RIVERSIDE COUNTY
ASSESSMENT PRACTICES SURVEY

JANUARY 2014

CALIFORNIA STATE BOARD OF EQUALIZATION
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CYNTHIA BRIDGES, EXECUTIVE DIRECTOR
January 17, 2014

TO COUNTY ASSESSORS:

RIVERSIDE COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Honorable Larry W. Ward, Riverside County Assessor-County Clerk-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Riverside County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from January through February 2012. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ John K. Thompson for

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 Riverside County Assessor-County Clerk-Recorder's Office.1

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Riverside County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Larry W. Ward, Riverside County Assessor-County Clerk-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see Scope of Assessment Practices Surveys 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.

1 This report covers only the assessment functions of this office.
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\(^2\) 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 Riverside County Assessor-County Clerk-Recorder's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Riverside County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2011-12 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

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\(^2\) 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.

The assessor continues to provide an excellent level of public service, even in an environment of budget cutbacks and decreasing department resources. The assessor has found innovative and cost-saving ways to use modern technology to improve efficiency and provide services. Examples of these improvements are:

- Improving the assessor's website to offer convenient access to the public for a wide variety of services, such as providing a Value Notice Lookup feature online for property owners to review the results of the assessor's decline-in-value review.
- Converting county official records to an electronic format.
- Actively working with other departments to put in place a new integrated property tax computer system (CREST) to replace the existing 40-year old system.

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

In the area of administration, the assessor is effectively managing staffing, workload, staff property and activities, and assessment appeals. However, we made recommendations for the improvement of the appraiser certification and exemptions programs.

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

In the area of personal property and fixtures assessment, the assessor has effective programs for business property statements, business equipment valuation, aircraft, and vessels. However, we made recommendations for improvement of the audit and manufactured homes programs.

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

The Riverside County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2011-12 assessment roll indicated an average assessment ratio of 100.02 percent, and the sum of the absolute differences from the required assessment level was 0.12 percent. Accordingly, the BOE certifies that Riverside 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:** Ensure appraisers meet the annual training requirements in accordance with section 671 ..................................................10

**RECOMMENDATION 2:** Improve the administration of the disabled veterans' exemption by: (1) granting the full disabled veterans' exemption when claims are filed timely, (2) correctly calculating the amount of the exemption to be granted for a late-filed claim on the low-income provision of the disabled veterans' exemption, and (3) granting the disabled veterans' low-income exemption only for those years in which a valid claim has been filed. ...............................16

**RECOMMENDATION 3:** Include all required information on the two-year transfer list pursuant to section 408.1(c). .......................................................21

**RECOMMENDATION 4:** Reassess all properties owned by legal entities that have undergone a change in control or ownership. .................................22

**RECOMMENDATION 5:** Improve the new construction program by: (1) obtaining copies of permits from the environmental health department, and (2) issuing supplemental assessments when the construction of trellising and the installation of irrigation systems are completed. ...............................................................28

**RECOMMENDATION 6:** Improve the valuation of CLCA properties by valuing compatible commercial use sites utilizing an economic rent. .............................................................................................31

**RECOMMENDATION 7:** Improve the taxable possessory interest program by periodically reviewing all taxable possessory interests with stated terms of possession for declines in value. ................32

**RECOMMENDATION 8:** Improve the leasehold improvement program by properly valuing structural improvements reported on the BPS. ..............34

**RECOMMENDATION 9:** Improve the mining property program by: (1) measuring declines in value for mineral properties using the entire appraisal unit as required by Rule 469, and (2) treating settling ponds as a separate appraisal unit. .................................34

**RECOMMENDATION 10:** Document when a situs inspection is performed as part of a standard component of the audit process. ........................................38

**RECOMMENDATION 11:** Value residents' interests in resident-owned mobilehome parks. ......................................................................42
OVERVIEW OF RIVERSIDE COUNTY

Located in the southern portion of California, Riverside County is bounded on the north by San Bernardino County, on the east by the state of Arizona, on the south by San Diego and Imperial Counties, and on the west by Orange County. Riverside County has 28 incorporated cities and the city of Riverside is the county seat.

Founded in 1893, Riverside County encompasses a total area of 7,303 square miles, of which 7,207 square miles (99 percent) is land and 96 square miles (1 percent) is water. Riverside County is the fourth largest county in the state. As of 2011, the population estimate for the county was 2,239,620.
The following table displays information pertinent to the 2011-12 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$64,225,342,078</td>
</tr>
<tr>
<td>Improvements</td>
<td>$131,531,339,661</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$805,002,538</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$824,028,513</td>
</tr>
<tr>
<td>Total Secured</td>
<td>$197,385,712,790</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$1,233,795</td>
</tr>
<tr>
<td>Improvements</td>
<td>$246,609,312</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$3,403,737,290</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$4,150,398,993</td>
</tr>
<tr>
<td>Total Unsecured</td>
<td>$7,801,979,390</td>
</tr>
<tr>
<td>Exemptions$^3</td>
<td>($4,602,924,155)</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>$200,584,768,025</td>
</tr>
</tbody>
</table>

The next table summarizes the change in assessed values over recent years:$^4$

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>$200,584,768,000</td>
<td>-1.6%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2010-11</td>
<td>$203,842,094,000</td>
<td>-4.5%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2009-10</td>
<td>$213,500,651,000</td>
<td>-10.7%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>2008-09</td>
<td>$239,053,799,000</td>
<td>1.2%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>$236,147,657,000</td>
<td>16.6%</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

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$^3$ The value of the Homeowners’ Exemption is excluded from the exemptions total.
$^4$ State Board of Equalization Annual Report, Table 7.
ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, workload, appraiser certification, staff property and activities, assessment appeals, and exemptions.

Budget and Staffing

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

The following table shows the assessor's budget and staffing for recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>PERCENT CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>$21,993,263</td>
<td>12.1%</td>
<td>186</td>
</tr>
<tr>
<td>2010-11</td>
<td>$19,628,132</td>
<td>-7.0%</td>
<td>186</td>
</tr>
<tr>
<td>2009-10</td>
<td>$21,103,895</td>
<td>-20.6%</td>
<td>261</td>
</tr>
<tr>
<td>2008-09</td>
<td>$26,580,165</td>
<td>14.4%</td>
<td>290</td>
</tr>
<tr>
<td>2007-08</td>
<td>$23,240,660</td>
<td>13.4%</td>
<td>284</td>
</tr>
</tbody>
</table>

In addition to the assessor's main office located in the city of Riverside, there are six field offices located in the cities of Temecula, Palm Springs, Hemet, Perris, Indio, and Blythe. Including the assessor, there are 186 full-time budgeted permanent positions. As of the date of our survey, the staff was made up of the assessor, the assistant assessor, 5 principal deputy assessors, 83 appraisers, 13 auditor-appraisers, 10 cadastral draftspersons, 6 computer programmers, 61 technical/professionals, and 6 support staff.
The following is an organizational chart for the Riverside County Assessor's Office:

**Workload**

Generally, the 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, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the 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, the 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, the 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 the assessor. Additionally, the number of assessment appeals may increase during this period.

According to the prior tables, the assessor's total roll value has decreased three of the past five years, most recently showing a decrease, while the gross budget has increased three of the past five years, most recently showing an increase. In addition, the assessor experienced a significant loss in staff for the 2010-11 budget year, while managing a fluctuating workload. The number of reappraisable transfers due to changes in ownership has decreased three of the past four years, most recently showing a decrease. The number of new construction assessments has decreased each of the past four years. The number of decline-in-value assessments has increased three of the past four years, most recently showing a decrease. The number of assessment appeals filed in recent years saw a peak in 2008-09, but has decreased each year since.

These trends are shown in the following table:

<table>
<thead>
<tr>
<th>WORKLOAD DESCRIPTION</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reappraisable Transfers</td>
<td>87,218</td>
<td>87,848</td>
<td>94,221</td>
<td>111,041</td>
<td>109,913</td>
</tr>
<tr>
<td>New Construction Assessments</td>
<td>5,486</td>
<td>6,182</td>
<td>9,006</td>
<td>15,422</td>
<td>15,508</td>
</tr>
<tr>
<td>Decline-In-Value Assessments</td>
<td>414,528</td>
<td>424,506</td>
<td>384,289</td>
<td>200,190</td>
<td>31,333</td>
</tr>
<tr>
<td>Assessment Appeals Filed</td>
<td>12,237</td>
<td>16,974</td>
<td>28,780</td>
<td>36,191</td>
<td>12,330</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. During our survey, there were a total of 122 certified appraisers on staff, including the assessor; 85 held advanced appraiser's certificates. We found that the assessor and his staff possessed the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits met the requirements referenced in section 670(d). The assessor does not use contract appraisers.

The training coordinator in the Quality Assurance Division monitors training and certification of the assessor's personnel. The assessor has an intranet website called the ACR (Assessor-County Clerk-Recorder) University, which allows appraisers to view their training history and status. The website provides access to information on courses, conferences, and online classes available to the assessor's staff. Training forms and reports are also available on the website. The assessor encourages appraisers to become eligible and apply for their advanced appraisal certificates.
We found an area in need of improvement for the assessor's appraiser certification program.

**RECOMMENDATION 1:** Ensure appraisers meet the annual training requirements in accordance with section 671.

During our review, we noted that several appraisers were delinquent in continuing education hours. Section 671(a) provides that in order to retain a valid appraiser's certificate, an appraiser must complete 24 hours of training conducted or approved by the BOE each year. Section 671(b) provides that appraisers with an advanced appraiser's certificate must complete 12 hours of training annually.

The BOE's training unit provides each assessor with an annual report, summarizing each appraiser's training and certification status. The assessor should ensure all appraisers are current in their continuing education requirements. Tax laws are continually changing. Failure to maintain the required continuing education could create confusion about current appraisal procedures and practices, and could lead to improper assessments or the distribution of misleading information to taxpayers. Moreover, according to section 671(a) and (b), failure to receive such training shall constitute grounds for revocation of an appraiser's certificate or advanced certificate.

**Staff Property and Activities**

The BOE's assessment practices survey includes a review of the assessor's 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 staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The 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 assessor's office are provided ethics training and receive a copy of the *Code of Ethics*. The *Code of Ethics* is published by the Human Resources Division of the Riverside County Assessor-County Clerk-Recorder's Office and addresses conflict of interests, financial disclosure, outside employment, and employee property reporting requirements. Employees are required to annually review the ethics policies and to sign an acknowledgement.

The Quality Assurance Division maintains a list of all employee-owned property. Employees are required to file an *Employee Property-Activity Reporting* with the Quality Assurance Division whenever there is a change in ownership, new construction, appeal, or request for assessment review for their property. Additionally, employees must file an annual *Employee Property Report* disclosing all of their real and personal property located in Riverside County. It is the assessor's policy that appraisers are not allowed to appraise their own property. Supervisors
assign employee-owned property to an appraiser other than the owner of the property being appraised, and the appraisal process is tracked, reviewed, and documented.

In order to avoid conflicts of interest, employees must receive approval from their department head before accepting an outside employment position in addition to their existing position with the assessor's office. Employees must sign an Annual Acknowledgement Outside Employment Activities Declaration informing the assessor annually of any outside employment activities. The Quality Assurance Division maintains a spreadsheet tracking the hours and types of outside employment that the assessor's staff are engaged in. Employees are required to notify the assessor of any changes in their status.

The assessor coordinates with the clerk of the board to ensure compliance with Form 700 filing requirements in accordance with section 672. The Quality Assurance Division receives an email from the clerk of the board with the names of the required filers. The assessor provides electronic forms and instructions to all certified staff, including information on the consequences of noncompliance. The Quality Assurance Division collects Form 700 from employees and sends them to the clerk of the board. Hard copies are maintained by the Quality Assurance Division. Upon confirmation that all employees are in compliance, notification is sent to the BOE.

We reviewed several staff-owned properties with recent activity and found no problems. We have no recommendations for the assessor's 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 the 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.

Riverside County Ordinance No. 510 provides for the establishment of the county's five assessment appeals boards (AAB), each board consisting of three members who rotate on a weekly basis. There are five hearing officers and four alternates who rotate to preside over residential property appeals with assessed values that do not exceed $500,000. Pursuant to
section 1624.01, all members of the AAB have successfully completed the required training as provided in section 1624.02.

The assessor notifies the clerk and the tax collector by April 1 of each year as to whether notices of assessed value of real property on the secured roll will be sent by August 1 as required by section 1603(b)(3)(A). The filing period for assessment appeals in Riverside County is July 2 through November 30. Assessment appeals hearings are scheduled for Wednesdays, Thursdays, or Fridays.

Assessment appeal applications are received by the clerk. The applications are date stamped, reviewed, and validated. If errors are found, a correction letter is sent out to the applicant requesting the necessary corrections. Once the application is verified for accuracy and completeness, information from the application is input into a database. The database is linked directly to the assessor's office, allowing applications and associated documents to be viewed by the assessor's valuation staff. Assessor's staff can view information regarding the status, values, confirmation notes, and other relevant information. Data is uploaded on a daily basis from the clerk's database to the assessor's appeals database. Once an application is scanned and reviewed by staff, it is scheduled for hearing. Appeals are tracked using a computer database report. Some managers, such as the manager of the Business Personal Property Division, maintain their own assessment appeals tracking records and spreadsheets.

Riverside County does not currently accept electronically filed applications; however, applicants may fill out BOE-305-AH, Application for Changed Assessment, online via the clerk's online application program. Applicants can complete the application online, print it, sign it, and return it to the clerk.

The supervising appraisal staff within the various district offices decides who will prepare and present appeals. Senior appraisers typically prepare and present appeals at the hearings. The county counsel and another member of the assessor's staff, acting as the assessor's representative and liaison between the assessor's office and the clerk, also attend the hearing.
The following table sets forth the overall assessment appeals workload for recent years.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeals Filed</td>
<td>12,237</td>
<td>16,974</td>
<td>28,780</td>
<td>36,191</td>
<td>12,330</td>
</tr>
<tr>
<td>Appeals Carried Over From Prior Year</td>
<td>6,613&lt;sup&gt;5&lt;/sup&gt;</td>
<td>19,144</td>
<td>934&lt;sup&gt;6&lt;/sup&gt;</td>
<td>8,377</td>
<td>1,698</td>
</tr>
<tr>
<td>Total Appeals Workload</td>
<td>18,850</td>
<td>36,118</td>
<td>29,714</td>
<td>44,568</td>
<td>14,028</td>
</tr>
</tbody>
</table>

Resolution:

<table>
<thead>
<tr>
<th></th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawn</td>
<td>6,949</td>
<td>12,048</td>
<td>6,051</td>
<td>19,426</td>
<td>3,655</td>
</tr>
<tr>
<td>Stipulation</td>
<td>2,490</td>
<td>1,448</td>
<td>230</td>
<td>2,629</td>
<td>350</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>580</td>
<td>233</td>
<td>47</td>
<td>449</td>
<td>24</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>300</td>
<td>270</td>
<td>64</td>
<td>188</td>
<td>113</td>
</tr>
<tr>
<td>Appeals Increased</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Determination*</td>
<td>4,625</td>
<td>4,917</td>
<td>4,178</td>
<td>5,655</td>
<td>1,509</td>
</tr>
<tr>
<td>Total Resolved</td>
<td>14,944</td>
<td>18,916</td>
<td>10,570</td>
<td>28,347</td>
<td>5,651</td>
</tr>
<tr>
<td>To Be Carried Over**</td>
<td>3,906</td>
<td>17,202</td>
<td>19,144</td>
<td>16,221</td>
<td>8,377</td>
</tr>
</tbody>
</table>

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

** "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

During our survey, we were able to attend one of the assessment appeals hearings. We found that the assessor was well prepared and presented their case adequately. Our review of stipulations and board rulings indicated that the assessor's opinions and value conclusions were reasonable, well documented, and organized in a professional manner. Overall, the assessor's assessment appeals program is well managed. We have no recommendations for this program.

**Exemptions**

**Church and Religious Exemptions**

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

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<sup>5</sup> The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" for 2011-12 as 6,613. However, according to the numbers the assessor reported for 2010-11, the number of appeals "To Be Carried Over" from 2010-11 was 17,202, not 6,613.

<sup>6</sup> The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" for 2009-10 as 934. However, according to the numbers the assessor reported for 2008-09, the number of appeals "To Be Carried Over" from 2008-09 was 16,221, not 934.
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 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 shows 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 VALUE</td>
</tr>
<tr>
<td>2011-12</td>
<td>722</td>
<td>$791,272,349</td>
</tr>
<tr>
<td>2010-11</td>
<td>694</td>
<td>$780,147,684</td>
</tr>
<tr>
<td>2009-10</td>
<td>670</td>
<td>$777,662,233</td>
</tr>
<tr>
<td>2008-09</td>
<td>673</td>
<td>$725,246,457</td>
</tr>
<tr>
<td>2007-08</td>
<td>668</td>
<td>$677,761,999</td>
</tr>
</tbody>
</table>

We reviewed a number of church and religious claims and found that the assessor properly applies late-filing penalties in accordance with sections 270 and 271 when claims are not filed timely. The files reviewed indicated thorough field inspection notes to ensure property is used for exempt purposes and to describe any portions of the property not eligible for exemption. A review of religious exemptions revealed a claim stating that the property was used for living quarters for the pastor. The assessor correctly denied the religious exemption and notified the claimant that the claim was not eligible for the religious exemption, but that it may qualify for the welfare exemption. The assessor properly notifies claimants as to the reason a property is denied an exemption. We found that the assessor 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 is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE 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. The 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 shows welfare exemption data for recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>WELFARE EXEMPTIONS</th>
<th>NUMBER</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td></td>
<td>959</td>
<td>$3,297,443,717</td>
</tr>
<tr>
<td>2010-11</td>
<td></td>
<td>977</td>
<td>$3,080,715,927</td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td>992</td>
<td>$2,647,700,169</td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td>967</td>
<td>$2,724,558,766</td>
</tr>
<tr>
<td>2007-08</td>
<td></td>
<td>847</td>
<td>$2,313,902,750</td>
</tr>
</tbody>
</table>

The assessor maintains exemption claim files that include claim forms, field inspection notes, and other county staff notes. If a property does not qualify for the exemption, the assessor properly notifies the claimant using BOE-267-F, Welfare or Veterans' Organization Exemption Assessor's Finding on Qualification of Property Use.

We reviewed a number of welfare exemption claims and found the assessor maintains an effective welfare exemption program.

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 claimants, $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 following table shows disabled veterans' exemption data for recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DISABLED VETERANS' EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>2,402</td>
<td>$261,476,117</td>
</tr>
<tr>
<td>2010-11</td>
<td>2,268</td>
<td>$242,689,290</td>
</tr>
<tr>
<td>2009-10</td>
<td>2,136</td>
<td>$229,714,360</td>
</tr>
<tr>
<td>2008-09</td>
<td>1,976</td>
<td>$211,409,323</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,844</td>
<td>$188,428,770</td>
</tr>
</tbody>
</table>

With over 2,400 claims, Riverside County is home to one of the largest disabled veterans' exemption programs in the state. We found that the files were well organized with extensive notes. The assessor ensures that low-income claimants file annually as required by statute. We did, however, find a few areas in need of improvement.

**RECOMMENDATION 2:**

Improve the administration of the disabled veterans' exemption by: (1) granting the full disabled veterans' exemption when claims are filed timely, (2) correctly calculating the amount of the exemption to be granted for a late-filed claim on the low-income provision of the disabled veterans' exemption, and (3) granting the disabled veterans' low-income exemption only for those years in which a valid claim has been filed.

**Grant the full disabled veterans' exemption when claims are filed timely.**

It is the assessor's practice to disallow a full exemption of a property for any claim filed after February 15, including first-time filings. For example, one of the properties we reviewed showed that the assessor correctly disallowed the disabled veterans' exemption when a surviving spouse remarried. However, when that claimant became eligible again and refiled for the exemption, the claimant received only a partial exemption, even though the claim was filed within the time frame specified by the statute.

Section 276.2(a) states, "If property becomes eligible for the disabled veterans' exemption as described in Section 205.5 after the lien date, and an appropriate application for that exemption is filed on the later of 90 days after the date on which the property became eligible or on or before the next following lien date, there shall be canceled or refunded the amount of any taxes, including any interest and penalties thereon, levied on that portion of the assessed value of the property that would have been exempt under a timely and appropriate application."
By applying late-filing provisions to a disabled veterans' exemption when the claim was filed timely, the assessor is not allowing the claimant to receive the full exemption they are entitled to receive.

**Correctly calculate the amount of the exemption to be granted for a late-filed claim on the low-income provision of the disabled veterans' exemption.**

When applying late-filing provisions for a late-filed claim on the low-income provision of the disabled veterans' exemption, we found that the assessor incorrectly calculates the amount of the partial exemption to be granted for the property. The assessor calculates the partial exemption to be granted based on the entire amount of the exemption rather than the amount over the basic exemption.

Section 276(b) states, "If a late-filed claim for the one-hundred-fifty-thousand-dollar ($150,000) exemption is filed in conjunction with a timely filed claim for the one-hundred-thousand-dollar ($100,000) exemption, 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 one hundred thousand dollars ($100,000)."

The disabled veterans' exemption requires a one-time filing. Thereafter, the basic amount of the exemption does not require a separate filing. A claimant for the disabled veteran's exemption must annually file for any amount over the basic amount and it is that amount on which the partial exemption is to be calculated.

Calculating the amount of the exemption to be granted for the property based on the entire exemption amount rather than the amount exceeding the basic level can have a harsh impact to the claimant. For example, using the 2010 disabled veterans' exemption amounts of $115,060 and $172,592 for the basic and low-income amounts, respectively, a claimant filing for the maximum exemption and receiving a 90 percent late-filing provision should receive 90 percent of the amount over $115,060; an exemption of $166,839. A partial exemption calculated on the entire amount yields an exemption of $155,333 – a difference of approximately $11,500. The assessor should adjust his procedures to grant the claimant the proper amount of the exemption.

**Grant the disabled veterans' low-income exemption only for those years in which a valid claim has been filed.**

We found that for first-time filings of the disabled veterans' low-income exemption, the assessor does not require the claimant to file separate claims for each year of eligibility before granting the exemption on all eligible years. For example, the assessor granted a low-income exemption for both the 2010-11 and 2011-12 roll years for an effective date of August 2010, even though the claimant only filed a claim for the 2011-12 roll year.

While only a one-time filing is required for the disabled veterans' $100,000 basic exemption, an annual filing is required for the disabled veterans' $150,000 low-income exemption. This requirement is to ensure or certify that the claimant continues to meet the household income limit restriction each year. Separate claims are required for each year when filing the low-income exemption.
By granting the disabled veterans' low-income exemption for years in which a valid claim was not filed, the assessor is unable to verify whether the claimant met the household income limit restriction for that year and may be granting low-income exemptions on properties that are not eligible.
ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, taxable possessory interests, leasehold improvements, 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 the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor's primary means of discovering properties that have changed ownership is through the analysis of deeds and other documents recorded at the county recorder's office. The recorder's office requires BOE-502-A, Preliminary Change of Ownership Report (PCOR), to accompany documents transferring ownership of real property that are submitted for recordation. PCORs are available to the public at both the assessor's and recorder's offices, as well as on the assessor's website. Riverside County has a local ordinance that requires the assessor's parcel number (APN) to be included on all recorded documents involving real property.

In Riverside County, the assessor also functions as the county clerk-recorder. All recorded documents are stored on the Assessor-County Clerk-Recorder's (ACR) computer system and are available to the assessor's staff. Each morning, recorded documents from the prior day that relate to the assessor's functions are printed and merged with the corresponding PCOR. The assessor's title unit from the Title and Mapping Division reviews and codes each document by type, and reviews each PCOR for completeness. The sale price reported on the PCOR is verified against the documentary transfer tax noted on the document. Technicians key transfer information into the computer, determine if an exclusion claim form should be sent to the property owner, and conclude if the transfer results in a reappraisable event. Printed documents and PCORs are then routed to the real property division to be assigned to an appraiser for valuation and ultimately filed with the property record.
The following table sets forth the total number of recorded documents received and the total number of reappraisable transfers processed in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RECORDED DOCUMENTS RECEIVED</th>
<th>REAPPRAISABLE TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>123,274</td>
<td>87,218</td>
</tr>
<tr>
<td>2010-11</td>
<td>139,148</td>
<td>87,848</td>
</tr>
<tr>
<td>2009-10</td>
<td>147,150</td>
<td>94,221</td>
</tr>
<tr>
<td>2008-09</td>
<td>N/A</td>
<td>111,041</td>
</tr>
<tr>
<td>2007-08</td>
<td>N/A</td>
<td>109,913</td>
</tr>
</tbody>
</table>

The assessor also discovers potential changes in ownership through change of address requests, field checks by appraisers, and correspondence from transferors, transferees, attorneys, or family members. For subsequent changes in ownership resulting from the death of a property owner, the assessor properly uses the date of death as the event date.

We examined several recorded documents and found that the assessor conducts a proper and thorough review of reappraisable events.

**Penalties**

When a recorded document is received without a PCOR or the PCOR is incomplete, a technician sends a BOE-502-AH, *Change in Ownership Statement* (COS), to the property owner. The property owner is given 45 days to respond to this request. If the COS has not been returned within 45 days, a penalty is applied and a second COS is sent, along with a *Notice of Penalty Assessment* letter advising the property owner of the penalty abatement process. The Riverside County Board of Supervisors adopted Resolution No. 2000-259, pursuant to section 483(b), which allows for the assessor to automatically abate section 482 penalties if the assessee files the COS with the assessor no later than 60 days from the date the assessee was notified of the penalty. We found no problems with the assessor's penalty process.

**Transfer Lists**

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The transfer list is available to the public on computer terminals in the lobby of the assessor's office. As required by section 408.1(b), the assessor divides the transfer list into geographical areas by APN, and updates the list on a daily basis as transfers are enrolled. Pursuant to section 408.1(c), the transfer list contains the APN, address of the property, date of recording, recording reference number, and consideration paid. Although the assessor meets most of the requirements of sections 408.1(c), there is required information that is not included on the transfer list.

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7 Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended section 482(a) from 45 days to 90 days to allow property owners to return a completed COS when requested by the assessor before penalties are applicable.
RECOMMENDATION 3: Include all required information on the two-year transfer list pursuant to section 408.1(c).

Although the assessor's two-year transfer list contains the 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 or transferee.

Section 408.1(c) sets forth the specific items of information that must be included on the two-year transfer list. Without including all of the 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 section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, Statement of Change in Control and Ownership of Legal Entities. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

Monthly LEOP reports from the BOE are reviewed by the title unit of the Title and Mapping Division to determine the effective date and the change(s) that occurred. The title unit identifies all real property held by the entity within the county by conducting a name search to discover any parcels affected by the change. In addition, the title unit conducts a search on all other

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8 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.
entities listed in the LEOP report by company name to determine if any of these entities own property located in Riverside County. Once the real property parcels have been identified and the change in control or ownership has been determined to be a reappraisable event, the information is forwarded to the appraisal section for valuation.

The assessor also discovers potential changes in control or ownership of legal entities through business property statements, newspapers, and building permits. Our review of several records showed the assessor reviews the LEOP reports and identifies properties owned by the legal entities having undergone a change in control or ownership as shown on the BOE-100-B filings. When the assessor discovers that a BOE-100-B has been filed late, an appropriate late-filing penalty is imposed. While we found that most changes in control or ownership of legal entities had been handled properly, we did find an area in need of improvement.

RECOMMENDATION 4: Reassess all properties owned by legal entities that have undergone a change in control or ownership.

We found a number of properties owned by legal entities having undergone a change in control that had not been reassessed, even though the assessor had been notified of the change through the BOE's LEOP program.

Section 64(c)(1) provides that when a legal entity acquires controlling interest of another legal entity by obtaining more than 50 percent of the voting stock or a majority ownership interest in that legal entity, there is a change in ownership of the real property owned by the legal entity being acquired. By not reassessing properties owned by legal entities identified as having undergone a change in control or ownership, the assessor may be enrolling incorrect assessments for those properties.

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 section 63.1 exclusions are available to the public at the assessor's office and on the assessor's website. The following table represents the number of section 63.1 claims granted in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SECTION 63.1 CLAIMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1,704</td>
</tr>
<tr>
<td>2010</td>
<td>2,280</td>
</tr>
<tr>
<td>2009</td>
<td>3,084</td>
</tr>
<tr>
<td>2008</td>
<td>3,926</td>
</tr>
</tbody>
</table>

Fluctuation in the number of claims over the past few years may be a result of changing market conditions. In recent years, there are more instances where current market value is lower than the base year value to be transferred and it is not advantageous to file a claim. Technicians from the title unit review all section 63.1 applications and determine if the exclusion will be accepted or denied. The property owner is notified when a claim is accepted or denied.

The assessor is proactive regarding public awareness of potential change in ownership exclusions. If a PCOR or COS indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, a technician sends a claim form and cover letter to the property owner advising them of a possible exclusion from reassessment. The technician will then hold the transfer document until a completed claim form is returned by the property owner or until 30 days have elapsed. Once a claim form is received or the time has elapsed, the information is sent to the appraisal section to apply the exclusion or reappraise the property.

The assessor 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 assessor receives a *Report of Transferors Exceeding $1,000,000* from the BOE, the title unit ensures the dates are correct, reviews the total value of the transfers, disallows exclusions made after the limit has been exceeded, and notifies appraisers of any reappraisable percentage. If necessary, contact is made with other counties to determine which property to exclude and which to reappraise.

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

We reviewed several section 63.1 claim forms and found them to be properly handled.

**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.

Riverside County does not accept base year value transfers from other counties. Section 69.5 information and applications are available to the public at the assessor's office and on the assessor's website. The following table represents the number of section 69.5 claims granted in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SECTION 69.5 CLAIMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>12</td>
</tr>
<tr>
<td>2010</td>
<td>27</td>
</tr>
<tr>
<td>2009</td>
<td>42</td>
</tr>
<tr>
<td>2008</td>
<td>144</td>
</tr>
</tbody>
</table>

If a PCOR or COS indicates a transfer may involve a base year value exclusion, a technician sends the property owner a claim form. Submitted claim forms are sent to the appropriate appraiser, who determines the fair market value of both the replacement and original properties, computes the value comparison of the replacement property as needed, and determines if a section 69.5 claim will be granted. The property owner is notified when a claim is accepted or denied.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. When the assessor receives a quarterly *Duplicate SSN Report* from the BOE, it is reviewed to determine if a claim has been duplicated within the county, if a claim may have been made previously in another county, or if a claim may qualify for a second section 69.5 exclusion due to a severe and permanent disability.

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

We reviewed several section 69.5 claim forms and found them to be properly handled.

**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 reported sale price reflects market value. The sale price is not automatically enrolled and may be overridden when data is available to rebut the presumption stated in Rule 2.
An in-house database of residential and commercial sales is kept in the assessor's computer system and is updated daily as sales are enrolled. Residential properties having experienced a change in ownership are valued using the comparative sales approach or cost approach, and the income approach is also considered when valuing commercial and industrial properties. For partial interest transfers, the reappraisable portion is valued at market value and added to the factored base year value of the non-reappraisable portion. The partial interest is given a separate base year value and the correct inflation factor is applied. Market value conclusions are documented on the appraisal record. Any supporting documents are placed in the paper file. Field inspections are conducted at the appraiser's discretion and judgment.

Our review of several files indicates the assessor properly values changes in ownership and correctly processes supplemental assessments.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraiser involvement. Riverside County has a direct enrollment program for residential properties, which includes single-family dwellings and condominium projects. To qualify as a direct enrollment, the transfer must be coded with a use code that indicates one of the residential property types previously listed, and the transfer must involve a 100 percent change in ownership of the property.

Reappraisable transfers meeting the criteria are run through the direct enrollment system. Summary sheets are printed and given to the appropriate senior appraiser for review. The appraiser reviews the summary sheet, confirms the use code and property characteristics, and determines if the sale price is within acceptable market range. Appraisers do not make any comments or enter any valuation decisions on the appraisal record. Once the review is complete, the appraiser routes the reappraisable transfers that are acceptable for direct enrollment to the supervising appraiser. If the appraiser's review cannot be completed quickly, indicates more research is needed, or if the sale price falls outside of the acceptable market range, the appraiser rejects the reappraisable transfer for direct enrollment and performs a manual valuation instead.

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 and 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. The 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 Riverside County, the assessor presumes that the value of the improvements financed by the bonds is reflected in the purchase price paid for the property exclusive of the bond amount and, therefore, does not add the bond indebtedness to the purchase price. This is consistent with the requirements of section 110(b). We found no problems with the assessor's 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.


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**

The assessor has written procedures, policies, and forms governing the assessment of new construction. Building permits are the primary means of discovering new construction activity. Currently, the assessor receives building permits from 29 permit-issuing agencies. Another method used to discover new construction is field canvassing.

The following table shows the total 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>2011-12</td>
<td>13,277</td>
<td>5,486</td>
</tr>
<tr>
<td>2010-11</td>
<td>11,862</td>
<td>6,182</td>
</tr>
<tr>
<td>2009-10</td>
<td>14,718</td>
<td>9,006</td>
</tr>
<tr>
<td>2008-09</td>
<td>28,327</td>
<td>15,422</td>
</tr>
<tr>
<td>2007-08</td>
<td>44,236</td>
<td>15,508</td>
</tr>
</tbody>
</table>
Permit Processing

The assessor receives building permits and plans from the various permit issuing agencies via email, CD, or hard copy format, depending on the agency. Some permit-issuing agencies provide online access for appraisers to review final dates and other permit information.

The assessor's clerical staff is responsible for screening the permits to determine if the permit indicates assessable new construction. When the clerk receives the permits from the various agencies, they are reviewed and coded according to activity type. Only permits indicating assessable new construction are forwarded to the appropriate district office for review and valuation by an appraiser. The clerical staff sends cost questionnaires to property owners for permits indicating assessable new construction. Permits issued for maintenance, replacement, or repairs, which generally do not add value, are entered into the computer system for tracking purposes, but are not sent to the appraisal staff. All permit activity is tracked in the assessor's computer system, allowing appraisers to keep track of their outstanding permits to be worked.

Construction In Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For CIP, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP 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 found no problems with the valuation of CIP.

Valuation

The appraiser determines the completion status of new construction through direct contact with the building department, cost questionnaires from property owners, on-site inspections, or from the recorded date of occupancy. Appraisers rely primarily on the cost and comparative sales approaches when valuing residential new construction. For commercial or industrial properties, appraisers utilize the cost, comparative sales, and income approaches. The assessor uses a variety of sources to develop a cost indicator of value for new construction, including Assessors' Handbook Section 531, Residential Building Costs (AH 531), Assessors' Handbook Section 534, Rural Building Costs (AH 534), the owner's reported costs, cost surveys conducted by the assessor's office, and Marshall Valuation Service for commercial and industrial properties. It is the assessor's practice to allow the appraiser to determine which items of new construction require a field inspection.

We found areas in need of improvement for the assessor's new construction program.
RECOMMENDATION 5: Improve the new construction program by: (1) obtaining copies of permits from the environmental health department, and (2) issuing supplemental assessments when the construction of trellising and the installation of irrigation systems are completed.

Obtain copies of permits from the environmental health department.

The assessor does not receive copies of permits issued by the Riverside County Department of Environmental Health. This agency issues permits for underground storage tanks, water wells, and septic systems.

Section 72 requires county or city agencies to furnish copies of building permits to the assessor. To ensure the assessor discovers all qualifying new construction, a copy of every approved building permit must be received. Well and septic system permits can sometimes indicate further development and assist the assessor in discovering new construction that might otherwise go undetected. By not obtaining these permits from the environmental health department, the assessor may be missing potential new construction, which may result in escape assessments.

Issue supplemental assessments when the construction of trellising and the installation of irrigation systems are completed.

We found instances where the assessor did not issue supplemental assessments when the construction of trellising and the installation of irrigation systems were completed.

Section 75.14 provides that property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessments. Nonliving improvements on unrestricted land, such as trellising and irrigation systems, are subject to the assessment limitations of article XIII A of the California Constitution. Therefore, at the completion of the construction of the trellising and the installation of the irrigation system, the new construction is subject to supplemental assessment. The assessor's practice is contrary to the requirements of law and results in a loss of tax revenue.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.
The following table shows the number of decline-in-value assessments in Riverside County in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>414,528</td>
</tr>
<tr>
<td>2010-11</td>
<td>424,506</td>
</tr>
<tr>
<td>2009-10</td>
<td>384,289</td>
</tr>
<tr>
<td>2008-09</td>
<td>200,190</td>
</tr>
<tr>
<td>2007-08</td>
<td>31,333</td>
</tr>
</tbody>
</table>

Due to unfavorable economic conditions, Riverside County has experienced a notable decline in property values. Consequently, there has been a significant increase in the total number of properties eligible for decline-in-value assessment. While most recently the number of decline-in-value assessments has shown a decrease from the prior year, the overall number of decline-in-value assessments has dramatically increased over the last four years, going from 31,333 for the 2007-08 year to 414,528 for the 2011-12 year. These numbers represent a major workload increase for the assessor and his staff.

Discovery and valuation of properties with declines in value are high priority for the assessor. The assessor has been proactive in discovering and adjusting the assessments of properties affected by declines in value. Appraisers familiar with market conditions in their assigned geographic areas identify properties potentially impacted by declines in value. Taxpayer requests for review and assessment appeals also trigger reviews for potential declines in value of nearby properties.

Since our prior survey, the assessor has implemented a computer program for declines in value to assist in the review of all residential properties purchased between January 1, 1999 and December 31, 2010, in addition to the annual review of all other properties already in a decline-in-value status. Utilizing computer automation and local housing market data, the computer system generates a list of comparable sales for a given subject property and determines which sales are most similar to the subject property. Comparable properties are determined by a weighted coding system based on square footage of the property, improvement characteristics, lot size, use code, age, quality class, geographical area, sale price, and date of sale. A computer program was also developed to analyze declines in value for manufactured homes, which is discussed further in the manufactured homes topic of this survey report. Commercial, agricultural, rural, multi-family, and timeshare properties are reviewed manually.

On June 14, 2011, the Riverside County Board of Supervisors adopted Resolution No. 2011-124, authorizing the assessor to use the county website to provide value notices pursuant to section 621. A value notice is posted on the assessor's website for a property owner when the assessed value has been temporarily reduced due to a decline-in-value, when a reduced value remains unchanged on the roll for the current assessment year, or when the FBYV has been fully or partially restored. The value notice includes a statement of the assessment appeals filing
period, a notification of hearings by the county board of equalization, and the FBYV of the property as required by section 619.

The assessor properly reviews and adjusts properties experiencing a decline in value pursuant to section 51. Each decline-in-value assessment is coded to prevent the assessor's computer program from automatically applying the annual inflation factor to the prior year's taxable value and to ensure that the decline-in-value assessment will be annually reviewed.

Overall, the assessor's declines in value program is effective and well administered. 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 2011-12 roll year, Riverside County had 2,042 parcels encumbered by CLCA contracts, totaling 63,159 acres with a total assessed value for restricted land and living improvements of approximately $241 million. Riverside County does not have any parcels under Farmland Security Zone (FSZ) contracts, which are a more restrictive contract providing greater valuation benefits than CLCA contracts, nor have they adopted section 423.3, which allows for CLCA property to be enrolled at a specified percentage of the base year value. There were 171 contracts in nonrenewal status and three contracts that have been cancelled. Our review of both nonrenewal and cancellation assessments found that the assessor is in compliance with statutory provisions and recommended practices.

Most of the rural property in Riverside County consists of desert land. Those areas where agricultural land is available are used for nursery stock production, vineyards, dairies, irrigated vegetable crops, and livestock production. The top commodity in the county for 2010 was nursery stock, followed by milk, table grapes, bell peppers, and eggs. Riverside County reported approximately $1.1 billion in gross production value of agricultural commodities in 2010, which was an increase of approximately 8 percent from the 2009 production value. The increased agricultural revenue can be mostly attributed to higher production and prices for livestock and poultry, milk, and bell pepper crops.
The assessor utilizes an automated computer system to value restricted properties in the county. One appraiser is responsible for entering the final production, price, and expense figures into the computer system. The appraiser collects income and expense data for the crop types grown in the county from a variety of sources, including returned CLCA questionnaires, the annual crop and crush reports, communication with farm managers and operators, and input from appraisal staff. CLCA questionnaires are sent to property owners on an annual basis. We found that restricted values are determined using the correct capitalization rate, which includes components for property taxes and risk. The assessor is correctly calculating the values for living improvements.

The assessor correctly treats homesites and related homesite improvements as separate appraisal units when reviewing for declines in value and enrolls the lower of factored base year value or current market value. Homesites are correctly valued in accordance with section 428.

The assessor properly issues supplemental assessments on unrestricted portions of CLCA properties that experience changes in ownership and for any completed new construction. Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land or living improvements.

We reviewed several CLCA properties and found the assessor's procedures comply with most applicable statutes; however, we found one area where improvement is needed.

**RECOMMENDATION 6:** Improve the valuation of CLCA properties by valuing compatible commercial use sites utilizing an economic rent.

We found that the assessor values restricted land devoted to compatible uses of a commercial nature by capitalizing by an agricultural land rent.

In accordance with Government Code sections 51238.1, 51238.2, and 51238.3, the assessor must assume that any use allowed by a contract approved by the county/city administration is a compatible use. Riverside County's CLCA contracts permit facilities for the processing of food, feed, fiber, fertilizer, and other similar activities as a compatible use. Other allowed compatible uses include agricultural commercial sales and commercial agricultural storage facilities.

If a portion of a restricted property is used for a permitted compatible use other than agriculture, such as a cold storage facility or a dairy, the assessor must value such land by capitalizing the economic rent applicable to the commercial compatible use using the open-space capitalization rate. The estimate of the economic rent can be made either by using actual rents of comparable commercial sites or by multiplying the market value of comparable commercial land by a market-derived capitalization rate. The assessor should not capitalize compatible use income using an economic rent based on agricultural use.

The assessor's practice of using agricultural land rents to value permitted compatible commercial use sites may have resulted in underassessments.
**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.

The assessor enrolled 11,087 taxable possessory interests for the 2011-12 roll year, with a total assessed value of $3,065,649,831. The majority of taxable possessory interests being assessed in Riverside County are privately held interests at publicly owned airports or on Indian lands. Other types of taxable possessory interests in Riverside County include concessionaires at the county fairgrounds, cabins on United States Forest Service (USFS) lands, marinas, cable television franchises, California Department of Transportation (CalTrans) properties, and employee housing.

The assessor annually requests information from 167 government agencies and tax exempt entities. A supervising appraiser is assigned to the assessment of taxable possessory interests involving government agencies. The assessment of taxable possessory interests on Indian lands is distributed among several real property appraisers, who are stationed in some of the outlying district offices.

In accordance with section 155.20, Riverside County adopted and approved Resolution No. 2004-422, which allows for the exemption of all possessory interests on the unsecured assessment roll with a full cash value of $5,000 or less and all possessory interests for temporary and transitory uses in a publicly owned fairground, convention facility, or cultural facility with a full cash value of $50,000 or less.

Overall, the assessor has an efficient program for discovering and enrolling taxable possessory interests. However, our review revealed areas where improvements are needed.

**RECOMMENDATION 7:** Improve the taxable possessory interest program by periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

We reviewed several taxable possessory interests with stated terms of possession. We found several instances where taxable possessory interests were not adjusted for declines in value. Instead, the assessor enrolled the factored base year value each year until either a change in ownership occurred or a review took place due to an assessment appeal.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."
Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

**Leasehold Improvements**

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

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over 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 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**

The primary discovery tools for leasehold improvements are reviewing BPSs and building permits. Other methods of discovery include audits of business records, field observations, and reviewing leases, rent rolls, newspapers, and the Internet.

When the business property division discovers leasehold improvements on a BPS, the business account is logged into a referral log and a Real Property/Business Division Communiqué is sent to the real property division, along with a copy of Schedule B of the BPS. The referral log allows
for the communication between the business property and real property divisions in an effort to avoid escapes or double assessments of leasehold improvements.

Valuation

We reviewed several BPSs, as well as several real property records, and found that the assessor has an effective program in place for identifying and assessing leasehold improvements. However, we found an area in need of improvement.

**RECOMMENDATION 8:** Improve the leasehold improvement program by properly valuing structural improvements reported on the BPS.

We found instances where the assessor applied business equipment depreciation schedules to structural improvements that were reported in column 1 of Schedule B of the BPS.

Costs reported in column 1 of Schedule B of the BPS are for structural improvements made by the tenant or lessee. Structural improvements, whether paid for by the tenant or the landlord, should be assessed in the same manner as other real property. A base year value should be established and factored each subsequent roll year by the annually-determined inflation factor in accordance with article XIII A.

**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 in Riverside County. There is no active petroleum production in Riverside County.

**Mining Property**

There are over 30 mineral properties located in Riverside County. These properties are appraised by a supervising appraiser. We found areas in need of improvement.

**RECOMMENDATION 9:** Improve the mining property program by: (1) measuring declines in value for mineral properties using the entire appraisal unit as required by Rule 469, and (2) treating settling ponds as a separate appraisal unit.

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

Riverside County uses the royalty method to appraise mineral properties. The royalty method capitalizes the payments made to the mineral right owner to estimate the value of the leasehold
mineral interest. We found that the value of the land, improvements, and reserves determined by the real property division is not coordinated with the values of the improvements and fixtures determined by the business property division when reviewing mineral properties for a possible decline in value. The assessor erroneously measures the decline in value of the leasehold mineral interest separately from the decline in value of the other components of the mineral property unit.

Under article XIII A, all real property receives a base year value and, on each lien date, the taxable value of the real property unit should be the lesser of its adjusted base year value or current market value. Section 105 defines fixtures as a type of improvement and, hence, as real property.

For most properties, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value. Mineral properties, however, are treated differently. Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land, improvements including fixtures, and reserves. The assessor should use this unit for the purpose of measuring a possible decline in value.

Failure to properly determine the decline in value of a mineral property using the entire mineral property appraisal unit could result in an underassessment of the fixtures and equipment or an overassessment of the mineral rights.

**Treat settling ponds as a separate appraisal unit.**

We found that the assessor does not determine a separate base year value for settling ponds on mineral properties in Riverside County.

Most mining operations will include some area designated as a location for waste material produced by the mining operation. These settling ponds and tailings facilities are typically used to collect water used for washing the gravel to provide a clean product that meets customer's specifications and needs. The wash water is then collected to allow the small particulate matter to settle before the water is recycled. Site inspections, use permit application reviews, or reviews of satellite photos of the mineral property can easily determine the existence of these settling ponds. An acceptable method to value these components would be the following: (1) determine the cost to construct the improvement and establish a base year value, and (2) each year thereafter, value each settling pond based upon the remaining capacity of the improvement to dispose of waste material.

Section 53.5 provides that the assessor shall establish a base year value for each settling pond, leach pad, and tailing facility, and that each settling pond, leach pad, and tailing facility shall be considered a separate appraisal unit for purposes of determining its taxable value on each lien date subsequent to the lien date upon which the initial base year value was determined.

The assessor's failure to treat settling ponds as a separate appraisal unit is contrary to statute and may result in incorrect assessments.
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we review the assessor's audit, business property statement, business equipment valuation, manufactured homes, aircraft, and vessels programs.

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 the assessor 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 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.
The following table shows the assessor's 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>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits Scheduled</td>
<td>283</td>
<td>283</td>
<td>533</td>
<td>473</td>
</tr>
<tr>
<td>Audits Carried Over from Prior Year</td>
<td>0</td>
<td>0</td>
<td>41</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total Audit Workload</strong></td>
<td><strong>283</strong></td>
<td><strong>283</strong></td>
<td><strong>574</strong></td>
<td><strong>482</strong></td>
</tr>
<tr>
<td>Audits Completed</td>
<td>283</td>
<td>283</td>
<td>346</td>
<td>441</td>
</tr>
<tr>
<td>Audits Carried Forward</td>
<td>0</td>
<td>0</td>
<td><strong>228</strong></td>
<td><strong>41</strong></td>
</tr>
</tbody>
</table>

In Riverside County, conducting audits is the responsibility of a principal deputy assessor, two supervising auditor-appraisers, three senior auditor-appraisers, and five auditor-appraisers.

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 to complete 283 audits per year. The assessor completed 283 audits for the 2009-10 roll year and 283 for the 2010-11 roll year. Given recent and current audit production levels, the assessor has met the minimum number of audits required as defined by section 469.

**Statute of Limitations**

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

As a rule, the assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. We reviewed a number of audits, as well as the assessor's policy and procedures, for enforcement of section 532 and 532.1, and found that the assessor 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 performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress,
accounts for supplies, properly classifies equipment, and performs assessment roll changes to reflect audit findings. We found the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. However, we found one area where improvement is needed.

**RECOMMENDATION 10:** Document when a situs inspection is performed as part of a standard component of the audit process.

We found several audits that did not include documentation on the audit checklist that a situs inspection had been performed by the auditor. A situs inspection is an essential aspect of any complete audit. It should be standard procedure, especially for audits involving large commercial and industrial operations or in situations involving excess capacity, functional obsolescence, idle plants, and other unusual circumstances. A physical inspection is a fundamental component of the audit process and can be a pivotal step in reaching an informed value conclusion.

While it may be the assessor's policy to perform a situs inspection as part of the audit process, it is not always clearly noted in the file that a situs inspection was performed. By not documenting the situs inspection on the audit checklist, or notating a valid reason as to why a situs inspection was not performed, it is not clear whether a situs inspection was included as part of the audit process, which could compromise the audit findings and whether those findings were sufficiently supported.

**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 secured and unsecured business property assessments for the 2011-12 roll year:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>SECURED</th>
<th>UNSECURED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NO.</td>
<td>ASSESSED VALUE</td>
<td>NO.</td>
</tr>
<tr>
<td>General Business</td>
<td>37,388</td>
<td>$44,399,930,368</td>
<td>17,589</td>
</tr>
<tr>
<td>Agricultural</td>
<td>17,395</td>
<td>$5,088,518,596</td>
<td>210</td>
</tr>
<tr>
<td>Apartments</td>
<td>4,870</td>
<td>$7,126,384,146</td>
<td>86</td>
</tr>
<tr>
<td>Service Station</td>
<td>0</td>
<td>$0</td>
<td>275</td>
</tr>
<tr>
<td>Financial</td>
<td>0</td>
<td>$0</td>
<td>529</td>
</tr>
<tr>
<td>Leased Equipment/Misc.</td>
<td>0</td>
<td>$0</td>
<td>6,057</td>
</tr>
<tr>
<td>Direct Billing</td>
<td>0</td>
<td>$0</td>
<td>3,288</td>
</tr>
</tbody>
</table>

General Statement Processing

An assessor-clerk-recorder (ACR) technician performs an initial review of the BPSs for completeness and the inclusion of an authorized signature. Incomplete BPSs and statements submitted without an authorized signature are returned to the property owner, along with a letter indicating the reason for rejection of the BPS. Completed BPSs are date stamped and submission dates are entered into the mainframe to reflect timely submission. The computer system automatically applies a section 463 penalty to all accounts where the BPS was either not submitted or submitted subsequent to the statutory deadline of May 7.

Discovery

In addition to taxpayer self-reporting and periodic field canvassing, the assessor reviews city and county business licenses, fictitious business name filings, business directory services, real property appraiser referrals, landlord reports of tenants, and BOE notifications. We found that the assessor employs a sufficiently diversified program for discovering business personal property.

Direct Billing

Many assessors utilize an assessment procedure known as "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 that value 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 the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff thereby increasing time available for the auditor-appraisers to perform other required duties.

In Riverside County, there were 3,288 direct billing accounts for the 2011-12 roll year. The assessor's program is well regulated and appropriate controls are in place to reduce the chance of escape assessments by ensuring only well-suited business accounts are included in the program. The assessor requires businesses participating in the direct billing program to file a BPS every four years in order to update taxable equipment information.

**Findings**

We reviewed all major aspects of the assessor's BPS program, including processing procedures and use of Board-prescribed forms. In addition, we reviewed several recently processed BPSs. We found that the assessor is properly processing BPSs and we have no recommendations for this program.

**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).

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The indices and factors parallel those published in AH 581 with the exception of specific types of equipment (such as pagers, facsimile equipment, and high tech medical equipment), which the CAA recommends should not be trended. We reviewed the assessor's valuation tables and a number of processed BPSs. Observed valuation calculations enrolled by the assessor indicate both consistent and appropriate application of Board-recommended tables.

The assessor classifies business property accounts by industry type. Standard equipment lives are assigned to each industry type. Appraisal personnel are given latitude to adjust default valuation tables to accommodate the individual business environments and characteristics of the property being appraised. We reviewed the written procedures and standardized valuation policies related to business equipment valuation and found them to be adequately compiled and sufficiently detailed.

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed...
The assessor pro-rates reported machinery and equipment to fixtures and personal property based upon standardized ratios included in the assessor's *Business Use Code and Equipment Guide*. We reviewed a number of valuation calculations and found no problems with either fixture allocations or classification determinations between fixtures and personal property upon enrollment.

We have no recommendations for the business equipment valuation program.

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.

Riverside County had 65,423 manufactured homes enrolled for the 2011-12 roll year, with a total roll value of $3,712,558,535. There are 346 mobilehome parks in Riverside County, four of which are resident-owned parks.

The assessor classifies manufactured homes as personal property and enrolls them on the secured roll. Flat rate special assessments and ad valorem bonds are properly excluded. All manufactured homes are identified with a use code that begins with the letter "M." Manufactured homes located in rental parks or on leased land are assigned assessment numbers that begin with "0097."

The assessor discovers assessable manufactured homes through receipt of information from the Department of Housing and Community Development (HCD), dealer reports of sale, building permits, annual reports of transferred spaces from resident-owned parks, correspondence from the public, and field canvassing.

The assessor's Manufactured Homes Division has the responsibility of appraising all manufactured homes, except those located on parcels of ten acres or more. A manufactured home located on a parcel of ten acres or more is coded and assessed as part of an agricultural parcel. If the home is situated on an approved permanent foundation system, it is reclassified as real property and assigned to the real property appraiser responsible for assessments in that geographic location.

The assessor uses the CD-ROM version of the National Automobile Dealers Association *Manufactured Housing Cost Guide* (NADA) to determine the full cash value of a manufactured home on rented or leased land. We found that the assessor consistently uses the correct edition of NADA when establishing new base year values. In addition, the assessor takes into consideration the condition of the manufactured home and includes value for accessories, such as awnings, porches, and skirting, as part of the valuation process.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. Although not required to do so, the assessor annually reviews all
manufactured home assessments in order to identify possible declines in value. The assessor reviewed cost manuals, value guides, and sale prices to determine that manufactured homes had declined in value. Additionally, the assessor uses an in-house depreciation schedule that is based on a two-year study of local area conditions and market behavior for sale prices of manufactured homes. The current market value determined for each manufactured home is compared to its factored base year value, and the lower of the two values is enrolled.

We reviewed a number of manufactured home assessments, including transfers and new installations of manufactured homes. Overall, the assessor has an effective program for the assessment of manufactured homes. Discovery procedures are good, and new construction and accessories are assessed properly.

We discovered an area in which the manufactured homes program needs improvement.

**RECOMMENDATION 11:** Value residents' interests in resident-owned mobilehome parks.

We found that when a manufactured home is purchased in a resident-owned mobilehome park, the assessor correctly calculates the value of the manufactured home using NADA and enrolls that value as the current market value of the manufactured home. However, the assessor does not recognize the resident's underlying interest in the park.

Section 62.1(a)(1) excludes from a change in ownership a transfer of a park to an entity formed by the tenants of the park, and requires that the tenants who were renting at least 51 percent of the spaces in the park prior to the transfer participate in the transaction through the cumulative ownership of at least 51 percent of the voting stock, or other ownership or membership interests, of the entity which acquires the park. Generally, once a transfer of a park has been excluded from a change in ownership pursuant to one of the provisions of section 62.1, subsequent transfers of individual ownership interests are not excluded from change in ownership and are subject to reappraisal. However, section 62.1(b)(1) provides that subsequent transfers of ownership interests in the park that were previously excluded by section 62.1(a)(1) are a change in ownership of "a pro rata portion of the real property of the park."

Section 62.1(b)(2) defines "pro rata portion of the real property" as the total real property of the park, multiplied by the fractional interest in the park that is conveyed by the transferred share of stock or other ownership interest.

Typically, a resident-owned park is acquired by a non-profit corporation formed by the former tenants. Subsequent purchasers pay an established price for a share in a corporation, where each share gives its holder the right to occupy a specific space in the park. A share in the corporation may be transferred only in combination with the purchase of a mobilehome. The purchase price for a share may represent consideration for both the mobilehome and the fractional interest in the corporation. In addition, the purchase price may cover a special assessment for infrastructure in the park.

The assessor's current practice of enrolling only the value of the manufactured home and not enrolling a value for the resident's interest in the park may cause the assessor to enroll incorrect assessments.
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 assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the Aircraft Bluebook-Price Digest (Bluebook) as the primary guide for valuing aircraft with the Vref Aircraft Value Reference (Vref) as an alternative guide for aircraft not listed in the Bluebook.

The following table provides a breakdown of aircraft in Riverside County during the surveyed year:

<table>
<thead>
<tr>
<th>AIRCRAFT TYPE</th>
<th>ASSESSMENTS</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Aircraft</td>
<td>1,359</td>
<td>$183,442,014</td>
</tr>
<tr>
<td>Commercial Aircraft and Fractionally Owned Aircraft</td>
<td>58</td>
<td>$86,023,716</td>
</tr>
<tr>
<td>Historical Aircraft</td>
<td>219</td>
<td>$14,939,480</td>
</tr>
<tr>
<td>Total Aircraft</td>
<td>1,636</td>
<td>$284,405,210</td>
</tr>
</tbody>
</table>

The assessor discovers aircraft through airport operators' reports, referrals from other counties, BOE sales tax inquiries, section 469 audits, and Federal Aviation Administration (FAA) reports.

Each year, the assessor mails BOE-577, Aircraft Property Statement, requesting current information from the known owner of each aircraft in the county. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The aircraft statement indicates a filing due date of April 1, and contains penalty language pursuant to section 5367. The assessor primarily uses the computerized version of Bluebook to value aircraft. Bluebook values are adjusted for average condition, engine hours, added equipment, and sales tax.

We reviewed several general aircraft records for valuation methodology, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found that the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines set forth in Assessors' Handbook Section 577, Assessment of General Aircraft (AH 577), and Letter To Assessors 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. Riverside County does not serve as a lead county to any fractionally owned fleets.

We reviewed several fractionally owned aircraft files and the assessor's procedures for the valuation of fractionally owned aircraft. We found that allocated values were 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.

A senior auditor-appraiser is responsible for certificated aircraft appraisal functions. The senior auditor-appraiser reviews the business property statements and calculates the taxable value for each aircraft according to the certificated aircraft allocation formula pursuant to section 1152 and Rule 202. Riverside County is not a lead county for certificated aircraft.

We reviewed the assessor's certificated aircraft appraisal procedures and a sample of processed air carrier business property statements. We have no recommendations for certificated aircraft.

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 2011-12 roll year, there were 219 historical aircraft with a total value of $14,939,480.

We reviewed several historical aircraft assessments and exemption claims. We found the assessor properly granted the exemption when legal requirements were met. The assessor properly obtained signed affidavits in Board-prescribed format and certification of attendance pursuant to section 220.5. We also confirmed that the assessor properly allowed only partial exemptions when merited in accordance with section 276.5.

**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.

It is the responsibility of two assessor-clerk-recorder (ACR) technicians and an auditor-appraiser to process vessel property statements and perform vessel assessment duties. Any vessel property statement valued by an ACR technician is reviewed by a supervising auditor-appraiser. In Riverside County, the assessor's primary sources of discovery are DMV reports, field inspections, referrals from other counties, and information from vessel owners themselves.

The following table sets forth the vessel assessment data in 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>2011-12</td>
<td>7,157</td>
<td>$86,827,901</td>
<td>9</td>
<td>$706,813</td>
</tr>
<tr>
<td>2010-11</td>
<td>7,369</td>
<td>$84,044,495</td>
<td>12</td>
<td>$677,779</td>
</tr>
<tr>
<td>2009-10</td>
<td>8,326</td>
<td>$111,718,087</td>
<td>15</td>
<td>$896,630</td>
</tr>
<tr>
<td>2008-09</td>
<td>8,654</td>
<td>$123,455,114</td>
<td>14</td>
<td>$899,263</td>
</tr>
<tr>
<td>2007-08</td>
<td>8,998</td>
<td>$138,928,172</td>
<td>22</td>
<td>$1,856,474</td>
</tr>
</tbody>
</table>

The assessor primarily uses the *ABOS Marine Blue Book* and, if needed, the National Automobile Dealers Association *Marine Appraisal Guide* (NADA) to value vessels. If current or reliable information is not available in one of the published value guides, the assessor uses the values of similar vessels from the Internet (websites such as YachtWorld.com, iboats.com, and
Soldboats.com) to obtain current, comparable sales data. For vessels not new to the county, values are derived using the BOE annual vessel valuation factors.

The assessor sends BOE-576-D, *Vessel Property Statement*, to the registered owners of all new vessels in the county, as well as vessels that have changed ownership. In a sample of vessel property statements reviewed, we found that appropriate valuation methods were employed, including adding sales tax and delivery charges when using one of the value guides. Adjustments for condition and additional equipment were also made. Values for the samples reviewed were found to be reasonable. We have no recommendations for the vessels program.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Riverside County

Chief
Dean Kinnee

Survey Program Director:
Mike Harris Manager, Property Taxes

Survey Team Supervisor:
David Dodson Supervisor, Property Taxes

Survey Team Leader:
Glenn Danley Senior Specialist Property Appraiser

Survey Team:
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Mike Ash Associate Property Appraiser
Michael Brennan Associate Property Appraiser
Jennifer Prince Associate Property Appraiser
Jeff Arthur Associate Property Auditor-Appraiser
Alan Dannen Associate Property Auditor-Appraiser
Ardeshir Noroozkhani Associate Property Auditor-Appraiser
Hardeep Pannu 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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9 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.

10 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.
5. Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
6. Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.
(7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.

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

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

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.
ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

The Riverside County Assessor's response begins on the next page. The BOE has no comments on the response.
November 20, 2013

Mr. Dean R. Kinnee, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

Re: Response to Riverside County Assessment Practices Survey – 2011/2012

Dear Mr. Kinnee,


The Board of Equalization’s survey program provides oversight of the assessor’s overall business practices and procedures and is vital to ensuring public confidence and integrity in the property assessment process. We would like to commend the Board’s Survey Team headed by David Dodson for their professionalism and consideration during this survey process. We welcome the objective review of our office and while we disagree with a few of the recommendations we believe that the results of the survey will have a positive impact on a number of our business practices.

During the past several years Riverside County has been at the center of the housing crisis. Only through hard work, innovation and dedication by every member of the staff have we been able to complete the assessment roll in a timely and accurate manner. In the very near future and with the collaboration of the Tax Collector and Auditor we plan to be up and running with a new property tax system that will replace the existing mainframe platform. In addition to providing the office with an improved valuation and assessment module, it will also address a number of procedural limitations that resulted in recommendations in the current Assessment Practices Survey.

Finally, the survey’s assessment accuracy ratio of 100.02 percent gives credit to the professionalism of the assessor’s staff and clearly demonstrates that the residents of Riverside County are being well served by the Riverside County Assessor’s Office.

Sincerely,

Larry W. Ward
Assessor-County Clerk-Recorder
RIVERSIDE COUNTY
Recommendations and Responses

1. Ensure appraisers meet the annual training requirements in accordance with section 671.

   We agree on the importance of meeting the training requirements of section 671. We have taken measures to ensure that our appraisers meet the annual training requirement. We have been proactive in sending staff to available classes, having them attend seminars and completing on-line SBE courses.

   Because budget constraints have made it difficult to send appraisers to training classes not held locally, we have offered the use of our training room for hosting BOE-conducted courses. For FY 2013-2014, Riverside is hosting four courses (2A, 7, 56, and 120) which should help appraisers with negative training hour balances as well as appraisers who need courses to help them acquire Advanced Certification.

2. Improve the administration of the disabled veterans' exemption by: (1) granting the full disabled veterans' exemption when claims are filed timely, (2) correctly calculating the amount of the exemption to be granted for a late-filed claim on the low-income provision of the disabled veterans' exemption, and (3) granting the disabled veterans' low-income exemption only for those years in which a valid claim has been filed.

   While the majority of claims are processed properly, on some occasions the information received from the Veteran's Administration was confusing or conflicting. We have taken steps to ensure that the proper exemption amount is being granted for the years that a valid claim has been filed. We agree and have amended our process to ensure compliance.

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

   We believe we are in compliance. R&T 408.1 (c) (1) states the list shall include the “Transferor and transferee, if available”. The transferor and transferee information is located on the grantor / grantee index, which is in our Recorder system and available to the public. In order for the transferor and transferee to be listed on the two-year transfer list, a bridge would have to be built between our Recorder system and our property tax mainframe. Since we are in the process of replacing both systems, the time and money required to implement this would not be an efficient use of taxpayer resources. This information will be available within our new property tax system.

4. Reassess all properties owned by legal entities that have undergone a change in control or ownership.

   The assessor will work to improve the LEOP program. The County’s current procedure uses ancillary programs to maintain lists of parcels that have had LEOP transactions worked against them. This problem will be addressed with the implementation of the County of Riverside’s new integrated property tax system. The new system will greatly enhance the tracking and reporting capabilities for the county.
5. **Improve the new construction program by:** (1) obtaining copies of permits from the environmental health department, and (2) issuing supplemental assessments when the construction of trellising and the installation of irrigation systems are completed.

We agree, and will work to improve the new construction program by obtaining permits for underground storage tanks, water wells and septic systems from the Riverside County Environmental Health Department. Construction of trellising and installation of irrigation systems do not require permits. Most trellis and irrigation systems are discovered by response to a *Trees and Vines Questionnaire* or through lien date inspections. In the future, we will pick up the value with the completion date supplied on the *Trees and Vines Questionnaire* or the date of discovery.

6. **Improve the valuation of CLCA properties by valuing compatible commercial use sites utilizing an economic rent.**

We agree and are taking steps to improve valuation of CLCA properties with commercial uses by capitalizing the economic rent applicable to the commercial use, utilizing the open-space capitalization rate.

7. **Improve the taxable possessory interest program by:** (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

We agree with this recommendation and will attempt to review taxable possessory interests for declines in value as our staffing and workload constraints allow. We are continuing to work with our IT section to improve our database that tracks possessory interests and are in development to create a new property tax system that will help us automate the process of annual valuations due to declining terms of possession.

8. **Improve the leasehold improvement program by properly valuing structural improvements reported on the BPS**

We agree in part with this recommendation in that base year values should be established and factored. This aspect of the recommendation will be addressed upon implementation of our new property tax system in 2015. We disagree that these improvements are under assessed. There is strong evidence to suggest that few if any of these assessments have appreciated in value. These type of improvements are primarily tenant improvements subject to brand identity, specific utility, and changing customer tastes and therefore have minimal or no usefulness to the next tenant or are on typical 5-7 year remodeling/rebranding cycles thus making an increase in value unlikely. In addition, businesses leasing space will typically grow out of their space, move to a more favorable location, or downsize within a few years. Due to the non-permanent nature of the landlord/tenant arrangement and a constantly changing business environment, the life expectancy of these improvements is far shorter than a typical commercial building shell, thus a 15 year economic life is reasonable.

9. **Improve the mining property program by:** (1) measuring declines in value for mineral properties using the entire appraisal unit as required by Rule 469, and (2) treating settling ponds as a separate appraisal unit.
We agree and have created a questionnaire for the taxpayer that will allow us to extract the value of the settling ponds from the economic unit in the future.

10. **Document that situs inspections are included as a standard component of the audit process.**

   We agree the situs inspection is a standard component of the audit process, and will improve our documentation by notating why a situs inspection may be unnecessary on a particular assessment.

11. **Value residents' interests in resident-owned mobilehome parks.**

    We agree that per SBE guidelines we need to value the fractional interest transfer pertaining to the resident-owned park. We will be developing a sound method by which to accomplish this task and it will be implemented during this fiscal year.