forwarded to the supervising auditor-appraiser for inclusion in the database.

We reviewed several nonmandatory accounts and found the audits to be thoroughly conducted and sufficiently referenced. The maintenance of a strong nonmandatory audit program is a powerful tool in reducing escaped taxable property and promoting reporting accuracy among taxpayers.

**Statute of Limitations**

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time period, the assessor may request, pursuant to section 532.1, a
waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. We reviewed a number of waivers and found them to be adequately prepared and properly signed.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment. We reviewed several recently completed audits and found them to be well documented, accurate, and supported by a comprehensive audit checklist defining the areas of investigation. The audit quality is further enhanced by a standardized review process.

Business Property Statement Processing

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of $100,000 or more to annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the core of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.
The assessor's staff recently processed statements as shown in the table below:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>TOTAL COUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>13,424</td>
</tr>
<tr>
<td>Agriculture</td>
<td>46</td>
</tr>
<tr>
<td>Apartments</td>
<td>154</td>
</tr>
<tr>
<td>Direct Billing</td>
<td>3,547</td>
</tr>
<tr>
<td>Service Stations</td>
<td>316</td>
</tr>
<tr>
<td>Financial</td>
<td>1,171</td>
</tr>
<tr>
<td>Leased Equipment</td>
<td>1,039</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19,697</strong></td>
</tr>
</tbody>
</table>

The BPS serves as the basis for the subsequent business property assessments. In addition, BPSs provide important information regarding changes in business ownership, location of the property, and the business start date at the current location.

**Discovery**

Taxpayer self-reporting is the principal means of discovering assessable business property. Other means of discovery include reviewing business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories, referrals from other counties, and BOE notifications. The assessor has an efficient discovery program.

**Direct Billing**

Many California assessors utilize an assessment procedure called direct billing or direct assessment. It is a method of assessing qualified lower-value business accounts without the annual filing of a BPS. The assessor establishes an initial value and continues it for several years. Property statement filings or field reviews are only required periodically. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated launderettes, small cafes and restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff, increasing time available for the auditor-appraisers to perform other required duties.

The accounts direct-billed in Contra Costa County are generally stable and are less than $100,000 in aggregate cost of reportable business property. After four years, the assessor sends a BPS to direct-billed taxpayers to determine if there have been any substantial changes of business property, including increases or decreases in equipment, changes in ownership, or changes in location. The assessor then decides whether the account is still suitable for direct
billing. If not, he converts the account back to a regular account and resumes yearly BPS mailings.

We reviewed current procedures and numerous direct-bill account files and found no problems with the assessor's direct billing program.

**Electronic Filing (efiling) of Business Property Statements**

Section 441(k) authorizes the assessor to accept the filing of a property statement by the use of electronic media. In lieu of the signature required by subdivision (a) and the declaration under penalty of perjury required by subdivision (b), property statements filed using electronic media shall be authenticated pursuant to methods specified by the assessor and approved by the BOE. Electronic media includes, but is not limited to, computer modem, magnetic media, optical disk, and facsimile.

The Standard Data Record (SDR) system was developed by the California Assessors' Association to provide a secure and standardized method for the electronic filing of property statements. Taxpayers may efile individual (eSDR) or multiple (SDR) statements through a centralized, secure server. Access codes, requiring the use of a Login ID and password, are required. The SDR system generates a unique Business Identification Number (BIN) for each statement filed. At the time of filing, the Declaration by Assessee Certification is signed with the taxpayer's password and BIN.

Counties are notified by email when statements have been filed. The data is then downloaded by the county via a secure file transfer.

For roll year 2007-08, Contra Costa County Assessor received 69 efiled BPSs.

**Business Equipment Valuation**

**Commercial, Industrial, and Agricultural Equipment**

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the Board shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the Board annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment (for example, pagers, facsimile equipment, and photocopiers), which the CAA recommends should not be trended.
Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from combined lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, Assessment of Personal Property and Fixtures.

When property is leased, both lessor and lessee should report such property on their annual property statements. At the end of the lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon the termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm the lessee reports the property. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

We reviewed the procedures for assessing leased equipment along with a number of assessments for both lessors and lessees. We found the leased equipment program is well-managed, with staff doing a good job in the discovery, processing, tracking, and cross-checking of leased equipment information.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, 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 taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.
The following table illustrates the number of manufactured homes in Contra Costa County and the total enrolled values for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>HOMES</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>1,794</td>
<td>$54,540,858</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,762</td>
<td>$51,048,405</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,715</td>
<td>$46,441,461</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,663</td>
<td>$42,881,105</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,642</td>
<td>$44,101,553</td>
</tr>
</tbody>
</table>

There are 1,790 manufactured homes within the county's 94 mobilehome parks, and four manufactured homes sited on fee land. Manufactured homes located in parks are assigned a 700-series parcel number. Land is identified with a separate individual parcel number. In compliance with sections 5801(b)(2) and 5830, the assessor enrolls manufactured homes as personal property on the secured roll.

A team of three real property appraisers processes all manufactured home assessments in the county. A real property technician conducts field visits and initial research to obtain details of the manufactured homes. One real property appraiser values all newly assessable manufactured homes, and one part-time real property appraiser reviews all manufactured home assessments each year to look for declines in value.

The assessor discovers taxable manufactured homes through the State Department of Housing and Community Development reports, building permits, dealer reports of sale, and appraiser canvassing. Taxable manufactured home accessories are discovered by building permits and appraiser canvassing.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, takes into consideration sales prices listed in recognized value guides for manufactured homes. The assessor uses actual selling prices and the *N.A.D.A. Manufactured Housing Appraisal Guide* (NADA) when considering the value of manufactured homes. NADA is most often used to value manufactured homes, as it does not take site influence into account.

The assessor correctly applies supplemental assessments to new and transferred manufactured homes. Exemptions are correctly handled for the assessment of manufactured homes held in dealer's inventory and those held or owned by financial institutions and insurance companies. In compliance with section 5803, site value is not included in the manufactured home assessment.

**Aircraft**

**General Aircraft**

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (the difference
between general aircraft in contrast with certificated aircraft is discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the Aircraft Bluebook-Price Digest (Bluebook) as the primary guide for valuing aircraft with the Vref Aircraft Value Reference (Vref) as an alternative guide for aircraft not listed in the Bluebook.

The following table shows the number of general aircraft assessments and their enrolled values for Contra Costa County for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>ASSESSMENTS</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>559</td>
<td>$126,941,758</td>
</tr>
<tr>
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<td>569</td>
<td>$100,714,491</td>
</tr>
<tr>
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<td>562</td>
<td>$101,108,826</td>
</tr>
<tr>
<td>2004-05</td>
<td>471</td>
<td>$100,685,316</td>
</tr>
</tbody>
</table>

One auditor-appraiser, a senior property technician assistant, and a senior-level clerk are responsible for aircraft-related property statement processing duties. The assessor discovers aircraft through airport operators' reports, other county referrals, audits of business owners, and Federal Aviation Administration reports.

Annually, the assessor mails an aircraft property statement to the known owner of each aircraft in the county. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The aircraft statement indicates a filing due date of April 1, and contains a statement indicating the request for information is pursuant to section 5365.

We reviewed several aircraft appraisal records and statements for proper valuation methodology and legally prescribed application of late-filing penalties when applicable. As previously reported in the appraiser certification section of this report, we found noncertified staff processing aircraft values. Additionally, we found a few areas of the aircraft program needing improvement.

**RECOMMENDATION 3:** Revise general aircraft assessment procedures by: (1) adding sales tax to the acquisition cost of general aircraft when calculating a value estimate, and (2) making engine hour and optional equipment adjustments when appraising aircraft.

**Add sales tax to the acquisition cost of general aircraft when calculating a value estimate.**

The assessor uses a computerized version of the published value guide Bluebook to value aircraft. We found the assessor makes the required 10 percent value adjustment prescribed by Letter To Assessors 1997/03, General Aircraft Value Guide, dated January 31, 1997, but does
not add a sales tax component to the value indicator developed from the guide. The value indicators developed from the Bluebook do not include a sales tax component; therefore, the assessor must add a sales tax component to the value indicator when using the Bluebook to value aircraft.

Pursuant to Assessors' Handbook Section 577, Assessment of General Aircraft (AH 577), the general rule in determining market value is when price is the basis of value, sales/use tax, freight, and installation costs are elements of that value, and should be included in the estimate of market value. Furthermore, for assessment purposes, value is the full economic cost, which includes all market costs, both direct and indirect, including sales tax or use tax. By not including a sales tax component in cost-based value indicators, the assessor is not reflecting full economic cost, and is under-assessing taxable aircraft.

**Make engine hour and optional equipment adjustments when appraising aircraft.**

Our review of aircraft records revealed that staff does not consistently make adjustments to value indicators to reflect either excess, or less than average, engine hours. We also found cases where the existence of optional equipment reported by the property owner was not reflected in the value conclusion. We also found other cases where the applicable section of the aircraft statement was left blank by the taxpayer, and the assessor's staff failed to contact the taxpayer to resolve the problem.

The importance of adjusting aircraft values when the engine hours differ materially from mid-time before a recommended engine overhaul is emphasized in LTA 1997/03. The required adjustments can be either upward or downward depending on whether engine hours are more or less than the mid-time before a recommended engine overhaul.

Published value indicators provide a starting point in calculating a value conclusion. Adjustments reflecting the unique characteristics of the subject property must be made in order to reach an accurate value estimate.

This change will bring office practice into conformity with the engine overhaul adjustment guide and will result in a more accurate and equitable assessment.

**Certificated Aircraft**

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

One commercial air carrier flies in and out of the Buchanan Airport in Contra Costa County. The auditor-appraiser who is responsible for aircraft appraisals processes the single certificated aircraft statement. Appraisals of this type are predicated upon the reported costs indicated on the
Contra Costa County Assessment Practices Survey

September 2009

air carrier's BPS. The auditor-appraiser applies the percentage of time the aircraft is situated in Contra Costa County based on a one week sample, including both ground time and air time, to the airline's total audited fleet estimate of value, to derive a pro rata estimate of the certificated aircraft value.

We reviewed the certificated aircraft appraisal procedures, in addition to the single processed air carrier property statement and found the program to be correctly administered and the estimates of values to be properly calculated pursuant to sections 401.17.

Historical Aircraft

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

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

There were 39 historical aircraft assessed on the 2007-08 roll in Contra Costa County with a total value of $1,025,666. The assessor properly obtained signed affidavits in the format prescribed by the BOE and obtained certification of attendance for historical aircraft exemptions claimed pursuant to section 220.5(c).

We reviewed several historical aircraft assessments and exemption claims and found the assessor has properly granted the exemption when the legal conditions were met. We also were able to confirm that the assessor correctly denied the exemption when the affidavit was not filed. However, we did find two areas where the historical aircraft program can be improved.
RECOMMENDATION 4: Revise general historical aircraft assessment procedures by:
(1) applying a reduced exemption to qualifying historical aircraft when an affidavit is not timely submitted, and
(2) annually appraising and enrolling the current market value of historical aircraft.

Apply a reduced exemption to qualifying historical aircraft when an affidavit is not timely submitted.

We reviewed a number of historical aircraft exemption claims and found the assessor is not reducing the exempt value to 80 percent of full value when the claim is not timely filed. Of the late-filed claims inspected, we found the full exemption was allowed in most cases.

Section 255 (a) provides that the historical aircraft exemption claim must be submitted by 5:00 p.m. on February 15. Section 276.5 provides for a partial exemption of 80 percent for historical claims filed after February 15 but on or before August 1.

By allowing a full exemption in cases where historical exemption claims were not timely filed, the assessor is not enforcing taxpayer compliance with section 255, and, therefore, the assessor is not in compliance with the provisions of section 276.5.

Annually appraise and enroll the current market value of historical aircraft

We found the assessor is not consistently appraising historical aircraft on an annual basis. In three of six cases we examined, where the historical aircraft exemption was granted, the assessor's records indicated that the assessor has been merely rolling over the enrolled values from the previous year's enrollments.

Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. AH 577 provides that aircraft is to be valued at fair market value every year as of the lien date.

Many factors can affect the current market value of aircraft, including engine overhauls, added equipment, and market fluctuations. When aircraft is not annually appraised, enrolled values may be either higher or lower than the current market value prescribed by statute.

The enrolled value should accurately reflect the current market value of historical aircraft. Otherwise, the granting of a partial exemption or the denial of the exemption in whole could result in an erroneous assessment.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves,
certificate of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.

The following table details the vessel assessments and their assessed values for Contra Costa County for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>PLEASURE VESSELS</th>
<th>ASSESSED VALUE</th>
<th>DOCUMENTED VESSELS</th>
<th>ASSESSED VALUE</th>
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<td>$224,325,476</td>
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<td>$83,007,161</td>
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The assessor mainly uses the *National Automobile Dealers Association Marine Appraisal Guide* (NADA) and *BUC Used Boat Price Guide* (winter editions) to value vessels. If current or reliable information is not available in the published value guides, the assessor uses the values of similar vessels within the assessor's own database, or the assessor will obtain current comparable sales data from other sources.

A specialist clerk processes each statement and derives a value using one of the published value guides. An auditor-appraiser generally does not review filed vessel statements.

For vessels not new to the county and with a cost of less than $100,000, the assessor sends an inquiry as to any changes in condition or equipment. Vessels are then valued based on depreciation schedules developed from published value guides based on average condition and from thirteen possible categories of vessels.

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. To qualify for the exemption, the owner of the vessel must file an *Affidavit for 4 Percent Assessment of Certain Vessels* (BOE-576-E). If the taxpayer files an affidavit by February 15, a 96 percent exemption is granted. When filed after February 15, but before August 1, the assessor will grant a reduced exemption of 76.8 percent. However, no exemption is granted for those taxpayers filing an affidavit after August 1.

For 2007-08, there were 1,063 commercial vessels that potentially qualified for the 96 percent exemption provided in section 227. We reviewed various exempt vessels and found the exemption forms were filed and exemptions granted as appropriate. Overall, the documented vessel program is properly administered.

The assessor uses form BOE-576-D, *Vessel Property Statement*, and the BOE-576-E to solicit information from taxpayers. Form BOE-576-D is used to annually solicit information from registered vessel owners who own assessable vessels in the county costing in excess of $100,000.
However, we noted that non-certified staff values vessels with no oversight by an auditor-appraiser. This matter is the subject of a recommendation in the appraiser certification portion of this report.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Contra Costa County

Chief
   Dean Kinnee

Survey Program Director:
   Benjamin Tang     Principal Property Appraiser

Survey Team Supervisor:
   Bob Reinhard      Supervising Property Appraiser

Survey Team Leader:
   Pamela Bowens     Senior Property Auditor-Appraiser
   Carlos Zaragoza   Senior Property Auditor-Appraiser

Survey Team:
   James McCarthy    Senior Petroleum & Mining Appraisal Engineer
   Tammy Aguiar      Associate Property Appraiser
   Bob Donay         Associate Property Appraiser
   Charles Matura    Associate Property Appraiser
   Bob Rossi         Associate Property Appraiser
   Jeffrey Arthur    Associate Property Auditor-Appraiser
   Daniel Bibb       Associate Property Auditor-Appraiser
   Alan Dannen       Associate Property Auditor-Appraiser
   Ryan Wong         Assistant Property Appraiser
   Prubjit Singh     Tax Technician I
B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The Board's County-Assessed Properties Division (CAPD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

Base year properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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7 The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

8 The nine value strata are $1 to $99,999; $100,000 to $199,999; $200,000 to $499,999; $500,000 to $999,999; $1,000,000 to $1,999,999; $2,000,000 to $19,999,999; $20,000,000 to $99,999,999; $100,000,000 to $249,999,999; and $250,000,000 and over.
Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

New construction. Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

Non-Proposition 13 properties. Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, Timberland Production Zone property, and taxable government-owned property.

Unsecured properties. Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, that is, the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?
Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? Was there a decline in value?

New construction -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? Do we concur with the value enrolled? Was the base year amount trended forward properly (for the allowed inflation adjustment)? Was there subsequent new construction? Or, was there a decline in value?

Non-Prop 13 properties -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the CAPD. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.
C. Relevant Statutes and Regulations

Government Code

15640. Survey by Board of county assessment procedures.

(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

(b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.

(c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

(d) In addition, the Board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.

(e) The Board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.

(f) The Board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The Board shall also provide a right to each county assessor to appeal to the Board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

In order to verify the information furnished to the assessor of the county, the Board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the Board to any assessor, or by the Board or the assessor to the assessee of the property to which the data relate.
The Board shall permit an assessee of property to inspect, at the appropriate office of the Board, any information and records relating to an appraisal of the assessee's property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by Board employees.

The Board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

(a) The Board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the BOE shall each year, in accordance with procedures established by the Board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the Board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the Board determines that a need exists to conduct a survey.
(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the Board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a Board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the Board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by Board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the BOE shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the BOE may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the BOE shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the BOE a written response to the findings and recommendations in the survey report. The BOE may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the BOE's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the BOE within two years after the date the BOE began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the BOE and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.
Revenue and Taxation Code

75.60. Allocation for administration.

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.

(2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:

(A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the BOE's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the BOE's survey described in subparagraph (A).
(3) Each certification of a county or city and county shall be valid only until the next survey made by the BOE. If a county or city and county has been certified following a survey that includes a sampling of assessments, the BOE may continue to certify that county or city and county following a survey that does not include sampling if the BOE finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The BOE shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the BOE finds in the survey conducted without sampling that significant assessment problems exist, the BOE shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the BOE, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

(a) SURVEY CYCLE. The BOE shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

(1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the BOE from each of these groups. The BOE may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS. If the BOE finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the BOE shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) ADDITIONAL SURVEYS. This regulation shall not be construed to prohibit the BOE from conducting additional surveys, samples, or other investigations of any county assessor's office.


(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the BOE to indicate a reasonable probability that either:

(1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or

(2) the sum of all the differences between the BOE's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

(1) Uniformity of treatment for all classes of property.

(2) Discovering and assessing newly constructed property.

(3) Discovering and assessing real property that has undergone a change in ownership.

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

(5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
(6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.

(7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.

(8) Discovering and assessing property that has suffered a decline in value.

(9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.
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 recommendation 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 Contra Costa County Assessor's response begins on the next page. The BOE has no comments on the response.
August 21, 2009

Dean R. Kinnee, Chief, County-Assessed Properties Division
State Board of Equalization
Property and Special Taxes Department
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

Pursuant to Section 15645 of the California Government Code, enclosed is the Contra Costa County Assessor’s response to the recommendations contained in the Assessment Practices Survey of the 2007-2008 assessment roll conducted by the State Board of Equalization. Please incorporate my responses into your final Assessment Practices Survey Report.

We appreciate the survey team’s very positive and praising comments regarding the office’s assessment procedures and practices. The team’s report found the Contra Costa County Assessor’s Office assessment programs to be effective, comprehensive, well-managed, and in compliance with statutory requirements. The report further recognizes that the Assessor’s Office has improved efficiencies and its operations through the development and use of new technology.

In my response to the survey report, you will see that I have concurred and either implemented or will be implementing all of the State Board of Equalization’s recommendations.

I would like to thank all of the State Board of Equalization survey team members for the professional and courteous manner in which they conducted themselves throughout the survey.

Also, I would like to express my gratitude to the employees of the Assessor’s Office for their hard work, expertise, dedication and commitment to public service.

Sincerely,

GUS S. KRAMER
County Assessor

Enclosure

cc: Mr. David Gau
    Mr. Benjamin Tang
    Ms. Sally Beck
CONTRA COSTA COUNTY
ASSESSMENT PRACTICES SURVEY RESPONSES-2007

RECOMMENDATION 1: Use certified appraisers to value vessels and aircraft.

Response:
We concur. All valuation of boats and aircraft prepared by the technician are now reviewed by a certified auditor-appraiser, and a systematic review process is in place to document the review by a certified appraiser.

RECOMMENDATION 2: Annually submit to the tax collector a listing of all taxpayers receiving form BOE-571-J, Annual Racehorse Tax Return, pursuant to Rule 1045 (c)(2).

Response:
We concur. A copy of the listing of all taxpayers receiving form BOE-571-J, Annual Racehorse Tax Return, will be forwarded to the tax collector every year.

RECOMMENDATION 3: Revise general aircraft assessment procedures by: (1) adding sales tax to the acquisition cost of general aircraft when calculating a value estimate, and (2) making engine hour and optional equipment adjustments when appraising aircraft.

Response:
(1) We concur. In 2009, we started to add sales tax to the acquisition cost of general aircraft when calculating a value estimate.
(2) We concur. In 2009, we started to make engine hour and optional equipment adjustments when appraising aircraft.

RECOMMENDATION 4: Revise general historical aircraft assessment procedures by: (1) applying a reduced exemption to qualifying historical aircraft when an affidavit is not timely submitted, and (2) annually appraising and enrolling the current market value of historical aircraft.

Response:
We concur. The required changes will be implemented in 2010 during the assessing season.