LOS ANGELES COUNTY
ASSESSMENT PRACTICES SURVEY

JUNE 2013

CALIFORNIA STATE BOARD OF EQUALIZATION

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June 28, 2013

TO COUNTY ASSESSORS:

LOS ANGELES COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Los Angeles 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 Los Angeles County Assessor's Office 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 office response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Los Angeles 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 July through August 2011. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Los Angeles County Assessor's Office 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:dcl
Enclosure
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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum amount of funding, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Los Angeles 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 Los Angeles 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 Los Angeles County Assessor's Office elected to file their 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 at page 2) 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 assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code 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 Los Angeles County Assessor's Office included reviews of the assessor's office records, interviews with assessor's office staff, and contact with officials in other public agencies in Los Angeles County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2010-11 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's office 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 an 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 and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.
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 of improvement since our last assessment practices survey.

We are aware that allegations of making improper value reductions were brought against the assessor and several employees of the assessor's office. The actions that gave rise to those allegations took place prior to our survey and were discovered and being addressed by the assessor's office before our survey began. During our survey, we found no evidence of further improper reductions; however, we do make recommendations for improvement of the assessment roll change procedures later in this report.

We noted the following positive aspects of the assessor's office operations:

- The assessor's office has implemented an Appraiser Trainee Certification Program (ATCP) for all appraiser candidates to complete before permanent civil service appointment is granted. This is a 12-month training program that includes formal class work interspersed with on the job training. Upon completion of the program, the appraiser is credited with 144 hours of coursework by the county and BOE.

- The assessor's office has completed a detailed exemptions manual to be used as a comprehensive training and reference tool for processing the most common exemptions, such as church, religious, welfare, college, public school, library/museum, and historical aircraft. In addition, the assessor's office has implemented a new major exemptions property database that enables staff to search and update all exemption claims electronically. The assessor's office website also includes overviews of the various types of exemptions, including a printable brochure for non-profit organizations.

- The assessor's office maintains detailed policies and procedures for processing changes in ownership. In addition, the assessor's office is very proactive in discovering changes in control or ownership of legal entities and has a comprehensive tracking system in place. Los Angeles County currently sits as the chair for the California Assessors' Association (CAA) Standards Ad Hoc Committee for the Legal Entity Ownership Program (LEOP).

- The assessor's office maintains a proficient declines in value program, proactively identifying and annually reviewing properties that have experienced a decline in value. In addition, the assessor's office provides an informational pamphlet explaining the decline-in-value assessment review process, and the pamphlet is available to the public at all seven office locations.

- The assessor's office has improved the taxable possessory interest program by creating a possessory interest online lease reporting database that provides an on-going resource to track and update possessor and lease data.
The assessor's office maintains an annual report that summarizes appraisal parameters for all the petroleum properties in the county, allowing staff appraisers to review discount rates, production parameters, reserve forecasts, and cost information for all properties.

The assessor's office has implemented a new manufactured home program to review and value all personal property manufactured homes, including those that are in a decline-in-value status. This program uses an internal database that is synchronized with data that is uploaded from the National Automobile Dealers Association Manufactured Housing Cost Guide (NADA). The program tracks base year values, compares them to current market values, and enrolls the lower of the two values.

Many of our recommendations concern portions of programs which are currently effective, but need improvement. In many instances, the assessor's office is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, we found that the assessor's office is effectively managing the following administration programs: staffing, workload, appraiser certification, staff property and activities, and assessment appeals. However, we noted a need for improvement in the administration of the disaster relief, assessment roll changes, and exemptions programs.

In the area of real property assessment, the assessor's office has effective programs for managing declines in value, California Land Conservation Act (CLCA) property, taxable possessory interests, and leasehold improvements. We found areas in need of improvement for the change in ownership, new construction, taxable government-owned property, and mineral property programs.

In the area of personal property and fixtures assessment, the assessor's office has effective programs for conducting audits and processing business property statements, as well as assessing business equipment, manufactured homes, aircraft, and vessels.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

The Los Angeles County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2010-11 assessment roll indicated an average assessment ratio of 100.03 percent, and the sum of the absolute differences from the required assessment level was 0.19 percent. Accordingly, the BOE certifies that Los Angeles County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Improve the disaster relief program by: (1) revising the application for disaster relief to meet the requirements of section 170(a), and (2) revising the notice of proposed reassessment to include the appeals filing period as specified in section 170(c).
RECOMMENDATION 2: Improve the assessment roll changes program by:
(1) developing and uniformly enforcing policies and procedures to ensure that staff cannot bypass supervisor approval in the enrollment of values, (2) developing and uniformly enforcing policies and procedures to ensure that supervisors cannot approve values for enrollment that they have determined themselves, and (3) modifying the data entry system to ensure that a second data entry clerk will be used to re-key values initially keyed by the first data entry clerk as part of the verification process. .................................................17

RECOMMENDATION 3: Improve the administration of the welfare exemption by not requiring an annual filing for non-profit corporations that build or rehabilitate single or multi-family residences for sale at cost to low-income families in accordance with sections 214.15 and 254.5.................................................................21

RECOMMENDATION 4: Improve the administration of the disabled veterans' exemption by: (1) requiring claimants to submit proof of an honorable discharge, (2) applying the provisions of section 276 for disabled veterans' exemption claims that are not filed timely, and (3) granting the disabled veterans' exemption on a prorated basis for the initial qualifying year in accordance with sections 276.1 and 276.2..............................23

RECOMMENDATION 5: Improve the change in ownership program by: (1) applying penalties for failure to file a COS in accordance with sections 482(a) and 483(b), and (2) properly notifying taxpayers of the penalty abatement process when sending a notice of penalty as required by section 482(f). .......................27

RECOMMENDATION 6: Include all required information on the two-year transfer list pursuant to section 408.1(c). .................................................................28

RECOMMENDATION 7: Improve the new construction program by: (1) enrolling construction in progress at its fair market value on each lien date, (2) valuing completed new construction at its fair market value, and (3) enrolling all assessable new construction.................................................................35

RECOMMENDATION 8: Correctly calculate the restricted value for taxable government-owned property.........................................................40

RECOMMENDATION 9: Use the factored base year value of fixtures and equipment when allocating values to factored base year appraisal units. ....43
OVERVIEW OF LOS ANGELES COUNTY

Los Angeles County is located in the southern portion of California. The county seat is the city of Los Angeles, which is the largest city in California and the second largest city in the United States. There are 88 incorporated cities in the county. The county also includes two offshore islands, Santa Catalina Island and San Clemente Island. Los Angeles County is bordered on the north by Kern County, on the east by San Bernardino County, on the west by Ventura County, on the southeast by Orange County, and on the south and southwest by the Pacific Ocean. Approximately 70 miles of the county is bordered along the ocean.

Los Angeles County was one of the 27 original counties of California and was created at the time of statehood in 1850. The county has a total area of 4,752 square miles, consisting of 4,061 square miles of land and 691 square miles of water. Parts of the county's original territory were given to Kern County in 1851, San Bernardino County in 1853, and to Orange County in 1889. Los Angeles County has a variety of topography, including mountain ranges, deep valleys, forests, islands, lakes, rivers, and desert. As of 2010, the county had a population of 9,818,605, making it the most populous county in the United States.
The following table displays information pertinent to the 2010-11 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Secured Roll</strong></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$545,435,609,765</td>
</tr>
<tr>
<td>Improvements</td>
<td>$472,746,432,714</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$12,977,548,476</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$8,825,723,797</td>
</tr>
<tr>
<td><strong>Total Secured</strong></td>
<td>$1,039,985,314,752</td>
</tr>
<tr>
<td><strong>Unsecured Roll</strong></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$48,293</td>
</tr>
<tr>
<td>Improvements</td>
<td>$5,922,014</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$15,725,364,226</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$33,799,609,093</td>
</tr>
<tr>
<td><strong>Total Unsecured</strong></td>
<td>$49,530,943,626</td>
</tr>
<tr>
<td><strong>Exemptions</strong>²</td>
<td>($38,775,586,328)</td>
</tr>
<tr>
<td><strong>Total Assessment Roll</strong></td>
<td>$1,050,740,672,050</td>
</tr>
</tbody>
</table>

² The value of the Homeowners’ Exemption is excluded from the exemptions total.
³ State Board of Equalization Annual Report, Table 7.

The next table summarizes the changes in assessed values over recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$1,050,740,672,000</td>
<td>-1.9%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2009-10</td>
<td>$1,070,601,816,000</td>
<td>-0.5%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>2008-09</td>
<td>$1,075,943,291,000</td>
<td>6.9%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>$1,006,050,850,000</td>
<td>9.1%</td>
<td>9.6%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$921,743,405,000</td>
<td>10.8%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>
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 office budget and staffing, workload, appraiser certification, staff property and activities, assessment appeals, disaster relief, assessment roll changes, and exemptions.

Budget and Staffing

The following table sets forth the gross budget and staffing over recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$161,160,000</td>
<td>-0.5%</td>
<td>1,455</td>
</tr>
<tr>
<td>2009-10</td>
<td>$161,994,000</td>
<td>0.9%</td>
<td>1,455</td>
</tr>
<tr>
<td>2008-09</td>
<td>$160,568,000</td>
<td>2.0%</td>
<td>1,499</td>
</tr>
<tr>
<td>2007-08</td>
<td>$157,477,000</td>
<td>7.2%</td>
<td>1,502</td>
</tr>
<tr>
<td>2006-07</td>
<td>$146,838,000</td>
<td>3.3%</td>
<td>1,502</td>
</tr>
</tbody>
</table>

The number of budgeted permanent staff includes 60 managers, some of whom are also appraisers and auditor-appraisers; 379 real property appraisers; 178 auditor-appraisers; 39 mapping technicians; 106 computer analysts; 54 other technical/professionals; and 639 support staff.

Los Angeles County Assessor's Office consists of seven offices: Headquarters (Los Angeles), North District (Sylmar), West District (Culver City), South District (Signal Hill), East District (South El Monte), Lancaster (Regional Office), and Van Nuys (Satellite Office).
The following is an organizational chart for the Los Angeles County Assessor's Office:

**Workload**

Generally, an assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, an assessor reviews recorded documents and building permits to discover assessable property. In addition, an assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.
In addition, for most real property, an assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, an assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of an assessor. Additionally, the number of assessment appeals may increase during this period.

As shown in the prior tables, the gross budget has increased four of the past five years, with the most recent showing a slight decrease, while the total roll value has increased three of the past five years, with the two most recent years showing slight decreases. The workload in the assessor's office has fluctuated over recent years, reflecting volatile market conditions. The number of reappraisable transfers due to changes in ownership has increased two of the past four years, with the most recent year showing a decrease. The number of new construction assessments decreased three of the past four years, with the most recent year showing an increase. In addition, the number of decline-in-value assessments and the number of appeals filed increased three of the past four years, with the most recent year showing a decrease.

These trends are shown in the following table:

<table>
<thead>
<tr>
<th>WORKLOAD DESCRIPTION</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reappraisable Transfers</td>
<td>157,776</td>
<td>162,073</td>
<td>153,975</td>
<td>145,982</td>
<td>181,828</td>
</tr>
<tr>
<td>New Construction Assessments</td>
<td>81,798</td>
<td>75,277</td>
<td>89,755</td>
<td>101,205</td>
<td>111,057</td>
</tr>
<tr>
<td>Decline-In-Value Assessments</td>
<td>392,310</td>
<td>425,294</td>
<td>350,794</td>
<td>130,629</td>
<td>7,540</td>
</tr>
<tr>
<td>Assessment Appeals Filed</td>
<td>52,252</td>
<td>58,550</td>
<td>53,824</td>
<td>15,981</td>
<td>12,301</td>
</tr>
</tbody>
</table>

**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 598 certified appraisers on staff, including the assessor; 491 hold advanced appraiser's certificates. We found that the assessor's office staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor's office does not use contract appraisers.

In Los Angeles County, a principal appraiser is responsible for the training and certification program for appraisers, and tracks individual appraiser education utilizing both internal and BOE annual reports. All appraiser candidates are enrolled in the assessor's office Appraiser Trainee Certification Program (ATCP). The 12-month training program includes formal class work interspersed with on the job experience. Classroom instruction is conducted in house by a variety of experienced appraisal personnel and consists of lectures, discussions, and demonstrations. On the job experience includes a variety of real life appraisals and assessment tasks in the assessor's office. Appraisers are expected to complete increasingly difficult residential and commercial assignments proficiently, and to interact with the public. Before permanent civil service appointment is granted, the candidates must complete ATCP concurrently with 12 months of probation and then pass a comprehensive final certification exam. Upon successful completion of
training and a civil service appointment, appraiser candidates are credited with 144 hours of coursework by the county and BOE.

The assessor's office requires an advanced certificate for promotion to Appraiser III. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible.

According to the BOE report on training hours for certified staff, all of the 598 certified appraisers are current in their continuing education hours. Of those certified appraisers, 25 are retired annuitants and consist of 19 appraisers and 6 auditor-appraisers, and all 25 hold advanced certificates. In our comparison of BOE and Los Angeles County Assessor's Office appraiser records, we found that all appraisers are properly certified and appropriately classified. We have no recommendations for the appraiser certification program.

**Staff Property and Activities**

The BOE's assessment practices survey includes a review of the assessor's office internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's office staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

An assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

All employees at the Los Angeles County Assessor's Office are provided ethics training and receive a copy of the *Office of the Assessor Code of Ethics* (Code of Ethics). The Code of Ethics is published by the Human Resources Division, and addresses conflicts of interest and financial disclosure requirements. It is the policy of the assessor's office that employees are not to be involved in the assessment of their own property. The Human Resources Division does not maintain a list of employee owner-occupied homes and relies on the employee's disclosure of activity regarding their personal residences. Employees are required to disclose any activity that would lead to a reassessment of any real, personal, or business property owned by the employee or their spouse. Disclosure is to be made on an Employee Property – Activity Reporting form, which is processed by the chief of the Human Resources Division and approved by the assistant assessor. Information on the disclosure form is checked against the employee's annual filing of Form 700.

The Human Resources Division also monitors the outside employment activities of assessor's office staff. Los Angeles County requires that any outside employment be approved and employees must file an Employee Report on Outside Employment Activities each year disclosing any outside employment activity. The conflict of interest procedures are stated in the Code of Ethics publication given to all employees. The Human Resources Division reviews and makes
recommendations on the activity, and the assistant assessor determines if the activity is incompatible.

We reviewed a number of staff-owned properties with recent activity and found no problems. We have no recommendations for the staff property and activities program.

**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 Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if an assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

Los Angeles County has five assessment appeals boards (AAB). Each AAB consist of three members selected and appointed by the board of supervisors. All members have completed the required training, with the exception of two newly appointed members. The filing period for assessment appeals in Los Angeles County is from July 2 through November 30. Los Angeles County conducts assessment appeals hearings Mondays through Thursdays.

An applicant may request that the hearing be held before a hearing officer. Hearings before a hearing officer are less formal than hearings before an AAB. Los Angeles County currently employs 27 hearing officers, recruited and appointed by the board of supervisors. In compliance with section 1637, hearing officers hear cases for single-family residences, multi-family residences of four units or less of any value, and other types of property with values not exceeding $3,000,000. The board of supervisors has not enacted a resolution pursuant to section 1641.5, deeming the hearing officer's decision the final administrative remedy. Decisions rendered by a hearing officer must be approved by an AAB. An AAB has the option of denying the hearing officer's recommendation and having the case rescheduled to an AAB, or accepting the hearing officer's recommendation.
The following table sets forth the assessment appeals workload reported over recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeals Filed</td>
<td>52,252</td>
<td>58,550</td>
<td>53,824</td>
<td>15,981</td>
<td>12,301</td>
</tr>
<tr>
<td>Appeals Carried Over From Prior Year</td>
<td>44,355</td>
<td>44,796</td>
<td>15,846</td>
<td>12,081</td>
<td>10,613</td>
</tr>
<tr>
<td>Total Appeals Workload</td>
<td>96,607</td>
<td>103,346</td>
<td>69,670</td>
<td>28,062</td>
<td>22,914</td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawn</td>
<td>16,567</td>
<td>22,358</td>
<td>13,973</td>
<td>6,549</td>
<td>6,945</td>
</tr>
<tr>
<td>Stipulation</td>
<td>475</td>
<td>670</td>
<td>76</td>
<td>96</td>
<td>68</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>15,347</td>
<td>18,408</td>
<td>5,919</td>
<td>1,784</td>
<td>1,605</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>2,530</td>
<td>3,748</td>
<td>1,106</td>
<td>1,392</td>
<td>717</td>
</tr>
<tr>
<td>Appeals Increased</td>
<td>234</td>
<td>208</td>
<td>38</td>
<td>35</td>
<td>32</td>
</tr>
<tr>
<td>Other Determination*</td>
<td>9,017</td>
<td>13,599</td>
<td>3,762</td>
<td>2,360</td>
<td>1,466</td>
</tr>
<tr>
<td>Total Resolved</td>
<td>44,170</td>
<td>58,991</td>
<td>24,874</td>
<td>12,216</td>
<td>10,833</td>
</tr>
<tr>
<td>To Be Carried Over**</td>
<td>52,437</td>
<td>44,355</td>
<td>44,796</td>
<td>15,846</td>
<td>12,081</td>
</tr>
</tbody>
</table>

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

**Note: “To Be Carried Over” includes appeals with time extensions by mutual agreement of the parties.

Applications for assessment appeals are filed with the clerk, and may be submitted either in person or by mail. Electronically-filed applications are also accepted. After an application is received, it is validated and date stamped. Pertinent information is entered into the AAB's Tracking System (ATS), such as the details of the appeals application and the date it was received. The ATS is also used to verify postponed hearing dates, recorded withdrawals of applications, or received postponement requests or withdrawals. After the applications are processed, a copy of the application is released to the assessor's office.

Once the assessor's office receives a copy of the appeal application, the Assessment Appeals Section of the Assessment Services Division logs in the application and then forwards it to the appropriate section according to geographic region. Both the real property and business property divisions have assessment appeals sections. Appraisers and auditor-appraisers within each section are responsible for tracking, preparing, and presenting appeals. The principal appraiser or supervising appraiser in each section reviews the details of each appeal before assigning the appeal to an appraiser based on that appraiser's level of experience and the nature of the appeal. While assessor's office staff utilizes the ATS, some sections maintain their own assessment appeals tracking log that contains information such as the date the application was received, the hearing date, the name of the appraiser assigned to the appeal, and the final resolution of the appeal.

Once the appraiser receives an appeal, the appraiser makes contact with the applicant by sending a formal letter acknowledging the acceptance of the appeal and requesting data that is relevant to
the appeal. The appraiser may field check the property and compile information necessary for the
determination of a value.

The assigned appraiser or auditor-appraiser attempts to contact each applicant to explain the
assessment and resolve any concerns before going through a formal appeal hearing. If requested
information is not forthcoming from the applicant, the appraiser may request a formal exchange
of information. If an applicant is satisfied with the explanation of the assessment, a withdrawal
letter is mailed to the applicant to sign and return to the clerk, with a copy typically provided by
the applicant to the assessor's office. If the applicant and the appraiser both agree to a new
assessment, a stipulation and cover letter are prepared outlining the details of the assessment
changes. Stipulations are coordinated with the Assessment Appeals Section and county counsel,
and are placed on the calendar to be reviewed and approved by the AAB. If the applicant and the
assessor's office cannot reach an agreement, the appeal process continues and a hearing takes
place. The final ruling by the AAB can be to raise the assessed value, lower the assessed value,
or leave the assessed value unchanged.

After the AAB renders their decision final, the decision will be transmitted to the assessor's
office to update the roll as necessary. Over the past five years, all appeals were resolved within
the two-year time period as required by section 1604(c).

During our survey, we were able to attend an AAB hearing, and review a number of real
property and personal property assessment appeals. The appraiser and the assessor's
representative in attendance were well prepared, and the appeals were presented professionally.
We have no recommendations for the assessment appeals program.

**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
relief is available to any assessee 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 county
assessor requesting reassessment. In addition, if an 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 county assessor the authority to initiate the reassessment 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's office 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's office shall then determine the percentage reductions in current
market value and reduce the assessed values by those percentages.
The Los Angeles County Board of Supervisors has codified all of their disaster relief ordinances in the Los Angeles County, California - Code of Ordinances, Title 4 - Revenue and Finance, sections 4.64.010, 4.64.020, and 4.64.030. Their disaster relief codes meet all the requirements of section 170. Additionally, the assessor's office maintains a handbook that includes the procedures related to disaster relief.

The assessor's office is very active with disaster relief claims primarily due to the high frequency of natural disasters in the county. The 2010-11 assessment roll has 1,179 active disaster relief parcels, many dating back to the 1994 Northridge earthquake.

The county's disaster relief codes grant the assessor the authority to initiate a reassessment without an application where the assessor determines that within the preceding 12 months taxable property was damaged or destroyed. Consequently, the assessor's office is very proactive upon the discovery of damaged property and notifies the taxpayers of proposed reassessments when applicable. For disasters that encompass a large area and affect numerous taxpayers, the assessor's office sends a team of staff members to the site in order to assist taxpayers and expedite disaster relief claims.

All claim applications are received at the main assessor's office (Headquarters). Each application is date stamped, reviewed for completeness and compliance with section 170, and then forwarded to the appropriate office for processing. The application and corresponding property record(s) are given to the appraiser of the area to verify the damage, estimate the full cash value of the property immediately before and after the damage, reduce the roll value when applicable to reflect the proportionate loss in value as of the first day of the month in which the damage occurred, and send notification of the value change, if any, to the property owner.

We reviewed several records of properties that had suffered a calamity. The assessor's office date stamped each application, documented the disaster information in the file, calculated the value reduction, and decreased the assessed values accordingly. When the property is fully restored, the lesser of fair market value or factored base year value is enrolled as of the date of full restoration. Where the property has not been completely restored, periodic inspections are made to determine the percentage of completion that has been made since the last inspection.

The assessor's office has an efficient and responsive disaster relief program. However, we found two areas in need of improvement.

**RECOMMENDATION 1:** Improve the disaster relief program by: (1) revising the application for disaster relief to meet the requirements of section 170(a), and (2) revising the notice of proposed reassessment to include the appeals filing period as specified in section 170(c).

**Revise the application for disaster relief to meet the requirements of section 170(a).**

The assessor's office application for disaster relief does not include fields for the property owner to report the condition and value of the property immediately after the damage. Section 170(a) provides that the application shall show the condition and value, if any, of the property immediately after the damage or destruction, and the dollar amount of the damage. This required
information is needed by the assessor's office to determine whether the property owner is eligible for tax relief following a misfortune or calamity. Incomplete information could lead to an incorrect assessment.

Revise the notice of proposed reassessment to include the appeals filing period as specified in section 170(c).

We reviewed several notices of proposed reassessment for disaster relief and found they did not include a statement specifying the period in which the taxpayer could file an appeal. In addition, we found examples of the assessor's office MISFORTUNE OR CALAMITY REAPPRAISAL, FORM RP-136 being sent to taxpayers incorrectly informing them that an appeal application must be filed within 14 days of the date of the letter. This is an incorrect filing period.

Section 170(c) provides that the assessor shall notify the applicant in writing of the amount of the proposed reassessment and that the notice shall state that the applicant may appeal the proposed reassessment to the local board of equalization within six months of the date of mailing the notice. The assessor's office procedures do not fully disclose to the taxpayer their appeal filing rights, and could result in the taxpayer believing they have missed the deadline to file an assessment appeal when, in fact, they may still have time to file.

Assessment Roll Changes

Each year, county assessors 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 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 assesseee.

Throughout 2012, the media reported extensively on an investigation by the district attorney's office into misconduct and corruption in the assessor's office. By December 2012, the investigation had resulted in the arrest of the assessor, one of his top deputies, an outside tax consultant, and a former staff appraiser; all of whom were awaiting trial on various criminal charges.

In May 2012, the staff appraiser was charged with falsifying documents to reduce assessed values in exchange for contributions to the assessor's election campaign. Our investigation showed that the staff appraiser bypassed an in-house system of checks and balances in order to unilaterally reduce assessed values. These reductions took place prior to our survey and were discovered and being addressed before our survey began.

One focus of our review of the assessment roll changes program was to identify assessment roll change procedures and practices that present a high risk for unauthorized changes. We found the acting assessor had discovered that the staff appraiser had reduced numerous property values
without going through the supervisory approval process. The assessor's office took steps to address the problem and assessor's staff were directed to review each reduction. For those assessments where the enrolled value was found to be within 5 percent of staff's estimated market value, no change was made to the assessment roll. For those assessments where the enrolled value was determined to be more than 5 percent below staff's estimated market value, the assessor's office corrected the assessment and notified the taxpayer of the changed assessment.

The assessor's office also made changes to assessment policies and procedures to mitigate unwarranted reductions to property values in the future. These changes included modifying value change documents to include a supervisor's signature line and directing data entry staff to review value change documents to ensure that they are approved by the appropriate supervisor. If a document does not contain a supervisor's signature, the data entry clerk is now required to return the file to the appropriate supervisor to obtain the supervisor's approval and signature.

Despite the actions taken by the assessor's office, we did find several areas in need of improvement.

**RECOMMENDATION 2:** Improve the assessment roll changes program by:

1. developing and uniformly enforcing policies and procedures to ensure that staff cannot bypass supervisor approval in the enrollment of values,
2. developing and uniformly enforcing policies and procedures to ensure that supervisors cannot approve values for enrollment that they have determined themselves, and
3. modifying the data entry system to ensure that a second data entry clerk will be used to re-key values initially keyed by the first data entry clerk as part of the verification process.

**Develop and uniformly enforce policies and procedures to ensure that staff cannot bypass supervisor approval in the enrollment of values.**

We found that the assessor's office assessment roll change procedures do not prevent staff from including additional value changes to a Transfer Value Multi-Entry Form (MTV) after the MTV was approved by a supervisor. We also found that data entry clerks do not confirm supervisor approval prior to entering data on the assessment roll when an MTV is missing a supervisor's signature.

An MTV allows up to 20 value changes. The assessor's office procedures require a supervisor to review and approve each MTV prior to data entry. However, there is nothing in place that would prevent staff from including additional value changes to an approved MTV before it is keyed into the system.

The ability to bypass supervisory review and enroll values without supervisory approval is cause for concern. Good business practices and fundamental risk management call for developing and enforcing policies and procedures to prevent bypassing supervisory review and approval. Data entry clerks should comply with the assessor's office procedures by returning MTVs submitted
without supervisor approval to the appropriate supervisor for review and approval, and a procedure should be put in place that would prevent staff from adding value changes to an MTV without obtaining supervisory approval for each value change.

Failure to develop and uniformly enforce procedures that ensure staff cannot bypass supervisor approval may result in property values being reduced without merit, which results in a loss of property tax revenue and unequal treatment of taxpayers.

**Develop and uniformly enforce policies and procedures to ensure that supervisors cannot approve values for enrollment that they have determined themselves.**

We found that supervising appraisers can assign themselves assessment work, perform the work to determine a value, and approve the value for enrollment without obtaining further review and approval from another supervisor.

While we did not find any inappropriate assessments as a result of this practice, the ability to value and enroll an assessment without an independent supervisory review and approval is cause for concern, as there are no procedures in place for reviewing and approving assessments performed by supervisors and other management staff within the assessor's office. Having adequate procedures in place for the review and approval process for all levels of staff, including supervisory staff, is good business practice and fundamental to risk management.

Failure to develop and uniformly enforce policies and procedures that ensure supervisors cannot approve values to be enrolled when they have determined the values themselves may result in unjustly reduced property values, resulting in a loss of property tax revenue and unequal treatment of taxpayers.

**Modify the data entry system to ensure that a second data entry clerk will be used to re-key values initially keyed by the first data entry clerk as part of the verification process.**

The assessor's office uses a double-entry keying system as part of the data entry verification process when enrolling values into the computer system. This system of data entry requires one data entry clerk to initially key values into the system and then a second data entry clerk to re-key those same values into the system as a way to verify that the values were entered correctly into the system. While this is the assessor's office procedure, we found that the computer system allows the same data entry clerk to perform both functions of the process and, essentially, verify their own entries into the computer system.

While we did not find any instances where staff actually verified data they had entered into the system, good business risk management calls for a data entry system that would not allow the same person to enter and verify their own entries. Failure to change the data entry system to ensure that a data entry clerk cannot enter and then verify their own entries may result in incorrect assessments being enrolled.

**Exemptions**

For the exemptions portion of the survey, we reviewed a sampling of church, religious, welfare, and disabled veterans' exemptions. Property tax exemptions in Los Angeles County are overseen
by the chief appraiser of the Exemptions Services Division, and this division consists of two main sections: the Homeowners' and Disabled Veterans' Exemptions Section and the Major Exemptions Section, which includes all other types of exemptions. The Homeowners' and Disabled Veterans' Exemption Section is managed by the head of support services, a head clerk, and numerous support staff; however, there is only one support staff that processes disabled veterans' exemptions, which are reviewed by the head clerk for final approval. The Major Exemptions Section consist of a principal appraiser, two supervising appraisers, eight appraisers, three appraiser assistants, and eight support staff.

In 2010, the Major Exemptions Section completed a detailed processing manual for the most common exemptions, such as church, religious, welfare, college, public school, library/museum, and historical aircraft. Each section in the manual includes, among other information, relevant Revenue and Taxation Code sections, explanations and pictorial exhibits of the claim forms, processing and file documents, computer input screens, as well as sample calculations for the worksheets, late-filings, and proration of the exemption based on days eligible or usage of property. The assessor's office staff is to be commended for the preparation of this manual, providing employees with a comprehensive training and reference tool. Staff also relies on guidance from Assessors' Handbook Section 267, Welfare, Church, and Religious Exemptions (AH 267), Revenue and Taxation Code sections, Letters To Assessors, and annotated letters published by the BOE.

In the Major Exemptions Section, claims are processed by appraisers, who perform the field inspections and complete worksheets in support of granting or denying the exemption. The file is then transferred to a supervisor, who reviews it for a final decision. Implemented during the beginning of the 2010-11 roll year, the assessor's office has developed a new major exemptions property database that enables staff to search and update all exemption claims electronically, although paper files are still maintained.

Brief overviews of each of the various types of exemptions are available on the assessor's office website, including a printable brochure for non-profit organizations. Additionally, most exemption claim forms are available on the assessor's office website in a fillable format. For the welfare exemption, the website also provides a link to the BOE homepage.

**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 also implemented the religious exemption in section 207, which exempts 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's office 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 following table sets forth religious and church exemption data for recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RELIGIOUS EXEMPTIONS</th>
<th>CHURCH EXEMPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NUMBER</td>
<td>EXEMPTED VALUES</td>
</tr>
<tr>
<td>2010-11</td>
<td>5,500</td>
<td>$3,276,743,471</td>
</tr>
<tr>
<td>2009-10</td>
<td>5,446</td>
<td>$3,178,087,242</td>
</tr>
<tr>
<td>2008-09</td>
<td>5,465</td>
<td>$3,037,606,884</td>
</tr>
<tr>
<td>2007-08</td>
<td>5,519</td>
<td>$2,928,983,472</td>
</tr>
<tr>
<td>2006-07</td>
<td>5,569</td>
<td>$2,810,893,731</td>
</tr>
</tbody>
</table>

We reviewed a number of church and religious claims, and found that the assessor's office properly applies late-filing provisions in accordance with sections 270 or 271 when claims are not filed timely. The files reviewed contained thorough field inspection notes to ensure property is used for exempt purposes and to describe any portions of the property not eligible for exemption. Staff utilize an in-house form to notify claimants of the reason a property is not approved for an exemption. The assessor's office has a good understanding of the church and religious exemption process.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. 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 either Organizational Clearance Certificates (OCCs) to qualified organizations or Supplemental Clearance Certificates (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor's office is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.
An assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE 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. An assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table sets forth welfare exemption data for recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>WELFARE EXEMPTION NUMBER</th>
<th>EXEMPTED VALUES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>8,856</td>
<td>$29,546,642,293</td>
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<tr>
<td>2009-10</td>
<td>8,578</td>
<td>$28,676,574,253</td>
</tr>
<tr>
<td>2008-09</td>
<td>10,014</td>
<td>$24,633,814,758</td>
</tr>
<tr>
<td>2007-08</td>
<td>9,939</td>
<td>$23,899,794,781</td>
</tr>
<tr>
<td>2006-07</td>
<td>9,998</td>
<td>$21,211,517,819</td>
</tr>
</tbody>
</table>

Appraisers perform field inspections on new claims and for properties that have changed use since the last filing. If a property does not qualify for the exemption, the assessor's office notifies the claimant using BOE-267-F, *Welfare or Veterans' Organization Exemption Assessor's Finding on Qualification of Property Use.*

OCCs, which are required for the granting of an exemption, are reviewed for validity when a claimant files for the first time and subsequently when the annual claim is submitted. The assessor's office also properly prorates exemptions based on percentage of exempt use of the property.

The assessor's office staff is diligent with the administration of the low-income housing portion of the welfare exemption and requires such properties to have a valid SCC. Files reviewed indicated that submission of all the proper documentation by the claimant was required prior to granting the exemption. The assessor's office properly prorated the exemption based on the portion of the property that qualified for the exemption and the tenants' household income having met the income limits as annually issued by the California Department of Housing and Community Development (HCD).

The welfare exemption program in the county is properly administered and staff has a good understanding of the exemption; however, we found one area where the assessor's office can improve.

**RECOMMENDATION 3:** Improve the administration of the welfare exemption by not requiring an annual filing for non-profit corporations that build or rehabilitate single or multi-family residences for sale at cost to low-income families in accordance with sections 214.15 and 254.5.
We found that it is the assessor's office procedure to require an annual filing for property owned by a low-income housing builder, even when there has been no change in title to the property from the prior year. In addition, the assessor's office applies late-filing provisions on such claimants by granting only a partial percentage of the eligible exemption amount when an annual claim is not returned by February 15, a practice not authorized by statutes.

Section 214.15 provides the welfare exemption to property owned and operated by a non-profit corporation that is organized and operated for the specific and primary purpose of building and rehabilitating single or multi-family residences for sale at cost to low-income families, with financing in the form of a zero interest rate loan. Section 254.5(d) states that such claimants shall not be required to reapply for the exemption in any subsequent year in which there has not been a transfer or change in title to the exempted property. Furthermore, county assessors shall annually mail a notice to claimants receiving the exemption, stating that annual filing is not required and requesting information on any changes to the property's continued eligibility. Information not provided to the assessor's office does not constitute a waiver of the exemption, but may result in an on-site inspection.

Requiring an annual filing for property owned by a low-income housing builder when there has been no transfer or change in title, in addition to applying late-filing provisions if it is filed after February 15, is not authorized by statutes and may result in denials and/or partial exemptions being granted to properties that would otherwise be eligible for a full exemption.

**Disabled Veterans' Exemption**

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

The disabled veterans' exemption at the $100,000 basis requires a one-time filing, while the low-income exemption at the $150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The assessor's office processed 1,930 disabled veterans' exemption claims for the 2010-11 year. The number of claims filed increased approximately 13.7 percent from the 2006-07 year to the 2010-11 year, with exempted values increasing 30 percent during the same time frame.
The following table sets forth disabled veterans' exemption data over recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DISABLED VETERANS' EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>1,930</td>
<td>$201,259,716</td>
</tr>
<tr>
<td>2009-10</td>
<td>1,679</td>
<td>$175,780,898</td>
</tr>
<tr>
<td>2008-09</td>
<td>1,756</td>
<td>$165,453,991</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,704</td>
<td>$157,463,511</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,697</td>
<td>$154,904,029</td>
</tr>
</tbody>
</table>

In reviewing a sample of the disabled veterans' exemption claims, we found several areas where improvement is needed when processing claims.

**RECOMMENDATION 4:** Improve the administration of the disabled veterans' exemption by: (1) requiring claimants to submit proof of an honorable discharge, (2) applying the provisions of section 276 for disabled veterans' exemption claims that are not filed timely, and (3) granting the disabled veterans' exemption on a prorated basis for the initial qualifying year in accordance with sections 276.1 and 276.2.

**Require claimants to submit proof of an honorable discharge.**

One of the requirements of the disabled veterans' exemption is that the claimant was honorably discharged from military service. Of the files reviewed, only one file contained proof of an honorable discharge. The United States Department of Defense issues to each veteran DD 214, *Certificate of Release or Discharge from Active Duty*, that identifies the veteran's condition of discharge: honorable, general, other than honorable, dishonorable, or bad conduct. There is no statutory requirement that a copy of DD 214 must be submitted to the assessor, but it is the simplest way to verify the veterans' discharge status. For the most part, the United States Department of Veterans Affairs (USDVA) will grant a 100 percent disabling condition and compensation only if the veteran has been honorably discharged; however, this is not always the case. Requiring proof of an honorable discharge will ensure the exemption is granted only to qualified persons.

**Apply the provisions of section 276 for disabled veterans' exemption claims that are not filed timely.**

We found that it is the assessor's office procedure to grant 100 percent of the eligible amount of the disabled veterans' exemption to a property, even though the claimant filed outside the deadline for a timely-filed claim. In one case, the assessor granted an annual low-income disabled veterans' exemption the full amount of the eligible exemption for both years 2009 and 2010, even though the claimant filed late.

Section 276(a) provides that 90 percent of any tax on the assessed value of the property shall be canceled or refunded for claims filed after February 15 of the calendar year in which the fiscal
year begins, but on or before the following December 10, and that 85 percent is applicable if filed anytime after December 10. Section 276(b) further states that if a late-filed claim for the $150,000 exemption is filed, the amount of any exemption allowed under the late-filed claim under subdivision (a) shall be determined on the basis of that portion of the exemption amount, otherwise available under subdivision (a), that exceeds $100,000. Not imposing late-filing provisions and allowing the full amount of the eligible exemption is contrary to statutes and results in a loss of property tax revenue.

Grant the disabled veterans' exemption on a prorated basis for the initial qualifying year in accordance with sections 276.1 and 276.2.

We found that in each of the files reviewed, the assessor's office did not prorate the exemption from the effective date of eligibility on a retroactive basis in accordance with section 276.1. Instead, the assessor's office typically granted the exemption effective the following fiscal year after the claim was filed. In one case, a claimant received a "delayed" rating and subsequently filed a timely claim, but did not receive the benefit of the exemption for two full years after becoming eligible for the exemption. In another case, a claimant who had a proportional interest in the property, but was later deeded full interest to the property mid-year, did not receive the full amount of the exemption until 15 months after qualifying for 100 percent of the exemption.

Section 276.1(b) states, "Subject to the provisions regarding cancellations and the limitations periods on refunds, the disabled veterans' exemption shall apply beginning on the effective date, as determined by the USDVA, of a disability rating that qualifies the claimant for the exemption." Additionally, section 276.2(b) states, "The entire amount of the exemption applies to any property tax assessment, including a supplemental and escape assessment, that was made and that served as a lien against the property. The exemption amount shall be appropriately prorated from the date the property became eligible for the exemption."

The denial of the full exemption when claims are timely filed deprives claimants of the full amount of exemption to which they are entitled. The assessor's practice of denying retroactive exemptions and subsequent refunds to qualified claimants is contrary to statute.
ASSESSMENT OF REAL PROPERTY

The assessor's office 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.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, taxable government-owned property, taxable possessory interests, and mineral 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, except that it can be adjusted annually for inflation by a factor not to exceed 2 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 the definition of change in ownership for property tax purposes. Section 50 requires county assessors to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor's office maintains detailed policies and procedures for staff in processing changes in ownership.

The primary source of discovering properties that have changed ownership is through the analysis of deeds and other recorded documents from the recorder's office. The recorder's office requires BOE-502-A, Preliminary Change of Ownership Report (PCOR), to accompany documents submitted for recordation transferring 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. PCORs are available at both the assessor's and recorder's offices, as well as the county's website. Los Angeles County has a local ordinance that requires the assessor's parcel number (APN) be included on all recorded documents involving real property.
The following table sets forth the total number of recorded documents received and the total number of reappraisable transfers in Los Angeles County in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RECORDED DOCUMENTS RECEIVED</th>
<th>REAPPRAISABLE TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>400,537</td>
<td>157,776</td>
</tr>
<tr>
<td>2009-10</td>
<td>425,325</td>
<td>162,073</td>
</tr>
<tr>
<td>2008-09</td>
<td>388,150</td>
<td>153,975</td>
</tr>
<tr>
<td>2007-08</td>
<td>N/A</td>
<td>145,982</td>
</tr>
<tr>
<td>2006-07</td>
<td>N/A</td>
<td>181,828</td>
</tr>
</tbody>
</table>

All recorded documents are sent electronically from the recorder's office to the assessor's office. The recorder's office does not initially screen the recorded documents before sending them to the assessor's office. PCORs are delivered to the assessor's office in hardcopy form and then scanned into the computer system.

Recorded documents and PCORs are automatically matched by a computer application that was developed in-house. A coder verifies the legal description, the mailing address, the reported sale price, and that the property being transferred is in the grantor's name. The coder also reviews the PCOR for possible exclusions, and determines the percentage of interest transferred and the percentage of interest transferred that is subject to reappraisal. The coder enters the proper codes into the computer system for all applicable variables before forwarding the document to a quality checker for further review. The quality checker reviews the coding on the document for accuracy. Once the transfer data has been checked, it is entered into the Property Database (PDB) system. The PDB system is a mainframe computer system and stores all parcel history data. Completed documents are then entered into the appraisers' Paperless Transfer System (PTS) for valuation. The PTS is the appraiser valuation interface allowing the appraiser to efficiently value the property. Documents held due to requests for further documentation, such as applicable claim forms or COSs, are entered into the PTS if the requested documentation is not returned timely or after the documentation is received and processed.

Leases

The Legal Services unit of the Ownership Services Division processes all long and short term lease transactions. Lease transactions are discovered through reviewing recorded documents. The assessor's office typically requests copies of all long term leases to determine lease terms for reappraisal purposes. Once lease documents have been processed and determined to be reappraisable events, the information is sent to an appropriate appraiser for valuation.

Penalties

When a recorded document is received without a PCOR, the coder enters a code into the computer system indicating that a PCOR was not received, which will cause a BOE-502-AH, Change in Ownership Statement (COS), to be generated and sent to the property owner after
60 days if transfer information is not obtained through other sources. Before a COS is sent, staff attempts to obtain the needed information from the recorded document itself and/or makes direct contact with the property owner. If at any time during the following 60-day waiting period the requested information is received, the coding is changed in the computer system and the COS is not sent.

When the requested transfer information is not received within 60 days, the computer system automatically generates the first COS to be sent to the property owner, giving them 45 days to complete the COS and return it to the assessor's office. The date the COS is sent is printed on the form. If the COS is not returned approximately 60 days after the first COS is sent, a Notice of Penalty Assessment is sent, informing the property owner that a penalty has been applied and how much the penalty will be. In addition, the notice informs the property owner that the penalty will be canceled if they complete the form (a COS has been incorporated into the Notice of Penalty Assessment) and return it immediately to the assessor's office. The assessor's office allows an additional 80 days or more for the property owner to respond before applying the penalty and in some instances, the penalty is never applied. The computer system is set to track the final 80-day deadline before the penalty is processed. If the penalty COS is not returned by the deadline, the penalty is added to the direct assessments and sent to the auditor's office.

RECOMMENDATION 5: Improve the change in ownership program by: (1) applying penalties for failure to file a COS in accordance with sections 482(a) and 483(b), and (2) properly notifying taxpayers of the penalty abatement process when sending a notice of penalty as required by section 482(f).

Apply penalties for failure to file a COS in accordance with sections 482(a) and 483(b).

In Los Angeles County, a resolution allows the assessor to automatically abate penalties if a requested COS is received within 60 days from the date of notice of penalty. We found several examples where the assessor's office did not apply penalties for failure to file a COS, even though the COS was received more than 60 days past the notice of penalty. In addition, we found that the computer tracking system is set for an 80-day waiting period once the Notice of Penalty Assessment has been sent before triggering the penalty process, rather than the 60-day waiting period as prescribed in section 483(b).

At the time of our survey, section 482(a) provided that if a person or legal entity required to file a statement described in section 480 failed to do so within 45 days (90 days as of 1/1/12) from the date of a written request by the assessor, a penalty shall be added to the assessment made on the roll. In addition, section 483(b) states that the penalty provided for in section 482(a) shall be abated if the assessee files the change in ownership statement with the assessor no later than 60 days after the date on which the assessee was notified of the penalty.

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4 Los Angeles County Board of Supervisors adopted Resolution No. 1, dated November 29, 1983, page 829, "Penalty Abatement Failure To File Change In Ownership Statement Excusable Delay," which allows the assessor to automatically abate penalties for failure to file a requested COS pursuant to the provisions of section 483(b).
5 Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.
The information contained in a properly completed COS assists the assessor's office in making an accurate assessment of a property. The current practice of not applying penalties to all property owners that fail to file a COS by the filing deadline gives some property owners more time to respond than is allowed under sections 482(a) and 483(b), and causes unequal treatment of property owners.

Properly notify taxpayers of the penalty abatement process when sending a notice of penalty as required by section 482(f).

As required by section 482(f), a Notice of Penalty Assessment is sent to the transferee when that transferee fails to file a COS as requested by the assessor's office. However, the notice of penalty includes a Board-prescribed COS incorporated into the body of the notice. Included in the notice is a statement instructing the taxpayer that the penalty will be canceled if they complete and immediately mail the form back to the assessor's office. However, no further information is provided regarding the penalty abatement process.

Section 482(f) provides that notice of any penalty added to either the secured or unsecured roll shall be mailed by the assessor to the transferee. In addition, section 483(b) provides that if the assessee returns a completed COS to the assessor no later than 60 days after the date of notification of the penalty, the assessor shall abate the penalty. The current method of notifying the property owner of a penalty does not inform the property owner of their right to have the penalty abated.

By failing to provide taxpayers with a notice of penalty that includes information about the penalty abatement process, the property owner may be required to pay a penalty that could have been abated.

Transfer Lists

Pursuant to section 408.1(a), the assessor's office maintains a two-year transfer list for public use. As required by section 408.1(b), the transfer list is divided into geographical areas by APN or situs address, and updates the list on a quarterly basis. Pursuant to section 408.1(c), the transfer list contains the transferee, APN, address of the property, date of recording, recording reference number, and consideration paid. Although the assessor's office meets most of the requirements of section 408.1(c), there is required information that is not included on the transfer list.

RECOMMENDATION 6: Include all required information on the two-year transfer list pursuant to section 408.1(c).

Although the two-year transfer list contains the transferee, APN, address of the property, date of the recording, recording reference number, and the consideration paid for the property, it does not include the transferor.

Section 408.1(c) sets forth the specific items of information that must be included on the two-year transfer list. Without including all required items on the transfer list, the public does not have access to all the information that must be made available.
Legal Entity Ownership Program (LEOP)

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

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

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

In Los Angeles County, the assessor's office discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, newspaper articles, appraiser referrals, staff's personal knowledge, and public inquiries.

The Legal Services unit of the Ownership Services Division receives all legal entity transfers for processing. When the assessor's office receives the monthly LEOP reports, the Legal Services unit reviews the effective date and any changes that have occurred. Parcels located within the county are identified and reviewed. A name search is also performed to ensure all of the entity's real property is reassessed. The Legal Services unit makes any necessary changes and inputs the data into the computer system. Once a change in control or ownership of a legal entity has been processed for a reappraisable event, the information is sent to an appropriate appraiser for valuation.

Our review of several records shows the assessor's office does a thorough job in reviewing LEOP reports and reassessing all property interests identified on BOE-100-Bs. The assessor's office

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6 Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.
also reviews any additional properties owned by the entity that were not reported on the BOE-100-B. We found the LEOP program to be well administered.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first $1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

To enforce the $1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. However, if an assessor opts not to report quarterly to the BOE, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their $1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's office website.

The following table represents section 63.1 claims filed in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SECTION 63.1 CLAIMS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>8,569</td>
</tr>
<tr>
<td>2009-10</td>
<td>17,344</td>
</tr>
<tr>
<td>2008-09</td>
<td>17,026</td>
</tr>
<tr>
<td>2007-08</td>
<td>10,866</td>
</tr>
<tr>
<td>2006-07</td>
<td>13,602</td>
</tr>
</tbody>
</table>

Staff in the Ownership Services Division review all section 63.1 applications and determine if the exclusion will be granted or denied. If a claim is denied, a letter is mailed to the property owner.

If a PCOR or COS indicates a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren), the assessor's office is proactive in notifying interested parties of a possible exclusion. Staff send interested parties a claim form, along with a letter explaining the exclusion. Claim forms are tracked and if there has been no reply within 45 days of the claim form being sent, the property is reappraised.

The assessor's office submits optional quarterly reports to the BOE, listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the
The assessor's office receives a Report of Transferors Exceeding $1,000,000 from the BOE, the report is reviewed to determine if the transferor has exceeded the limit. If multiple properties transfer, the assessor's office allows the property owner or representative to determine which property to exclude and which to reassess. If the parcels involved are in counties other than Los Angeles and the transfer dates are the same, staff will first contact the property owner to determine how they would like to have the excess allocated and reassessed, then contact the other counties to confirm how each county will handle the excess.

Pursuant to section 63.1(i), the assessor's office ensures that all claim forms are held confidential by keeping them in a secure area not accessible to the public.

We reviewed several files and found that the assessor's office properly reviews and processes section 63.1 claims.

**Change in Ownership Exclusions – Section 69.5**

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

The following table represents section 69.5 claims filed in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SECTION 69.5 CLAIMS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>495</td>
</tr>
<tr>
<td>2009-10</td>
<td>899</td>
</tr>
<tr>
<td>2008-09</td>
<td>1,014</td>
</tr>
<tr>
<td>2007-08</td>
<td>2,365</td>
</tr>
<tr>
<td>2006-07</td>
<td>3,404</td>
</tr>
</tbody>
</table>

Los Angeles County accepts base year value transfers from other counties. If a PCOR or COS indicates a transfer may involve a base year value exclusion, staff send interested parties a claim form, along with a letter explaining the exclusion.
All section 69.5 claims are reviewed by and initially approved by a coder/investigator. Ultimate approval comes from the appraiser once values have been determined and a decision is made as to whether the property values meet the exclusion requirements.

The assessor's office submits required quarterly reports to the BOE, listing approved section 69.5 exclusions. To avoid duplicate filings of a section 69.5 claim, the assessor's office tracks all applications in a database. When a claim is granted, the replacement property is coded to indicate that a section 69.5 claim has been granted, so that any attempt to make an additional transfer will be caught. The assessor's office also reviews the Duplicate SSN Report from the BOE to determine if any claims made in Los Angeles County duplicate any claims made in another county.

Pursuant to section 69.5(n), the assessor's office ensures that all claim forms are held confidential by keeping them in a secure area not accessible to the public.

We reviewed several 69.5 claims and found them to be properly reviewed and processed.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to confirm that the listed sale price accurately reflects market value; the sale price is not automatically enrolled. Residential properties experiencing a change in ownership are valued using the comparative sales approach, while commercial properties are valued using both the comparative sales and income approaches. If the property is unique, the cost approach may be considered, as well. Field inspections of a property are conducted if the property has any condition issues, there is a discrepancy with the characteristics, or it is a high-end custom property.

We reviewed several property records having recently experienced a change in ownership. We found that the assessor's office is following proper procedures for valuation and has an efficient valuation program in place for reappraising properties having undergone a change in ownership.

Direct Enrollment Program

Direct enrollment allows the assessor's office to process the assessment of properties meeting certain criteria with minimal appraiser involvement. Los Angeles County has a direct enrollment program for single-family residences and condominiums.

The assessor's office computer system will directly enroll a confirmed sale price if it falls within certain parameters. The current program uses a cost approach model to confirm the validity of the purchase price as reported on the PCOR or COS. All properties fitting the criteria for direct enrollment are reviewed by an appraiser to verify that the value accurately represents market value. Approximately 46 percent of all residential and condominium sales reported during the 2010-11 roll year were directly enrolled.
Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements, including sewers, sidewalks, lighting, and water lines. Such public improvements generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with the 1911 or 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration paid for a property exclusive of the lien amount. An assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in that consideration.

In Los Angeles County, it is the assessor's office policy not to add any amount for improvement bonds unless market evidence indicates otherwise. This is consistent with the requirements of section 110(b). We found no problems with the assessor's office treatment of parcels encumbered by improvement bonds.

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.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, Advanced Appraisal, Chapter 6, provides guidance for the assessment of new construction.

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

Discovery

Most new construction activity is discovered from reviewing building permits. Currently, the assessor's office receives building permits from 94 permit-issuing agencies. Other methods used to discover new construction include analyzing business property statements, using aerial imaging programs, and field canvassing. Several cities within the county maintain contracts with the Los Angeles County Department of Public Works for building services.
The following table shows the number of building permits received and the number of new construction assessments processed in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PERMITS RECEIVED</th>
<th>NEW CONSTRUCTION ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>204,265</td>
<td>81,798</td>
</tr>
<tr>
<td>2009-10</td>
<td>185,855</td>
<td>75,277</td>
</tr>
<tr>
<td>2008-09</td>
<td>221,424</td>
<td>89,755</td>
</tr>
<tr>
<td>2007-08</td>
<td>237,641</td>
<td>101,205</td>
</tr>
<tr>
<td>2006-07</td>
<td>273,890</td>
<td>111,057</td>
</tr>
</tbody>
</table>

**Permit Processing**

The assessor's office receives permits on a monthly basis. Permits are transmitted electronically by 26 agencies. The remaining agencies submit permits via hard copy. Ownership clerks are responsible for reviewing the parcels and culling permits that are for non-assessable work. All culled permits are retained for three years.

Once the permits are determined to represent potentially assessable events, they are entered into a database. A Property Data Record (PDR) is created and a New Construction Statement (NCS) is automatically generated and sent to the property owner. The NCS requests that property owners provide the costs, construction details, and a sketch of the new construction. If the NCS is returned to the assessor's office within 30 days, it is attached to the relevant PDR and both items are forwarded to the appropriate assessor's office location that covers the geographic area that the property is located within. If the NCS is not returned within 30 days, the PDR is sent to the appropriate assessor's office location without additional documentation.

Once PDRs arrive at the appropriate assessor's office location, the clerical staff matches the PDRs to the corresponding property files. Property files in the same cluster are then grouped together and given to an appraiser for review and valuation.

**Valuation**

Appraisers value the new construction at its full value as of the date of completion. An appraiser confirms completion of new construction through field inspections, information provided by permit-issuing agencies, and information provided on the NCS.

Appraisers rely primarily on the cost and comparative sales approaches to value new construction; however, the income approach may also be used when appropriate. A variety of sources are used to develop cost indicators of value for new construction. These sources include LAC 531 - Los Angeles County, Residential Cost Manual, LAC 532 - Los Angeles County Commercial and Industrial Cost Manual, the owner's reported costs, and Marshall Valuation Service. Supplemental assessments are created and issued based on the date of completion.
When an NCS is present in a residential file, the appraiser will value the construction using the cost approach and compare that cost to the value reported on the NCS. If the reported costs are reasonably similar to the costs indicated by the assessor's office cost manual, the reported costs are accepted as being indicative of market value and enrolled after a field check is completed.

Costing information and a description of improvements are logged on the building record. After valuing and documenting the new construction, the appraiser completes the PDR. The PDR includes fields for updating roll values, building data, land data, and parcel information. Completed PDRs are inserted into the property files and given to the appraiser's supervisor for review. Upon approval, the property files are returned to the clerical division for data entry. Appraisers cannot perform any system updates on their own.

Construction in Progress

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. The appraiser must determine the completion status of new construction on each lien date and attribute a value based upon the percent complete. On subsequent lien dates, if the new construction is still incomplete, the appraiser must enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned.

We reviewed several residential and commercial properties that involved new construction and found several areas needing improvement.

**RECOMMENDATION 7:** Improve the new construction program by: (1) enrolling construction in progress at its fair market value on each lien date, (2) valuing completed new construction at its fair market value, and (3) enrolling all assessable new construction.

**Enroll construction in progress at its fair market value on each lien date.**

We found instances where the assessor's office did not determine the fair market value of construction in progress on each lien date as required by section 71. We found some examples where the computer system automatically applied the annual inflation factor to the construction in progress value from the prior roll year. In addition, we found other examples where the assessor's office did not enroll any value for construction in progress as of the lien date, even though there was evidence from the permit issuing agency that the structure was partially complete as of the lien date.

Failure to consistently assess construction in progress on the lien date is contrary to statutory provisions and allows some construction in progress to escape assessment, causing a loss in revenue. In addition, it is improper to apply the inflation factor to construction in progress.
Value completed new construction at its fair market value.

We found instances in which the assessor's office valued completed new construction using the permit value instead of using one of the three accepted approaches to value when determining the fair market value to be enrolled.

As stated previously, section 71 requires that new construction in progress be appraised at its full value as of the lien date and each lien date thereafter until the date of completion. At such time of completion, the appraiser shall reappraise the entire portion of property which is newly constructed at full value. The value reported on permits is typically based on published cost factors derived from a building journal and only reflects average costs throughout various regions in California; the values are not necessarily representative of construction costs in Los Angeles County. Moreover, these estimates cannot account for variations in construction costs resulting from differences in square footage, construction quality, complexity of proposed projects, or revisions to project plans. Thus, the values reported on the permits are not likely to represent fair market value. In order to develop an accurate indicator of value for completed new construction, the appraiser must determine its fair market value using the cost, comparative sales, and/or income approaches.

The current practice in the assessor's office is not in compliance with section 71 and results in inequitable treatment of taxpayers, as well as inaccurate assessments.

Enroll all assessable new construction.

We found inconsistencies among the assessor's seven offices when assessing low-value new construction. Some offices have instituted informal guidelines such that any improvement that has an estimated value of less than $5,000 is not enrolled, while other offices are assessing these improvements. In addition, we reviewed the Exemption Services Division Permit Processing Manual and found that it contains a list of "non-processable 'minor' permits" that are to be classified as discards. Some examples of discards include: minor values (under $5,000), miscellaneous items (under $5,000), alterations and repairs (under $5,000), and repairs and alterations (under $20,000).

While the resolution created by the board of supervisors exempts from taxation all real property with a base year value of $2,000 or less and all business personal property with a full value of $2,000 or less, the resolution also states, "...the exemption herein does not apply to new construction of two thousand dollars ($2,000) or less, unless the new base year value of the property, including this new construction, is two thousand dollars ($2,000) or less." This is in compliance with section 155.20(e)(1). However, the assessor's offices are not consistently following the provisions of the county's resolution or statutory provisions. When part of a larger structure, appraisers should be assessing low-value new construction.

This practice of not enrolling all assessable new construction has resulted in escaped assessments of certain low-value projects and unequal treatment of taxpayers.
Declines in Value

Section 51 requires assessors 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, assessors must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then assessors must enroll the FBYV.

The assessor's office has been proactive in identifying and annually reviewing properties in the county that have a current market value lower than their FBYV. The following table sets forth the number of decline-in-value assessments over recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>392,310</td>
</tr>
<tr>
<td>2009-10</td>
<td>425,294</td>
</tr>
<tr>
<td>2008-09</td>
<td>350,794</td>
</tr>
<tr>
<td>2007-08</td>
<td>130,629</td>
</tr>
<tr>
<td>2006-07</td>
<td>7,540</td>
</tr>
</tbody>
</table>

An informational pamphlet explaining the decline-in-value assessment review process is available to taxpayers at the public counter of any of the seven assessor's office locations. This information is also available online on the assessor's office website. Applications for decline-in-value assessment reviews are available online and at the public counter. Taxpayers can file for a decline-in-value assessment review either online, by mail, or in person at the assessor's office. Taxpayers may also request a review of their property's assessed value either verbally or in writing. The clerical staff handle the majority of verbal inquiries, forwarding verbal inquiries to appraisers only when necessary.

The assessor's office utilizes two computer programs for decline-in-value processing: the Assessor Public Service (APS) computer program for decline-in-value communications and the Decline-in-Value (DIV) computer program for valuation functions. The APS tracks processing and initial responses for each decline-in-value request to ensure that assessment reviews are completed and the property owners are properly notified of the results. The DIV performs lien date appraisal applications for initial inquiries and annual tracking for all decline-in-value assessments. This system, among other features, provides an electronic pathway for all the processing functions required for each review request until a given property is no longer in decline-in-value status. The DIV is updated weekly with the latest market data from throughout the county. All appraisals reconciled by the DIV are reviewed by supervising appraisers that effectively monitor the system's valuation ability on a continuous basis.

Verbal and written requests for review, as well as written and electronic applications, are entered into the APS by the clerical staff. The staff review all decline-in-value requests in order to confirm the applicant's information, including proper name and assessor's parcel number (APN), before electronically transferring validated requests to the DIV for valuation. The assessor's
office runs a countywide statistical analysis annually for identification of properties potentially requiring decline-in-value reviews.

Each taxpayer request for review or internal assessor's office review is aligned by APN to a statistical group referred to as a cluster. Clusters have been established by pre-filtered imputed data for homogeneous groupings of properties including, but not limited to, lot size, improvement size, style, age, property type, neighborhood, geographic area, zoning, and land use. Clusters can be overlapping geographically and may include multiple property types or land uses with identified commonality.

Requests for review are sorted by the DIV according to APN and then distributed to the appropriate assessor's office location, either according to geographic region or by property type, along with appraisal information for each parcel. Supervisors electronically delegate appraisal assignments to staff appraisers. The DIV provides weighted comparables for manual single-family residential appraisals and electronic forms for analysis. Commercial, industrial, residential income, and rural decline-in-value properties are reappraised manually using annually compiled market data. Reconciled appraisals are returned to the supervisor for review and approval. All decline-in-value requests for review from taxpayers or those initiated by the assessor's office are manually reappraised.

The assessor's office annually reviews all existing decline-in-value assessments using the DIVs emulation feature, which automatically finds and weighs comparable sales, and reconciles the property value for single-family residential properties. All emulated appraisals are reviewed by supervisors. The automatic emulated features are subject to manual override by supervisors as needed. Rejected emulated appraisals can be adjusted by supervisors, or are assigned to appraisal staff for further analysis and valuation before being returned to a supervisor for review. Upon supervisor approval, emulated and manual valuations are electronically submitted to be posted on the roll.

All taxpayers who request a review of their assessed value for a possible decline in value receive correspondence informing them of the receipt of their request. Upon initial review of their assessment for a possible decline, each taxpayer receives a letter, *Decline-in-Value Review*, informing them of the assessor's office determination. The letter also includes information on the assessment appeals process and the deadlines for filing an appeal.

If the property is already in decline in value status, a letter is sent annually, *NOTICE OF REVIEW OF ____ ASSESSED VALUE*, which includes the FBYV, the prior roll year's assessed value, and the proposed new assessed value to be enrolled. The letter also includes details for the assessment appeals and stipulation processes.

We reviewed a number of decline-in-value assessments and found no problems. Types of assessments reviewed included residential, commercial, manufactured homes, taxable possessory interests, and water companies. We found the property records appropriately documented, indicating annual valuation and the restoration value needed for a return to FBYV. The assessor has a proficient and well organized program that accurately reflects the applicable statutes, provisions, and written procedures for decline-in-value assessments. We have no recommendations for this program.
**California Land Conservation Act Property**

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, 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 the 2010-11 roll year, property valued under the CLCA program in Los Angeles County consists of approximately 40,180 acres, all located on Catalina Island. One parcel belongs to the Santa Catalina Island Company and the remaining 90 parcels belong to the Santa Catalina Island Conservancy. In 1974, they entered into a 50-year open-space agreement with Los Angeles County.

Each year, staff obtain income and expense information from the property owners. A capitalization rate is developed to be used in the valuation process that consists of the current interest component provided annually by the BOE, a risk component, and a property tax component. The assessor's office compares the restricted value, factored base year value, and current market value, properly enrolling the lower of the three values. We have no recommendations for this program.

**Taxable Government-Owned Property**

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. The BOE annually announces the factor (Phillips Factor) to be used in determining the restricted value. 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 the 2010-11 roll year, the assessor's office enrolled 3,452 parcels of taxable government-owned property at a total taxable value of $241,053,349.

The assessor's office has written procedures, policies, and forms dealing with the assessment of taxable government-owned properties. The assessor's office refers to these properties as Green Code parcels and identifies them by parcel series numbers ending in 270 through 299. If a
government-owned parcel is deemed to be exempt from taxation, it is assigned an Assessor Identification Number (AIN) that ends with a 900 series number.

Taxable government-owned properties are discovered primarily through two main methods. The first method is by reviewing recorded deeds, documents, and parcel change reports that indicate a change in the AIN. The second method is when taxable government-owned properties change ownership and appear in the Parcel Transfer System (PTS) requiring reappraisal. The Possessory Interest Section of the Major Real Property Division is responsible for all taxable government-owned parcel processing. Currently, there is one appraiser that handles the valuation of all government-owned property, both taxable and exempt. Newly created taxable government-owned parcels originating in other regions are reassigned to the Possessory Interest Section.

We reviewed several assessments to verify that government-owned property located outside an agency's jurisdiction was appropriately assessed as taxable government-owned property and that government-owned property located within an agency's jurisdiction was appropriately considered to be exempt from property taxation. We found an area in need of improvement.

**RECOMMENDATION 8:** Correctly calculate the restricted value for taxable government-owned property.

We found that in all but a few files, the assessor's office did not use the appropriate Board-announced Phillips Factor to calculate the restricted value to be compared to the current market value when establishing a new base year value. For example, the appraiser correctly identified a 2008 base year for a date of event that occurred in February 2008, which would be enrolled on the 2009 lien date. However, the appraiser used the Board-announced Phillips Factor for the 2007 lien date to calculate the restricted value that was used in the comparison process. In addition, once the appraiser determined that the restricted value was lower than the current market value, the appraiser then rounded the restricted value before enrolling it as the new base year value. For example, the appraiser calculated the restricted value as $8,073, determined that this was the lower value, and then enrolled $8,100 as the new base year value.

Letter To Assessors (LTA) No. 2000/037 states that for land acquired after March 1, 1975, the base year value is the lower of the value obtained by applying the appropriate Phillips Factor to the 1967 assessed value as of the date of change in ownership or the full cash value as of the date of the change in ownership. By not using the appropriate Phillips Factor when calculating the restricted value to compare to current market value, and then rounding the restricted value when it is placed on the roll as the new base year value, the assessor's office is not in compliance with statute and may be enrolling inaccurate assessments.

**Taxable Possessory Interests**

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on
the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For the 2010-11 roll year, the assessor's office enrolled 10,145 taxable possessory interests for a total assessed value of approximately $12.6 billion. Taxable possessory interests in Los Angeles County are located on property owned by approximately 325 public agencies. Taxable possessory interests include a wide variety of uses, including, but not limited to, investment property of California Public Employees' Retirement System (CalPERS); property owned by redevelopment agencies; cable television franchises; food service operations and other types of concessions at public schools, colleges, or universities; fairground vendors and concessionaires; employee housing; summer cabins; hangars and tie downs at municipal airports; port container terminals; and marinas.

The assessor's office discovers taxable possessory interests in several ways, and considerable effort is devoted to the discovery process. The primary means of discovery is through reporting by public agencies owning real property in Los Angeles County. The assessor's office reports an agency response rate of approximately 90 percent. Other means of discovery include reviewing building permits and newspaper articles, as well as discovery by appraisers performing field inspections.

The valuation and monitoring of taxable possessory interests is the primary responsibility of a principal appraiser, two supervising appraisers, and 10 field appraisers. In order to improve the processing of taxable possessory interest assessments, the assessor's office has created a possessory interest online lease reporting database that provides an on-going resource to track and update possessor and lease data. This database has significantly improved the management of the possessory interest workload, the tracking of lease data for change in ownership purposes, and the enrollment process for taxable possessory interests. Additionally, the Ownership Services Division continually searches and refers all recorded leases to the Major Real Property Division. During our review, we found that the files were readily accessible and that they contained the necessary documents, including copies of leases and permits.

We reviewed several taxable possessory interests with month-to-month terms of possession, including fairground vendors and concessionaires, and a storage lot owned by the Los Angeles Department of Water and Power (LADWP). In determining the reasonably anticipated term of possession for these types of properties, appraisers document the history, customs, and practices of the private possessor and the public owners, including the actions of the parties and the histories of their relationships. We looked at properties with one, three, and five year anticipated terms. Our examination indicates that the assessor's office is properly assessing these properties as required by section 61(b)(2). In addition, of the sample of assessments we reviewed, we found that supplemental assessments were properly issued.

On lien dates subsequent to the establishment of base year values, the assessor's office is periodically reviewing all taxable possessory interests with stated terms of possession for declines in value. The assessor's office practice is to value taxable possessory interests at the lower of the factored base year value or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, change in rent, stated term of possession, or any other factors causing a decline in value.
After reviewing several taxable possessory interest files, we have no recommendations regarding the assessment of taxable possessory interests in Los Angeles County. We found the taxable possessory interest program to be well administered, comprehensive, and in compliance with current statutes.

**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 because, as tenants change over 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 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 by each division and to avoid escape and double assessments. The assessor's office 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.

**Discovery**

In Los Angeles County, sources of discovery for leasehold improvements include reviewing BPSs, change in ownership statements, and building permits, as well as conducting audits and field canvassing.

**Valuation**

The assessment of leasehold improvements is a shared responsibility between the real property and business property divisions. Structure items are appraised by real property appraisers and fixtures are appraised by auditor-appraisers in the business property division.

Businesses are required to report and classify improvements as either structure items or fixtures on Schedule B of the BPS. Auditor-appraisers in the business property division perform preliminary reviews of the BPSs and send Form A-44, *Coordinated Review of Audit Assessments of Improvement Fixtures*, or send a Real Property Memo (Form RP-70), to the appropriate appraiser in the real property division when deemed necessary for a coordinated review on a business property. In addition, a coordinated review or appraisal may be initiated by a real property appraiser when reviewing a transfer or new construction. Typically, the appraiser will send either a Property Record Data (PDR) file or Form RP-70 to the business property division for review on a particular property. Mandatory coordinated reviews are required on all new construction with $20 million or more in combined permit values and all transfers with $20 million or more in improvement value for certain property types, such as amusement parks,
breweries, cable television, hospitals, hotels, manufacturing plants, movie studios, and sports/recreation facilities. Coordinated reviews are also performed upon taxpayer request.

We reviewed several leasehold improvement files and found sufficient coordination between the real property and business property divisions in an effort to avoid duplicate or escape assessments during the valuation process. The assessor's office has an efficient program in place for identifying and assessing leasehold improvements, and we have no recommendations for this program.

**Mineral Property**

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

There are no assessable high temperature geothermal properties located in Los Angeles County.

**Mining Property**

The Natural Resources Section of the Assessment Services Division appraises mining properties. Estimates of value are based on a discounted cash flow analysis of the property using income and expenses reported to the assessor's office by the taxpayer. We reviewed mining property assessments and found an area needing improvement.

**RECOMMENDATION 9:** Use the factored base year value of fixtures and equipment when allocating values to factored base year appraisal units.

The assessor's office uses the current market value of fixtures when determining the value of a mineral property. Rule 469(e)(2)(C) states that when measuring declines in value, mineral properties are to be appraised as a single unit, excluding leach pads, settling ponds, and tailings facilities. This requires that the factored base year value of the mineral rights be combined with the factored base year value of equipment and fixtures to arrive at the proper factored base year value of the defined unit.

Fixtures are improvements and, therefore, are real property. As such, they are subject to the same assessment requirements as all other real property for decline in value purposes. Two values need to be determined and compared, the current market value and the adjusted base year value. For most property tax appraisals, fixtures are treated as a separate appraisal unit. However, for mineral properties, the appraisal unit is defined as the entire property, including fixtures. Changes to the mineral rights value and other land value can create a situation where the combined adjusted base year value is lower than the market value. This means that the adjusted base year value for all components in the defined unit, which includes land, reserves, improvements, and fixtures, should be enrolled.
Adding the current market value of fixtures to the factored base year value of the other components in the unit could result in a value for the total appraisal unit that is too low, resulting in an incorrect assessment.

Petroleum Property

Los Angeles County produces 12 percent of the state's oil and 6 percent of the state's natural gas. The Natural Resources Section of the assessor's office assesses these properties. Assessed values for petroleum properties in Los Angeles County totaled over $3.8 billion in 2011.

There are no recommendations regarding petroleum properties in this survey. We noted that the assessor's office should be commended for their annual report that summarizes appraisal parameters for all the petroleum properties in the county. This report allows appraisers to review discount rates, production parameters, reserve forecasts, and cost information for all properties. This database provides a quick method of determining whether individual appraisal assumptions are in line with what other appraisers within the assessor's office are using to value properties.
ASSessment of Personal Property and Fixtures

The assessor's office 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.
- Auditing taxpayers whose assessments are based on information provided in property statements.

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

Audit Program

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 county assessors with additional information to make fair and accurate assessments.

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer had assessable trade fixtures and business tangible personal property valued at $400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below $400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of $400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the county assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

Conducting audits in each district office and at the main office is the responsibility of 1 chief appraiser, 1 principal appraiser, 1 or 2 supervising appraisers, 1 or 2 appraiser specialists, and the assigned auditor-appraisers. There are a total of 58 auditor-appraisers performing audits and they
are assigned as follows: 9 at the North District Office, 4 at the West District Office, 9 at the East District Office, 5 at the South District Office, and 31 in the Major Personal Property Division at the main office. In addition, there is at least 1 or more clerical support staff assigned to each area within the Major Personal Property Division, which changes due to seasonal and audit workload requirements.

The following tables show the audit workload and production over recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-06</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits Scheduled</td>
<td>1,849</td>
<td>2,018</td>
<td>2,518</td>
<td>2,564</td>
<td>2,448</td>
</tr>
<tr>
<td>Audits Carried Over From Prior Years</td>
<td>0</td>
<td>0</td>
<td>169</td>
<td>227</td>
<td>176</td>
</tr>
<tr>
<td><strong>Total Audit Workload</strong></td>
<td><strong>1,849</strong></td>
<td><strong>2,018</strong></td>
<td><strong>2,687</strong></td>
<td><strong>2,791</strong></td>
<td><strong>2,624</strong></td>
</tr>
<tr>
<td>Audits Completed</td>
<td>1,849</td>
<td>2,018</td>
<td>2,644</td>
<td>2,622</td>
<td>2,397</td>
</tr>
<tr>
<td><strong>Audits To Be Carried Forward</strong></td>
<td>0</td>
<td>0</td>
<td>43</td>
<td>169</td>
<td>227</td>
</tr>
</tbody>
</table>

As previously noted, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor's office to complete 1,686 audits per year here after. The assessor's office completed 2,018 audits for the 2009-10 roll year and completed 1,849 audits for the 2010-11 roll year. Given recent and current audit production levels, the assessor's office has exceeded the minimum number of audits required as defined by section 469.

**Statute of Limitations**

Section 532 provides that when a county 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 a county 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.

As a rule, the assessor's office requests waivers of the statute of limitations from taxpayers when they anticipate an audit will not be completed in a timely manner. We reviewed a number of audits, as well as the assessor's office policy and procedures, for enforcement of section 532 and 532.1, and found that the assessor's office is in compliance.

**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 sampled several recently completed audits and found that the assessor's office performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, properly classifies equipment, conducts field inspections, and performs assessment roll changes to reflect audit findings. In all cases, audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

**Business Property Statement Program**

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of $100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

**Workload**

The following table displays the assessor's office secured and unsecured business property assessments for the 2010-11 roll year.

| CATEGORY          | SECURED | | | UNSECURED | | | TOTAL | |
|-------------------|---------|---------------|---------|---------|---------------|---------|----------|
|                   | NO.     | ASSESSED VALUE | NO.     | ASSESSED VALUE | NO.     | ASSESSED VALUE |
| Commercial        | 33,675  | $2,772,999,301 | 275,737 | $26,791,139,228 | 309,412 | $29,564,138,529 |
| Industrial        | 399     | $2,755,573,348 | 6,529   | $9,901,915,850  | 6,928   | $12,657,489,198 |
| Agricultural      | 3       | $79,494        | 54      | $26,938,311     | 57      | $27,017,805     |
| Construction      | 0       | 0              | 116     | $56,657,354     | 116     | $56,657,354     |
| Biopharmaceutical | 5       | $52,665,521    | 17      | $879,726,943    | 22      | $932,392,464    |

**General Statement Processing**

BPSs are screened by mail clerks, who determine if the statement is to be processed by clerical staff or if a review by an appraiser is needed. If review by an appraiser is needed, it is sent to an appraiser after trending by clerical staff. The minimum threshold for enrollment on a BPS is $2,000. BPSs are stamped to reflect timely submission and for application of the late-filing process and penalties when applicable.

**Discovery**

The assessor's office has efficient discovery programs, which include reviewing business licenses, business directories, leased equipment listings, newspapers, and telephone directories,
as well as field canvassing. The assessor's office also reviews BOE-600-B, *Schedule Of Leased Equipment Which Is To Be Reported By Lessor To Local Assessor For Assessment.*

**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. An assessor establishes an initial value for the business property and continues it for several years. Property statement filings or field reviews are required periodically. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated launderettes, small cafes, restaurants, and professional firms with small equipment holdings.

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

In Los Angeles County, there were 195,054 direct billing accounts for the 2010-11 roll year. The assessor's office has established a direct billing system for accounts that are generally stable and have a cost under $100,000. Direct billing accounts are required to file a BPS once every three years. The assessor's office staff attempt to review the direct billing accounts during their annual field canvassing. The field books used in this process have the prior year's data for the direct billing accounts being reviewed. During field canvassing reviews, the canvasser has the option of converting a direct billing account to an annual BPS filing or converting an annual BPS filing to a direct billing account. Any direct billing account with reported costs over $100,000 will be removed from the direct billing program.

**Summary**

Overall, we found the BPS program to be effectively administered.

**Business Equipment Valuation**

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

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

When valuing assessable equipment, the assessor's office uses price index factors that are based primarily on equipment index and percent good factors published in AH 581 and the California Assessors' Association's (CAA) business assessment factors. In addition, the assessor's office
uses economic life and fixture range guidelines that reflect the recommendations of the CAA and AH 581.

When there is good and compelling information available regarding equipment values that deviate from published equipment factor tables, that information is utilized by the assessor's office if it provides a better indicator of value.

We reviewed a variety of business equipment assessments, including retail, wholesale and service businesses, industrial operations, and various manufacturing companies. We found that the assessor's office uses acceptable methods of valuing business equipment.

**Manufactured Homes**

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

In Los Angeles County, there are approximately 24,138 manufactured homes located in 501 mobilehome parks, with a total assessed value of $566,890,797 for the 2010-11 roll year. It is the responsibility of the Manufactured Housing and Commercial Airlines unit of the Major Personal Property Division to assess all manufactured homes located in mobilehome parks. The assessment of manufactured homes located outside of mobilehome parks and manufactured homes installed on permanent foundations are the responsibility of the individual assessor's offices assigned to that geographical area.

The primary means of discovering assessable manufactured homes is through the receipt of information from the Department of Housing and Community Development (HCD), dealer reports of sale, building permits, and field canvassing.

The assessor's office correctly classifies manufactured homes as personal property and enrolls them on the secured roll. Flat rate special assessments and ad valorem bonds are properly excluded. If the manufactured home is situated on an approved permanent foundation system, it is reclassified as real property.

The assessor's office has developed a new program to review and value all personal property manufactured homes, including, but not limited to, those that are in a decline-in-value status. The program uses an internal database that is synchronized with data that is uploaded from the National Automobile Dealers Association *Manufactured Housing Cost Guide* (NADA). Staff enters data (such as year built, manufacturer, and model of the manufactured home) into the computer system, and the program automatically retrieves and notes the correct NADA edition and page number to be used to value the manufactured home. The assessor's office also considers the general overall condition of the manufactured home and the value of the accessories (such as awnings, porches, and skirting) when estimating the assessed value. The system generates a summary worksheet of all data and values for the manufactured home. The system also tracks
base year values, compares them to current market values, and enrolls the lower of the two values.

We reviewed a number of manufactured home assessments. Our review included transfers in rental and resident-owned parks, supplemental assessments, voluntary conversions, accessories, record keeping, assessments related to manufactured homes on permanent foundations, and new installations of manufactured homes. We found that the assessor's office is issuing supplemental assessments for all reappraisable events for manufactured homes. Transfers involving residents' interests or shares in land and common structures in resident-owned parks are being properly assessed by using NADA, a recognized value guide, to determine the improvement value, and then assigning the remainder of the purchase price to the interest in the park. This method of allocation ensures that the market value attributable to the space being transferred is recognized.

The manufactured home program is well administered. Discovery procedures are efficient, and new construction and accessories are assessed properly. The program for assessing manufactured homes is effective and conforms to statutory provisions. We have no recommendations for the manufactured homes program.

**Aircraft**

**General Aircraft**

General aircraft are privately owned aircraft that are used for pleasure or business, but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the county 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*.

For the 2010-11 roll year, the assessor's office enrolled 3,530 general aircraft, with a total assessed value of $2,796,707,954. Certified appraisers are responsible for the appraisal of all aircraft. Aircraft are discovered through airport operators' reports, Federal Aviation Administration (FAA) reports, and field canvassing.

Each year, the assessor's office mails BOE-577, *Aircraft Property Statement*, to the known aircraft owners in the county requesting current information on all aircraft. 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 the assessor's office imposes a 10 percent penalty for failure to file and late-filings.

The assessor's office uses *Bluebook* as the primary guide for valuing general aircraft. In addition, the assessor's office uses *Vref, HeliValue*$ for helicopters, and *Ascend* for Boeing business jets and for planes not listed in *Bluebook*. In accordance with Letter To Assessors (LTA) No. 97/03, the assessor's office adjusts the listed retail values downward by 10 percent to provide reasonable estimates of fair market value for aircraft in average condition on the lien date.
We reviewed several general aircraft records for proper use of BOE forms, valuation methodology, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found that the assessor's office procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines as set forth in Assessors' Handbook Section 577, Assessment of General Aircraft (AH 577), and LTA No. 97/03.

**Fractionally Owned Aircraft**

Fractionally owned aircraft are fleets of aircraft managed and maintained by an operating company where ownership is distributed on a fractional basis similar to a timeshare in real property. The management company handles all operating requirements of the aircraft, including availability, maintenance, billings, shareowner usage, training, and flight crews.

Pursuant to section 1161, fractionally owned aircraft are assessed on a fleet-wide basis to the manager in control of the fleet. Like certificated aircraft, fractionally owned aircraft are assessed on an allocated basis using an "allocation factor." This allocation factor is a fraction, the numerator of which is the total number of landings and departures made by the fleet type in the county during the previous calendar year, and the denominator of which is the total number of landings and departures made by the fleet type worldwide during the previous calendar year.

Section 1162 contains a provision for the appointment of a lead county assessor's office to facilitate property reporting, allocation calculations, the transmittal of allocated values to other jurisdictions where situs has been established, and provide for coordinated multi-county audits.

Fractionally owned aircraft has situs in California if an aircraft within the fleet makes a landing in this state per section 1161(b). A lead county will be designated for each manager in control of a fleet of fractionally owned aircraft that has situs in this state. The lead county is responsible for obtaining a property statement from each manager and calculating the allocation factor. This information is then transmitted electronically to each county in which the fleet of fractionally owned aircraft has situs.

For the 2010-11 roll year, the assessor's office enrolled 712 fractionally owned aircraft with a total assessed value of $327,986,391. Los Angeles County currently serves as the lead county to seven fractionally owned fleets.

We reviewed several fractionally owned aircraft files and the assessor's office procedures for the valuation of fractionally owned aircraft. We found that the allocated value was accurately calculated on the basis of arrivals and departures in the county in accordance with section 1161.

**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 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 (designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.
There were 4,312 certificated aircraft with a total assessed value of $2,515,850,067 enrolled for the 2010-11 roll year. Los Angeles County serves as a lead county for certificated aircraft.

Appraisers review BPSs and calculate the allocated taxable value for each aircraft according to the certificated aircraft allocation formula pursuant to section 1152 and Rule 202. We reviewed a sample of processed air carrier BPSs and found them to be correctly administered and the estimates of values to be accurately calculated in accordance with section 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.

For the 2010-11 roll year, there were 234 historical aircraft with a total value of $10,907,502.

We reviewed several historical aircraft assessments and exemption claims. We found that the assessor's office properly granted the exemption when the statutory requirements were met. We also confirmed that the assessor's office properly denied the exemption when the statutory requirements were not met and allowed the partial exemption when merited in accordance with section 276.5. The assessor's office properly obtained signed affidavits in Board-prescribed format and certification of attendance pursuant to section 220.5. Of the 234 historical aircraft, 16 did not meet the requirements for exemption from property taxation.

We have no recommendations for the historical aircraft program.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.
The following table shows the number and value of vessels assessed in Los Angeles County over recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO. PLEASURE VESSELS</th>
<th>ASSESSED VALUE</th>
<th>NO. DOCUMENTED VESSELS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>46,594</td>
<td>$444,831,287</td>
<td>5,580</td>
<td>$854,448,597</td>
</tr>
<tr>
<td>2009-10</td>
<td>51,654</td>
<td>$546,521,179</td>
<td>5,525</td>
<td>$874,107,881</td>
</tr>
<tr>
<td>2008-09</td>
<td>53,941</td>
<td>$608,706,949</td>
<td>5,305</td>
<td>$874,279,913</td>
</tr>
<tr>
<td>2007-08</td>
<td>52,988</td>
<td>$600,266,037</td>
<td>5,186</td>
<td>$874,797,576</td>
</tr>
<tr>
<td>2006-07</td>
<td>52,656</td>
<td>$578,478,028</td>
<td>4,923</td>
<td>$800,403,751</td>
</tr>
</tbody>
</table>

The assessor's office enrolled a total of 52,174 vessels for the 2010-11 roll year, with a total assessed value of $1,299,279,884. The assessor's office utilizes DMV monthly transaction reports, marina reports, field canvasses, and owner notifications as methods of discovery.

Statements are initially reviewed by appraisal support personnel, who separate statements for screening and processing by appraisers. Certified appraisers are solely responsible for determining if additional information is required to properly process the reported cost. Newly enrolled vessels are valued primarily with the aid of National Automobile Dealers Association Marine Appraisal Guide (NADA) and BUC Used Boat Price Guide (BUC). The assessor's office correctly adds a sales tax component and makes adjustments for area, equipment, and vessel condition. The assessor's office has a low-value property exemption ordinance for property valued at less than $2,000.

**Vessel Property Statements**

The assessor's office sends BOE-576-D, *Vessel Property Statement*, annually to the registered owners of vessels with a market value of $75,000 or greater. During the processing season, the appraisal support personnel receive all of the returned vessel statements and vessel ownership verifications. They are reviewed for completeness and correct signatures before being forwarded to appraisers for review and valuation.

The assessor's office practice is to establish the fair market value of vessels upon transfer or when first enrolled in the county. Newly enrolled vessels are appraised using NADA and/or BUC cost guides. For vessels with a market value below $75,000, each subsequent year, the assessor's office uses the BOE annual vessel depreciation factors to determine the value to be enrolled. Vessels with a market value of $75,000 or more are appraised each year and market value is enrolled until the market value falls below $75,000, and then the assessor's office starts trending the prior year's assessed value. The assessor's office also utilizes other market value indicators from the Internet, such as YachtWorld.com and Soldboats.com.

We sampled a number of vessel assessments where the vessel owner was required to submit a *Vessel Property Statement* pursuant to section 441(a). We found that when a timely submission was not made, the assessor's office correctly applied a 10 percent penalty in accordance with section 463.
Vessels Qualifying for the 96 Percent Exemption

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. In order for vessel owners to qualify for the exemption, they must file BOE-576-E, Affidavit For 4 Percent Assessment Of Certain Vessels. If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but on or before August 1, the county assessor may still grant a reduced exemption of 76.8 percent (80 percent of the 96 percent exemption). However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

Several partially exempt vessels were reviewed. We found the exemption forms were sufficiently completed and exemptions were appropriately granted when the qualifications stipulated in section 227 were met.

Findings

We reviewed several vessel assessments and found the files to be well documented and complete. We have no recommendations for the vessels program.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Los Angeles County

Chief
Dean Kinnee

Survey Program Director:
Mike Harris Principal Property Appraiser

Survey Team Supervisor:
David Dodson Supervising Property Appraiser

Survey Team Leader:
Paula Jean Eagleman Senior Specialist Property Appraiser

Survey Team:
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Andrew Austin Senior Specialist Property Appraiser
Margie Wing Senior Specialist Property Appraiser
Michael Ash Associate Property Appraiser
Robert Marr Associate Property Appraiser
Jay Price Associate Property Appraiser
Jennifer Prince Associate Property Appraiser
Alan Dannen Associate Property Auditor-Appraiser
Paula Montez Associate Property Auditor-Appraiser
Ardeshir Noroozkhani Associate Property Auditor-Appraiser
Dany Lunetta Associate Governmental Program Analyst
Paul Stueber Tax Technician II
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 BOE, 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 BOE'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 his or her 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 board 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 board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board 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 board a written response to the findings and recommendations in the survey report.

The board 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 board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board 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 board 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 board'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 board'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 board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board 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 board, 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 board 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 board from each of these groups. The board 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.
(3) 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 board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board 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 Board 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 Board 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 Board'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 audits in accordance with Revenue and Taxation Code section 469.

(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 OFFICE RESPONSE TO BOE'S FINDINGS

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

The Los Angeles County Assessor's Office response begins on the next page. The BOE has no comments on the response.
May 2, 2013

Mr. Dean R. Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

2010-2011 ASSESSMENT PRACTICES SURVEY


The periodic survey of assessors' assessment practices is an invaluable, useful and constructive tool. I very much appreciate the effort, professionalism, and courtesy of the State Board of Equalization staff while performing the sampling program, the practices survey, and the preparation of the report.

Los Angeles County agrees with all of the recommendations and will work to make the necessary changes.

I wish to commend my staff whose professionalism and dedication was demonstrated in the sample, indicating an average assessment ratio of 100.03 percent.

Sincerely,

SANTOS H. KREIMANN

SK:DH:jr

Attachment

“Valuing People and Property”
RECOMMENDATION 1: Improve the disaster relief program by: (1) revising the application for disaster relief to meet the requirements of section 170(a), and (2) revising the notice of proposed reassessment to include the appeals filing period as specified in section 170(c).

Response to Recommendation 1:
We agree and will comply.

RECOMMENDATION 2: Improve the assessment roll changes program by: (1) developing and uniformly enforcing policies and procedures to ensure that staff cannot bypass supervisor approval in the enrollment of values, (2) developing and uniformly enforcing policies and procedures to ensure that supervisors cannot approve values for enrollment that they have determined themselves, and (3) modifying the data entry system to ensure that a second data entry clerk will be used to re-key values initially keyed by the first data entry clerk as part of the verification process.

Response to Recommendation 2:
We agree.

1) We have implemented standard roll change procedures for value enrollment.

2) We have implemented policies and IT procedures to ensure supervisors cannot approve or enroll values they determined themselves.

3) We have implemented policies and IT procedures where a second data entry clerk is mandatory for entering values to the roll.
RECOMMENDATION 3: Improve the administration of the welfare exemption by not requiring an annual filing for non-profit corporations that build or rehabilitate single or multi-family residences for sale at cost to low-income families in accordance with sections 214.15 and 254.5.

Response to Recommendation 3:
We agree and will comply.

RECOMMENDATION 4: Improve the administration of the disabled veterans’ exemption by: (1) requiring claimants to submit proof of an honorable discharge, (2) applying the provisions of section 276 for disabled veterans’ exemption claims that are not filed timely, and (3) granting the disabled veterans’ exemption on a prorated basis for the initial qualifying year in accordance with section 276.1 and 276.2.

Response to Recommendation 4:
We agree and have implemented these procedures.
RECOMMENDATION 5: Improve the change in ownership program by: (1) applying penalties for failure to file a COS in accordance with sections 482(a) and 483(b), and (2) properly notifying taxpayers of the penalty abatement process when sending a notice of penalty as required by section 482(f).

Response to Recommendation 5:

(1) We agree and will ensure that all Change of Ownership Statement penalty assessments are properly applied. Any requisite changes to our processing system will be made as soon as resources permit.

(2) We agree. In November 2011 we revised the penalty abatement language by providing a clear date by which the form is to be returned. Additionally, we mail a Notice of Penalty Assessment 45 days after the COS request is made. Our IT processing procedures accommodate the local ordinance for automatic abatement. However, we will collaborate with the BOE to arrive at an acceptable resolution.

RECOMMENDATION 6: Include all required information on the two-year transfer list pursuant to section 408.1(c).

Response to Recommendation 6:

The names of the transferors will be added to the list when resources become available. All other required information is already provided on the list.
RECOMMENDATION 7: Improve the new construction program by: (1) enrolling construction in progress at its fair market value on each lien date, (2) valuing completed new construction at its fair market value, and (3) enrolling all assessable new construction.

Response to Recommendation 7:

We agree and will comply.

1) We will enroll new construction in progress at its fair market value on each lien date.

2) We will value completed construction at its fair market value.

3) We will enroll all assessable new construction.

RECOMMENDATION 8: Correctly calculate the restricted value for taxable government-owned property.

Response to Recommendation 8:

We agree and will comply. Appraisers rounded restricted value before enrolling and some improper Phillips Factor calculation occurred. Prior to 2008 it is possible that the proper procedure was not being followed. However, there were standards and practices in place to outline the correct procedure to arrive at the appropriate value to enroll. We will implement procedural changes to ensure proper assessment of Government-owned property, such that the appropriate Phillips Factored value is arrived at and compared to the current market value. When the Phillips factored value is the appropriate value to enroll, it will be enrolled without rounding.

RECOMMENDATION 9: Use the factored base year value of fixtures and equipment when allocating values to factored base year appraisal units.

Response to Recommendation 9:

We agree and will begin to use the factored base year value of fixtures and equipment.