August 31, 2010

TO COUNTY ASSESSORS:

SACRAMENTO COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Sacramento 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 Board 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 Kenneth D. Stieger, Sacramento County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Sacramento County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2008. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure
# TABLE OF CONTENTS

## INTRODUCTION ......................................................................................................................... 1
## SCOPE OF ASSESSMENT PRACTICES SURVEYS ................................................................. 2
## EXECUTIVE SUMMARY ......................................................................................................... 3
## OVERVIEW OF SACRAMENTO COUNTY .............................................................................. 5
## ADMINISTRATION .................................................................................................................... 7
  - BUDGET AND STAFFING ................................................................................................... 7
  - APPRAISER CERTIFICATION ............................................................................................ 7
  - STAFF PROPERTY PROCEDURES .................................................................................... 8
  - ASSESSMENT APPEALS .................................................................................................... 9
  - DISASTER RELIEF ........................................................................................................... 10
  - EXEMPTIONS .................................................................................................................. 12
  - ASSESSMENT FORMS ....................................................................................................... 14
## ASSESSMENT OF REAL PROPERTY .................................................................................. 15
  - CHANGE IN OWNERSHIP .............................................................................................. 15
  - NEW CONSTRUCTION .................................................................................................... 18
  - DECLINES IN VALUE ....................................................................................................... 21
  - CALIFORNIA LAND CONSERVATION ACT PROPERTY ............................................. 23
  - TAXABLE POSSESSORY INTERESTS ............................................................................. 27
  - LEASEHOLD IMPROVEMENTS ....................................................................................... 27
  - MINERAL PROPERTY ....................................................................................................... 29
## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES ............................................. 31
  - AUDIT PROGRAM ............................................................................................................ 31
  - BUSINESS PROPERTY STATEMENT PROGRAM ......................................................... 33
  - BUSINESS EQUIPMENT VALUATION ........................................................................... 35
  - LEASED EQUIPMENT ...................................................................................................... 36
  - MANUFACTURED HOMES ............................................................................................... 37
  - VESSELS .......................................................................................................................... 38
## APPENDIXES .......................................................................................................................... 40
  - A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP ........................ 40
  - B. ASSESSMENT SAMPLING PROGRAM ........................................................................ 41
  - C. RELEVANT STATUTES AND REGULATIONS ......................................................... 44
## ASSESSOR'S RESPONSE TO BOE'S FINDINGS ................................................................. 51
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 Sacramento County Assessors Office.

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

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see Scope of Assessment Practices Surveys at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.
SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code1 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 Sacramento County Assessors Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Sacramento County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2008 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

---

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

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

Recommendations that were not implemented, or only implemented in part, are repeated in this report. Many of our recommendations concern portions of programs that are currently effective but need additional improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

The assessor is doing a satisfactory job in handling many portions of the administrative policies and procedures: budget and staffing, assessment appeals, disaster relief, staff property procedures, exemptions and assessment forms. We did note, however, the assessor has not ensured appraisers meet section 671 annual training requirements.

In the area of real property assessments, the assessor effectively manages the change in ownership and declines in value programs. We did note, however, deficiencies in the assessment of new construction, California Land Conservation Act (CLCA) properties, leasehold improvements, and mineral properties.

In the assessment of personal property and fixtures, the assessor has effective audit, business property statement, and vessels programs. The assessor can, however, improve the leased equipment program, business equipment valuation program, and assessment of manufactured homes.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

The Sacramento County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2008-09 assessment roll indicated an average assessment ratio of 99.54 percent, and the sum of the absolute differences from the required assessment level was 1.39 percent. Accordingly, the Board certifies that Sacramento 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 for section 671. ........................................8

**RECOMMENDATION 2:** Ensure all qualifying new construction is assessed by including all deck and patio permits on the assessable new construction list. ..................................................21
RECOMMENDATION 3: Revise CLCA procedures by: (1) classifying irrigation wells as land; (2) using an appropriate income stream for capitalizing restricted tree and vine income; (3) using a multi-year weighted average price and production estimate when valuing trees and orchards; (4) correctly calculating the value of CLCA land in nonrenewal status according to section 426; (5) using appropriate expenses in determining the income stream when valuing restricted land; and (6) using the correct land charge when valuing living improvements.

RECOMMENDATION 4: Improve the assessment of leasehold improvements by: (1) creating and implementing written procedures that describe how to systematically identify and assess leasehold improvements and (2) ensuring all leasehold improvements are assessed by referring reported structural and land improvement costs from Schedule B of the BPS to the real property division.

RECOMMENDATION 5: Appraise mineral properties as a complete appraisal unit for purposes of measuring declines in value.

RECOMMENDATION 6: Assess all taxable supplies.

RECOMMENDATION 7: Ensure leased equipment continues to be assessed if retained by the lessee at the expiration of the lease.

RECOMMENDATION 8: Annually determine the fair market value of manufactured homes in decline in value status.
OVERVIEW OF SACRAMENTO COUNTY

Sacramento County was incorporated in 1850 as one of the original 27 counties of the State of California. As the county's largest city, the city of Sacramento is the seat of government for the State of California and also serves as the county seat. Sacramento became the State Capital in 1854.

Sacramento County encompasses approximately 994 square miles in the middle of the 400-mile-long Central Valley, which is California's prime agricultural region. The county is bordered by Contra Costa and San Joaquin counties on the south, Amador and El Dorado counties on the east, Placer and Sutter counties on the north, and Yolo and Solano counties on the west. Sacramento County extends from the low delta lands between the Sacramento and San Joaquin rivers north to about ten miles beyond the State Capitol and east to the foothills of the Sierra Nevada Mountains. The southernmost portion of Sacramento County has direct access to San Francisco Bay.
The following table displays information pertinent to the 2008-09 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>NUMBER OF ASSESSMENTS</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>423,248</td>
<td>$100,255,222,593</td>
</tr>
<tr>
<td>Commercial/Industrial</td>
<td>19,468</td>
<td>$29,465,165,040</td>
</tr>
<tr>
<td>Agricultural</td>
<td>2,821</td>
<td>$1,145,157,313</td>
</tr>
<tr>
<td>Other Secured</td>
<td>16,664</td>
<td>$3,902,051,158</td>
</tr>
<tr>
<td><strong>Total Secured</strong></td>
<td><strong>462,171</strong></td>
<td><strong>$134,767,596,104</strong></td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Property &amp; Fixtures</td>
<td>52,408</td>
<td>$5,892,766,165</td>
</tr>
<tr>
<td><strong>Total Assessment Roll</strong></td>
<td><strong>514,579</strong></td>
<td><strong>$140,660,362,269</strong></td>
</tr>
</tbody>
</table>

The next table illustrates the growth in assessed values over recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>INCREASE</th>
<th>STATEWIDE INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>$140,660,362,269</td>
<td>1.86%</td>
<td>N/A</td>
</tr>
<tr>
<td>2007-08</td>
<td>$133,753,977,000</td>
<td>9.40%</td>
<td>9.4%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$122,266,785,000</td>
<td>15.18%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2005-06</td>
<td>$106,149,896,000</td>
<td>14.80%</td>
<td>11.1%</td>
</tr>
<tr>
<td>2004-05</td>
<td>$92,435,291,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

2 State Board of Equalization Annual Report, Table 7.
ADMINISTRATION

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

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.

As shown in the following table, the assessor's office has suffered from budget level reductions for two of the last five years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>ANNUAL DIFFERENCE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>$16,133,163</td>
<td>-8.6%</td>
<td>178.5</td>
</tr>
<tr>
<td>2007-08</td>
<td>$17,649,968</td>
<td>-2.2%</td>
<td>178.5</td>
</tr>
<tr>
<td>2006-07</td>
<td>$18,041,770</td>
<td>11.2%</td>
<td>179</td>
</tr>
<tr>
<td>2005-06</td>
<td>$16,229,959</td>
<td>23.6%</td>
<td>179</td>
</tr>
<tr>
<td>2004-05</td>
<td>$13,126,529</td>
<td>---</td>
<td>179</td>
</tr>
</tbody>
</table>

The Sacramento County Assessor's Office has a full time budgeted staff of 178.5 positions. This includes the Assessor, Assistant Assessor, 2 Administrative Services Officers, 5 Chief Appraisers, 2 Assessment Supervisors, 6 Supervising Appraisers, 14 Senior Real Property Appraisers, 52 Real Property Appraisers, 3 Supervising Auditor-Appraisers, 3 Senior Auditor-Appraisers, 11 Auditor-Appraisers, 1 Supervising Cadastral Drafting Technician, 3 Senior Cadastral Drafting Technicians, 1 Cadastral Drafting Technician, 6 Assessment Technicians, and 67.5 clerical and support personnel.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 93 certified appraisers on staff, including the assessor; 49 hold advanced appraiser's certificates. We found the assessor and his staff possess the required appraiser's certificates. Additionally, we found the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.
In Sacramento County, the Assessment Standards Division oversees the training and certification program for appraisers and tracks individual appraisal education continuously in comparison with the BOE's annual reports. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible, which helps them in achieving promotional opportunities.

Although we found all appraisers possess the required certification, we do have one recommendation addressing appraisers' training requirements.

**RECOMMENDATION 1:** Ensure appraisers meet the annual training requirements for section 671.

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 Board each year. Section 671(b) provides that appraisers with an advanced appraiser's certificate must complete 12 hours of training annually. In our review, we noted several appraisers were delinquent in continuing education hours.

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. Failure to maintain the required continuing education could create confusion about current appraisal procedures and practices and could possibly lead to providing 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 Procedures**

As part of our review of how the assessor maintains the integrity of his assessment roll, we examined his policy regarding the assessment of employee-owned property. This review is made to ensure there are adequate and effective controls in place to prevent the assessor's staff from having a role in valuing their own properties.

One method used by the assessor to discover employee-owned properties or businesses in Sacramento County is the *Statement of Economic Interests* (FPPC Form 700) filed by appraisers each year. The statement requests information from employees regarding employee ownership in any real property, other than their primary residences, as well as any ownership interest in any business entities. Such information includes the nature of the interest and the percentage amount of ownership interest in the real property or business entities.

The assessor also becomes aware of employee-owned properties from either voluntary disclosure by the employees or from name recognition on permits and deeds. Employees are not allowed to value property in which they have an ownership interest. Instead, the employee's supervisor or someone from a different crew appraises the employee-owned property.

We reviewed the Assessor's properties, the Assistant Assessor's property, all of the Division Chief's properties, and additional properties at random. In every instance, the most recent valuation of the property had been prepared by a certificated employee other than the employee.
who owned the property. We found no problems with the assessor's valuation of employee-owned properties.

**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\(^3\) 301 through 326 to regulate the assessment appeals process.

The Sacramento County Assessment Appeals Board (AAB) consists of three panels, each composed of three members and an alternate. Sacramento County also has one hearing officer. All members of the current AAB have completed the mandatory training as required by section 1624.01. The AAB hears cases for changes in value affecting properties on the unsecured and secured roll. The regular filing period for assessment appeal applications is July 2\(^{nd}\) through November 30\(^{th}\).

Applications are received by the clerk of the AAB and reviewed, validated, and if complete, accepted and a copy of the application forwarded to the assessor. After review by a supervising appraiser, the application is forwarded to the appraiser responsible for defending the assessment, which may or may not be the original appraisal. The appraiser then contacts the taxpayer to discuss the application and whether the issues can be resolved.

Should the taxpayer decide to withdraw the appeal or stipulate to a value, the assessor sends a letter with the appropriate attachments to the taxpayer for review. Upon receipt of a signed letter by the taxpayer to the clerk of the AAB, the appeal is officially withdrawn or, in the case of a stipulation, the value is changed. If no agreement can be reached, the appeals process continues and a hearing is scheduled. The appraiser responsible for the original appraisal represents the assessor at most board hearings before the AAB.

---

\(^3\) All rule(s) references are to sections of the California Code of Regulations, title 18, Public Revenues.
The following table illustrates the number of appeals filed and board decisions over recent years:

<table>
<thead>
<tr>
<th></th>
<th>FISCAL YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Appeals:</strong></td>
<td></td>
</tr>
<tr>
<td>Applications Received</td>
<td>5,138</td>
</tr>
<tr>
<td>Carried Over</td>
<td>2,746</td>
</tr>
<tr>
<td>Total</td>
<td>7,884</td>
</tr>
<tr>
<td><strong>Resolution:</strong></td>
<td></td>
</tr>
<tr>
<td>Withdrawn</td>
<td>2,824</td>
</tr>
<tr>
<td>Stipulation</td>
<td>104</td>
</tr>
<tr>
<td>Hearing-reduced</td>
<td>13</td>
</tr>
<tr>
<td>Hearing-increased</td>
<td>0</td>
</tr>
<tr>
<td>Hearing-upheld</td>
<td>30</td>
</tr>
<tr>
<td>Other Determination*</td>
<td>273</td>
</tr>
<tr>
<td>Total Resolved</td>
<td>3,244</td>
</tr>
<tr>
<td>Carried over to next year</td>
<td>4,640</td>
</tr>
</tbody>
</table>

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

The assessor tracks the progress of each appeal and monitors the two-year resolution window by receiving reports from the clerk of the AAB as to which appeals have not been resolved and the number of days left in the two-year time frame. No appeal in the last five years has gone unresolved for more than two years, unless the taxpayer has agreed to a waiver of the statutory time limits established by section 1604.

Overall, the assessor's assessment appeal program is well administered. The staff handling appeals is experienced, well prepared, and works well with the AAB. In addition, it is apparent that the assessor's communication with the assessee is adequate in that after an informal exchange of information, a majority of the appeals are withdrawn.

**Disaster Relief**

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

To obtain relief under section 170, assesseses must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an
application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by $10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Sacramento County Board of Supervisors has adopted a disaster relief ordinance pursuant to Section 170. This ordinance enables the assessor to grant disaster relief for properties having suffered $10,000 or more worth of damage due to a calamity or disaster, providing the assessees has timely filed an application for relief within 12 months of the calamity. Additionally, the assessor shall initiate reassessment and provide property tax relief if the assessor's staff determines the qualifying property has been damaged or destroyed within the preceding 12 months.

The assessor discovers calamities by reviewing building permits issued for repairs, through newspaper articles, field canvassing, and by taxpayer notification. As part of an outreach program, the assessor also coordinates with local television, newspapers, and radio for widespread disasters to inform taxpayers to contact the assessor's office regarding property tax relief. While the assessor does not track the claims, he does send out a disaster relief claim form to the last known assessees. All submitted applications for disaster relief are logged into an electronic queue by clerical staff. Appraisers work from this queue, analyzing data provided on applications, contacting assessees seeking relief, conducting on-site inspections, and notating their findings by name and work code on Calamity Worksheets and Transmittal Documents. Properties granted relief are reassessed every year until repairs are completed.

The following table shows the number of disaster relief claims filed for recent assessment years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>CLAIMS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>73</td>
</tr>
<tr>
<td>2006-07</td>
<td>56</td>
</tr>
<tr>
<td>2005-06</td>
<td>33</td>
</tr>
<tr>
<td>2004-05</td>
<td>25</td>
</tr>
<tr>
<td>2003-04</td>
<td>24</td>
</tr>
</tbody>
</table>

We reviewed records of properties having suffered calamities; in all cases, the assessor properly noted the disaster information on the records and adjusted the assessed values of the properties.

The assessor has synchronized the disaster relief information both on the county website and on the mailed application form, Application for Calamity Reassessment, to be in conformance with
section 170. The assessor's policies and procedures for disaster relief comply with applicable revenue and taxation code sections.

**Exemptions**

**Church and Religious Exemptions**

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has 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 illustrates the number of church and religious exemptions granted and their exempted values for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>CHURCH EXEMPTION</th>
<th>EXEMPTED VALUE</th>
<th>RELIGIOUS EXEMPTION</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>103</td>
<td>$116,884,877</td>
<td>820</td>
<td>$589,750,257</td>
</tr>
<tr>
<td>2007-08</td>
<td>127</td>
<td>$108,035,658</td>
<td>902</td>
<td>$554,218,190</td>
</tr>
<tr>
<td>2006-07</td>
<td>147</td>
<td>$100,196,657</td>
<td>882</td>
<td>$502,351,086</td>
</tr>
<tr>
<td>2005-06</td>
<td>160</td>
<td>$92,743,157</td>
<td>888</td>
<td>$472,793,493</td>
</tr>
</tbody>
</table>

The assessor maintains an effective program for administering the church and religious exemptions. We have no recommendations for this area of his program.

**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 has 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 or SCC issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the Board has issued an OCC or SCC to the claimant.

The following table illustrates the number of welfare exemptions granted and their exempted value for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>WELFARE EXEMPTION</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>1,242</td>
<td>$3,277,947,255</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,284</td>
<td>$3,025,475,002</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,341</td>
<td>$2,602,080,735</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,332</td>
<td>$2,420,639,034</td>
</tr>
</tbody>
</table>

In Sacramento County, we reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We also inspected claims for low-income housing property, including properties owned by a limited partnership holding an SCC.

Our review indicates the assessor properly processes claims for the welfare exemption. Accordingly, we have no recommendations in this area.

**Homeowners' and Disabled Veterans' Exemptions**

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

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or a deceased disabled veteran's unmarried surviving spouse). The amount of exemption is $100,000 or, for qualifying low-income veterans, $150,000. Both of these amounts are adjusted annually by a cost of living index factor.
The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. The disabled veteran's exemption at the $100,000 basis requires a one-time filing; while annual filing is required for those exemptions at the $150,000 low-income basis to determine continued eligibility.

The following table illustrates the number of homeowners' and disabled veterans' exemptions granted and their exemption values for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>HOMEOWNERS' EXEMPTION</th>
<th>EXEMPTED VALUE</th>
<th>DISABLED VETERANS' EXEMPTION</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>244,737</td>
<td>$1,713,156,389</td>
<td>1,861</td>
<td>$174,463,102</td>
</tr>
<tr>
<td>2007-08</td>
<td>245,041</td>
<td>$1,715,283,897</td>
<td>1,766</td>
<td>$159,303,294</td>
</tr>
<tr>
<td>2006-07</td>
<td>247,258</td>
<td>$1,730,804,054</td>
<td>1,739</td>
<td>$150,626,780</td>
</tr>
<tr>
<td>2005-06</td>
<td>246,004</td>
<td>$1,721,012,167</td>
<td>1,658</td>
<td>$136,850,575</td>
</tr>
</tbody>
</table>

Our review indicates the assessor properly processes claims for homeowners' and disabled veterans' exemptions. Accordingly, we have no recommendations in this area.

**Assessment Forms**

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. For the 2007 lien date, the BOE prescribed 80 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the Board for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file a locally developed form or questionnaire.

To enforce the use of prescribed forms, the BOE annually requires assessors to specify, in writing, the number and type of BOE-prescribed forms they will use in the succeeding assessment year. Assessors are also required to submit to the Board copies of the final prints of all prescribed forms they intend to use.

A review of the forms used by the Sacramento County Assessor for the year 2008 found the assessor has timely provided the BOE with rearranged forms, checklists, and final prints. We noted no problems with the forms used by the assessor.

---

4 Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.
ASSSESSMENT 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.

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 two percent.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor's primary means of discovering properties having changed ownership is to review deeds and other documents recorded at the county recorder's office. Deeds and other recorded documents transferring ownership are imaged and scanned daily. The Property Transfer Section receives compact discs from the recorder's office, which include deed imagery and associated Preliminary Change of Ownership Reports (PCORs). The county recorder's office does not send Change of Ownership Statements (COSs) when a deed is not accompanied by a PCOR. Instead of sending COSs, the county recorder's office follows up with written reminders and telephone calls. Sacramento County has an ordinance requiring deeds to be identified by assessor's parcel number.
There has been a decline in the number of recorded documents and reappraisable documents in Sacramento County during the past five years. The following table shows the total number of recorded documents and reappraisable documents processed by the assessor's office for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>RECORDED DOCUMENTS</th>
<th>REAPPRAISABLE DOCUMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>81,537</td>
<td>30,497</td>
</tr>
<tr>
<td>2006-07</td>
<td>94,560</td>
<td>32,491</td>
</tr>
<tr>
<td>2005-06</td>
<td>121,009</td>
<td>47,506</td>
</tr>
<tr>
<td>2004-05</td>
<td>120,005</td>
<td>50,816</td>
</tr>
<tr>
<td>2003-04</td>
<td>118,445</td>
<td>47,252</td>
</tr>
</tbody>
</table>

Parent/Child and Base-Year Value Transfer Exclusions

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of the principle residence and the first one million dollars of other real property between parents and their children when a claim is timely filed. A limited number of transfers from grandparents to their grandchildren are also excluded. While not mandatory, the assessor is encouraged to notify the BOE, on a quarterly basis, of any approved section 63.1 transfer applications.5

Section 69.5 allows qualified homeowners 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of their principal residence to a replacement dwelling purchased or newly constructed within the same county. Claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Counties may adopt ordinances to expand the benefits of section 69.5 to include intercounty transfers. The assessor is also required to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The following table represents the four most recent years of filings processed for section 63.1 and 69.5 claims:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>SECTION 63.1</th>
<th>SECTION 69.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>4,470</td>
<td>193</td>
</tr>
<tr>
<td>2006-07</td>
<td>3,494</td>
<td>282</td>
</tr>
<tr>
<td>2005-06</td>
<td>7,452</td>
<td>360</td>
</tr>
<tr>
<td>2004-05</td>
<td>2,642</td>
<td>418</td>
</tr>
</tbody>
</table>

We found the assessor's staff is reporting the claims to the BOE and effectively processing section 63.1 and section 69.5 claims.

---

5 See Letters to Assessors' 2004/053, which encourages the assessors to report approved section 63.1 transfers on a quarterly basis, which can be accessed on the BOE's website at [www.boe.ca.gov](http://www.boe.ca.gov).
Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements that generally enhance the land value of privately owned real property, such as sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payment of the construction loan.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of evidence.

The Sacramento County Assessor adds bond amounts only when justified.

Legal Entity Ownership Program (LEOP)

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

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property involved. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

When the assessor receives the LEOP listing from the BOE, the mapping and title services division reviews the list, identifies the parcels, and updates the computer system. We found the assessor processes LEOP notices properly and promptly revalues parcels having undergone a change in ownership.

Section 408.1 Transfer Lists

Pursuant to section 408.1(a), the assessor is required to maintain a list, available to the public, showing property transfers having occurred within the preceding two years. The list must be divided into geographical areas and include the names of the transferor and transferee, if available, the assessor's parcel number (APN), the address of the sales property, date of transfer, date of recording and recording reference number, and if known, the amount of consideration paid.
The assessor makes available to the public a computer listing showing property transfers having occurred over the last two years. The list is updated weekly. Properties are listed by APN in chronological order, with all required information.

Direct Enrollment

Direct enrollment is a program used in many assessors' offices to streamline the processing of uncomplicated transfers of residential properties. In Sacramento County, the assessor's direct enrollment program is used only to enroll qualifying single-family residences, condominiums, and multi-family properties of four units or less.

The following table shows the number of directly enrolled assessments and the value added to the roll for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DIRECT ENROLLMENTS</th>
<th>VALUE ADDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>19,419</td>
<td>$2,064,844,065</td>
</tr>
<tr>
<td>2006-07</td>
<td>22,962</td>
<td>$4,403,397,671</td>
</tr>
<tr>
<td>2005-06</td>
<td>35,964</td>
<td>$7,811,978,078</td>
</tr>
<tr>
<td>2004-05</td>
<td>39,167</td>
<td>$6,924,062,695</td>
</tr>
<tr>
<td>2003-04</td>
<td>33,095</td>
<td>$4,748,572,792</td>
</tr>
</tbody>
</table>

During the 2007-08 roll year, more than 19,000 transfers were enrolled through the direct enrollment program, which involves computer analysis of any residential transfers conforming to specific parameters. Between 70 and 80 percent of the transfers initially qualifying are ultimately enrolled through this program.

All transfers are initially directed to the document transfer unit. If the documents appear to qualify for direct enrollment, the transfer documents are forwarded to the direct enrollment clerk to determine qualification for direct enrollment. The qualifying transfers are then put through a multiple regression analysis. Transfers qualifying for direct enrollment are enrolled, and the others are routed to the appraisal staff.

We found no problems with the assessor's direct enrollment program.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and
on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.


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

**Discovery**

The assessor has written procedures, policies and forms dealing with the discovery and assessment of new construction. Building permits are the assessor's primary means of discovering new construction. Additional sources of discovery include field inspections, inquiries from building permit departments, business journals, newspapers, reviews of properties listed for sale, and information reported on business property statements. When new construction in excess of $500,000 is noted on Form BOE-571-L, schedule B of a business property statement, the data is forwarded to the Real Property Division for action.

**Permit Processing**

The assessor receives building permits from eight permit-issuing agencies. Notices of completion and building plans are also sent to the assessor. Newly issued permits are transmitted to or picked up by the assessor on a monthly basis in electronic or hard copy format. Four jurisdictions submit permit data electronically; the other four jurisdictions provide the data by hard copy. Permit information from this data is inputted to the assessor's database. Building permits are screened to remove obvious non-assessable repair and maintenance events, such as re-roofs and water heater replacements. The building departments assign a code to each permit to indicate the type of construction, and they also provide permit values based on estimates of construction costs. The assessor's computer system automatically culls permits containing activity codes which do not represent assessable new construction. Permits containing certain other activity codes are culled if the building department's estimated construction costs fall below a threshold established by the assessor's staff. A default report advises support staff of culled permits; the report is used by the supervisor to identify coding errors. The remaining permits are given to the appraisers for determination of assessability and valuation.
The following is a table indicating the total number of permits received and the number of permits generating a change in value for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>PERMITS RECEIVED</th>
<th>PERMITS RESULTING IN VALUE CHANGE</th>
<th>NET VALUE ADDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>39,829</td>
<td>6,667</td>
<td>$1,752,147,754</td>
</tr>
<tr>
<td>2006-07</td>
<td>42,738</td>
<td>9,606</td>
<td>$2,990,947,569</td>
</tr>
<tr>
<td>2005-06</td>
<td>45,777</td>
<td>9,542</td>
<td>$1,819,034,210</td>
</tr>
<tr>
<td>2004-05</td>
<td>47,360</td>
<td>7,699</td>
<td>$1,520,152,153</td>
</tr>
<tr>
<td>2003-04</td>
<td>44,538</td>
<td>6,992</td>
<td>$1,500,966,298</td>
</tr>
</tbody>
</table>

Residential building permits representing assessable new construction are electronically imaged and linked to the parcel on which the permit was drawn. Commercial, agricultural, and industrial permits are not imaged; these paper permits are filed with the property record. We found both the electronic and paper files typically contain adequate documentation of building permits and construction activity.

Valuation

The assessor has a self-reporting program for valuing some new construction. When a permit is taken out on a property, the computer automatically generates a self-reporting form, which is sent to the owner, requesting information about the project. Questionnaires concerning construction costs are also sent to owners at the appraiser's discretion.

Staff typically values new residential construction using the market approach and the cost approach. Several cost sources are used in valuing new construction, including Assessors' Handbook Section 531, *Residential Building Costs*, Marshall and Swift Valuation Guide, and reported and historical costs. In addition to the cost and market approaches, the income approach is used in determining the value of new construction for commercial and industrial properties.

Field inspections are conducted on some new construction events. For residential pools and spas, the assessor has completed a formal study to determine the value added.

Construction in Progress

The assessor correctly values construction in progress at its full value on each lien date. New construction is assessed at its fair market value upon completion and a base year value is assigned. We reviewed the assessor's records and found new construction assessments were properly documented on appraisal records and in the assessor's computer system. We found no problems with the valuation of construction in progress.

Overall, we found the assessor's program for the assessment of new construction to be thorough and values reasonable; however, there is one area where improvement can be made.
RECOMMENDATION 2: Ensure all qualifying new construction is assessed by including all deck and patio permits on the assessable new construction list.

The assessor inappropriately culls building permits for decks, patio covers, and patio enclosures with permit values of less than $20,000. The assessor believes these improvements have relatively short lives and do not add significant market value to the property. The assessor's culling of these permits is improper for several reasons. It is the duty of the county assessor to inventory and assess all taxable property within his jurisdiction. Section 71 provides that "the assessor shall determine the new base year value for the portion of any taxable real property which has been newly constructed."

Section 70(a)(1) defines new construction as any addition to real property, whether land or improvements (including fixtures), since the last lien date. As the statute does not establish a minimum physical or economic life for new construction, new decks and patios should be treated as any other new construction. Section 75.10(a) provides that whenever new construction is completed, the assessor shall appraise the new construction at its full cash value on the date the new construction is completed. Since permits for decks and patios with a permit value of less than $20,000 are automatically culled, the staff does not have the opportunity to appraise these improvements at their full cash value. In addition, the assessor has not performed a market study to support his contention that decks, patio covers, and enclosures costing less than $20,000 do not add significant market value. The assessor's staff should not be culling permits based on the cost estimate provided by the permit-issuing agency. These cost estimates are based on published cost factors derived from a building journal, and only reflect average costs throughout various regions in California; they are not representative of construction costs in Sacramento County. Moreover, these estimates cannot account for variations in construction costs resulting from differences in square footage, construction quality, or the complexity of proposed projects. They are not likely to be accurate, and therefore, the assessor should not be culling permits based on these values.

The assessor's practice has resulted in the underassessment of these properties.

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 or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value 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 factored base year value, then the assessor must enroll the factored base year value adjusted for inflation up to two percent.
The following table shows the number of decline in value property assessments in Sacramento County for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DECLINE IN VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>96,408</td>
</tr>
<tr>
<td>2007-08</td>
<td>57,862</td>
</tr>
<tr>
<td>2006-07</td>
<td>6,932</td>
</tr>
</tbody>
</table>

With the recent downturn of the housing market, Sacramento County, like many other counties, has experienced a notable decline in property values. Consequently, there has been a significant increase in the number of properties eligible for decline in value assessments. In 2006, the assessor processed a total of 6,932 decline in value assessments. For the 2008 lien date, the assessor enrolled more than 96,000 decline in value assessments. This number represents a major workload increase for the assessor and his staff. The assessor estimates 98 percent of the properties in the decline in value program are valued using an automated trending program.

The assessor has a formal program to annually adjust residential properties with a market value less than its factored base year value. The program takes market sales data from 24 designated areas within the county to perform a time adjustment to the factored base year value. Sales data for each of the last 29 quarters is used to develop trends for each of the areas. Staff analyzes the trends and develops the ratios to be used for calculating current values. Those ratios are entered into the computer system creating the assessments.

All assessments reduced for declines in value are identified and tracked by code in the computer system. This code prevents the annual inflation factor from being applied to these properties. Reports are generated from the computer system to make sure the properties are reviewed each subsequent lien date. The assessor's notices to taxpayers informing them of their assessment value and decline-in-value status contain the statutorily required information. The assessor's website also has a list of addresses of all residential properties that are under decline-in-value status.

The assessor's primary methods of discovering declines in value are through the trending program, taxpayer requests, and appraisers' familiarity with their assigned areas. The trending program reviews most of the residential properties in the county. Commercial, industrial, and agricultural properties, along with residential properties located outside of the trending program's designated areas, are identified and valued on an individual basis. Information for decline in value analysis is placed in each file reviewed. We reviewed a number of parcels in the decline in value program and found the assessor's value estimates for these parcels were well documented and appear reasonable.

The assessor has an effective program for annually reviewing and adjusting real property assessments to reflect declines in value.
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, e.g., 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 2007-08 roll year, Sacramento County had 1,433 parcels encumbered by CLCA contracts. The parcels comprised 187,102 acres with a restricted land and improvement value of $428,403,680. The county does not have land subject to Farmland Security Zone contracts. The acreage under contract is similar to the 2003 total of approximately 178,000 acres. Sacramento County also has 47 parcels in nonrenewal status comprising 10,605 acres and no contracts that have been cancelled.

The valuation of CLCA property is the responsibility of one real property appraiser. Most of the rural property in Sacramento County consists of grazing lands, irrigated crops, and vineyards. The bulk of the agricultural revenue generated in Sacramento County is derived from wine, grapes, and milk.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521, at page II-51, provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite.

Homesites are correctly valued according to section 428 and supplemental tax bills are sent as required to unrestricted portions of CLCA properties.

---

6 Assessment of Agricultural and Open-Space Properties, October 2003, page II-51.
Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses, such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents, and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

Capitalization Rates

Section 423(b) prescribes the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization rate shall be the sum of the following components:

- An interest component annually determined and announced by the Board;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon, and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

A computer program calculates restricted values for CLCA land. The appraiser is responsible for annually updating the BOE provided open space land interest component into the program. Sacramento County uses a risk rate of one percent for most CLCA land and three percent for living improvements. The appraiser is also responsible for updating net cash rents and
reclamation fees into the program from the CLCA questionnaires, which are mailed out annually. CLCA properties with living improvements are valued manually by the appraiser on an annual basis. Section 423(a)(1) generally requires the assessor, when valuing CLCA property, to capitalize an annual income determined from market rents.

Overall, we found the assessor complies with most applicable statutes; however, we found several areas where improvement is needed.

**RECOMMENDATION 3:** Revise CLCA procedures by: (1) classifying irrigation wells as land; (2) using an appropriate income stream for capitalizing restricted tree and vine income; (3) using a multi-year weighted average price and production estimate when valuing trees and orchards; (4) correctly calculating the value of CLCA land in nonrenewal status according to section 426; (5) using appropriate expenses in determining the income stream when valuing restricted land; and (6) using the correct land charge when valuing living improvements.

**Classify irrigation wells as land.**

The assessor incorrectly classifies irrigation wells as unrestricted improvements on CLCA property, subjecting them to supplemental assessment and the annual cost of living adjustment. The assessor's staff confirmed irrigation wells are classified as improvements. Pursuant to Rule 124(b)(1), wells are properly classified as land. As such, they should not be subject to supplemental assessment or indexing; instead, they should be valued at the restricted value under section 423. The assessor's current practice has resulted in over assessment of some CLCA properties.

**Use an appropriate income stream for capitalizing restricted tree and vine income.**

We found the assessor uses a straight-line declining income premise when appraising vineyards and orchards in all stages of production. To account for the shape of the income stream, the assessor adjusts the remaining economic life of the living improvements.

AH 521, beginning at II-38, describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements is similar: (1) a period of development, when production (income stream) initiates and rises; (2) a period of maturity, when production remains relatively stable; and (3) a period of decline, when production drops as the improvements near the end of their economic lives.

By not recognizing the stage of production of a property, the assessor may be overvaluing vineyards and orchards in the development or maturity period.
Use a multi-year weighted average price and production estimate when valuing trees and orchards.

We found the assessor uses the current average production and price when valuing the living improvements on CLCA properties. The income and expense report has a column tracking the three-year weighted average for these indicators, but it is not utilized to value the properties. The assessor needs to correct the program to make use of the correct estimated annual income attributable to the living improvements.

AH 521 at II-33 describes the procedure for estimating the net income attributable to the living improvements. As in analysis of annual crop income, commodity prices, and production estimates should be based on the consideration of past performance and future potential.

By not recognizing the correct average production and price for living improvements, the assessor may be over or undervaluing restricted vineyards and orchards.

Correctly calculate the value of CLCA land in nonrenewal status according to section 426.

We found instances of the assessor improperly valuing restricted property after notice of nonrenewal was given. Section 426 describes how the value of the restricted portion of property subject to CLCA contract should be valued when in nonrenewal status. Additionally, AH 521, beginning at page II-56, contains a section addressing the application of section 426.

In improperly valuing restricted property in nonrenewal status, the assessor has over and undervalued these select properties.

Use appropriate expenses in determining the income stream when valuing restricted land.

We found the assessor is incorrectly determining the reclamation district charges based on the properties farmable acres and not based upon the total acres. In determining the net income attributable to the land, the expenses necessary to maintain this income must be subtracted from the expected gross income before capitalization.

By not recognizing the correct reclamation district expenses, the assessor has been overvaluing these properties.

Use the correct land charge when valuing living improvements.

We found the assessor uses an incorrect land charge when valuing living improvements located on CLCA properties. The deduction is programmed into the assessor's computer system to pull from the land analysis without taking into account the economic rent utilized to value the land. The assessor needs to correct the program to make use of the correct land charge in valuing the living improvements.

By not recognizing the correct land charge in estimating the residual economic income to the living improvements, the assessor is improperly valuing restricted vineyards and orchards.
**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 has an effective taxable possessory interest discovery program. He regularly contacts approximately 180 government agencies that own property in Sacramento County. There are 1,905 separate taxable possessory interest assessments on the 2007-08 roll with a total assessed value of $460,892,504. Taxable possessory interests in Sacramento County include commercial airline facilities, cable television rights-of-way, airport hangars and tie downs, marinas, the Sacramento Convention Center, and concessionaires at the California Exposition and State Fair. Sacramento County has two ordinances exempting low value taxable possessory interests. Resolution No. 2003-0897 exempts all taxable possessory interests with a value of $5,000 or less, and Resolution No. 2003-0898 exempts taxable possessory interests at fairgrounds and convention facilities with a value of $7,000 or less. One Senior Real Property Appraiser and two Real Property Appraisers are assigned full time to the assessment of taxable possessory interests. The assessor has a comprehensive program for enrolling taxable possessory interests. We have no recommendation for this program.

**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 Form BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment 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 assessor typically discovers leasehold improvements through building permits and review of BPSs. Upon receipt of a building permit, the real property division may send a *Request for*
Tenant Improvement Cost Information letter to property owners. Other discovery methods include reviews of commercial and industrial leases, newspaper articles, field reviews, audits, and calls to the building inspection division.

Valuation

In the Sacramento County Assessor's office, the real property division is responsible for enrolling structural leasehold improvements, and the personal property division enrolls fixtures.

Supplemental assessments are applied to structural leasehold improvements on the secured roll for all values over $5,000. Unsecured improvements classified as fixtures, which are considered separate appraisal units, are not supplementally assessed. When leasehold improvements are classified and assessed as trade fixtures, the improvements are valued using the appropriate depreciation factor schedules.

We reviewed BPSs and real property records with indications of leasehold improvements. We checked for reported costs and descriptions, proper identification of leasehold improvements by the personal property division, and proper assessment.

We discovered several areas where the assessor’s leasehold improvement assessment program could be improved.

RECOMMENDATION 4: Improve the assessment of leasehold improvements by:
(1) creating and implementing written procedures that describe how to systematically identify and assess leasehold improvements and (2) ensuring all leasehold improvements are assessed by referring reported structural and land improvement costs from Schedule B of the BPS to the real property division.

Create and implement written procedures describing how to systematically identify and assess leasehold improvements.

Although the assessor has established routine procedures for the discovery, classification, and assessment of leasehold improvements, there is no written policy regarding communication between the personal property division and the real property division. Developing written procedures describing how to systematically identify and assess leasehold improvements helps promote uniform assessments.

Ensure all leasehold improvements are assessed by referring reported structural and land improvement costs from Schedule B of the BPS to the real property division.

Costs greater than $500,000 for structural items reported on a BPS are investigated by the real property division. Reported costs below $500,000 are not investigated. We found evidence of several properties with substantial leasehold improvements reported on the BPS, however, they were not investigated or assessed.
Article XIII, section 1(a) of the California Constitution states, in relevant part, "All property is taxable and shall be assessed at the same percentage of fair market value...." Further, section 201 states, "All property in this State, not exempt under the laws of the United States or of this State, is subject to taxation under this code." The assessor's current practice treats taxpayers unequally, based on an arbitrary threshold of reported costs, which can produce erroneous assessments. Without careful review of reported costs and follow-up to verify enrollment, escaped assessments may occur.

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.

The assessor contracts the appraisal of mineral properties to a mineral consultant. The mineral consultant provides the assessor with a list of additional information that should be requested from taxpayers when those items are not specifically requested on the various annual production reports.

Petroleum Property

Sacramento County has 120 active producing wells with a combined assessed value of $449,809,000. After reviewing the petroleum appraisals, we have no recommendations.

Mining Property

In Sacramento County the assessor's mineral consultant estimates the values of mining property mineral rights using the royalty method. This method capitalizes the royalty payments into a present value. Equipment and fixture values are estimated by the assessor's personal property division at the current market value. These values are then entered onto the roll under separate parcel numbers. In some cases, the assessor may place on the roll the adjusted base year value of the mineral rights, while enrolling the current market value for the improvements and fixtures. This problem is the subject of the next recommendation.

RECOMMENDATION 5: Appraise mineral properties as a complete appraisal unit for purposes of measuring declines in value.

While fixtures are generally treated as separate appraisal units for most properties, they are not for purposes of measuring declines in value for mineral properties.7 Rule 469 requires declines in the value of mineral properties to be measured for the entire economic appraisal unit. The mineral appraisal unit is defined in Rule 469 as land, improvements, including fixtures, and

---

7 Rule 469 (e)(2)(C)
reserves, except for leach pads, settling ponds, and tailings facilities. Leach pads, settling ponds, and tailings facilities are to be treated as separate appraisal units.\textsuperscript{8}

Adjusted base year values of improvements and fixtures should be prepared by the Business Property Unit along with the current market values. This is not typically done because depreciation of the business property routinely results in the current market value being the lower value, which is then enrolled. Declines in value should then be measured for the total economic appraisal unit as required by Rule 469.

\textsuperscript{8} Section 53.5
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 programs for conducting audits, processing business property statements, valuing business property, discovering and assessing leased equipment, and assessing manufactured homes, vessels, and animals.

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 has 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 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, as amended. 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 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 indicates the total number of audits completed during recent years:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AUDITS SCHEDULED</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Audits Scheduled</td>
<td>244</td>
<td>287</td>
<td>277</td>
<td>220</td>
</tr>
<tr>
<td>Unfinished From Prior Year</td>
<td>98</td>
<td>93</td>
<td>127</td>
<td>197</td>
</tr>
<tr>
<td>TOTAL AUDIT WORKLOAD</td>
<td>342</td>
<td>380</td>
<td>404</td>
<td>417</td>
</tr>
<tr>
<td>TOTAL AUDITS COMPLETED</td>
<td>288</td>
<td>282</td>
<td>311</td>
<td>290</td>
</tr>
<tr>
<td>AUDITS CARRIED FORWARD</td>
<td>54</td>
<td>98</td>
<td>93</td>
<td>127</td>
</tr>
</tbody>
</table>

Audit responsibility falls upon two supervising auditor-appraisers and 16 line staff auditor-appraisers, who are all under the direction of the personal property division's chief appraiser.

The assessor maintains a database of business accounts slated for audit. Currently, there are 1,553 mandatory audit accounts in Sacramento County. Sacramento County subscribes to California Counties Cooperative Audit Service Exchange (CCCASE). By being a member of CCCASE, the assessor completes audits of locally sited taxpayers for other participating California counties and, occasionally, contracts with other counties to complete audits of remotely sited taxpayers on its behalf.

Based on recent audit history, the assessor is in compliance with the number of audits mandated pursuant to 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 from the taxpayer, pursuant to section 532.1, a waiver of the statute of limitations to extend the time for making an assessment.

The assessor requests waivers of the statute of limitations from taxpayers at first contact and completes audits of those taxpayers without a signed waiver first. This policy helps reduce the likelihood of escape assessments from audit years falling outside the statute of limitations. We sampled a number of waivers signed by property owners for scheduled audits not completed during the current year and found them to be adequately prepared and well managed.

Audit Quality

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

We found the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. We sampled several recently completed audits; in all cases audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. Audit quality is further enhanced by a standardized review process where every audit completed by the assessor's office is reviewed.

**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, to annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the 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 workload of secured and unsecured business property statements and assessments for the 2008-09 assessment roll:

<table>
<thead>
<tr>
<th>TYPE OF PROPERTY STATEMENTS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>273</td>
</tr>
<tr>
<td>Service Stations</td>
<td>172</td>
</tr>
<tr>
<td>General Business</td>
<td>20,505</td>
</tr>
<tr>
<td>Apartments</td>
<td>203</td>
</tr>
<tr>
<td>Leased Equipment</td>
<td>632</td>
</tr>
<tr>
<td>Direct Billing</td>
<td>5,146</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>26,931</strong></td>
</tr>
</tbody>
</table>

The assessor utilizes 20 line staff personnel for the processing of business property statements. During processing season, business personal property appraisal functions are the responsibility of 16 auditor-appraisers, one appraisal technician, and three office specialists, who all fall under the direction of the division's chief appraiser.
General Statement Processing

Office specialists receive the completed property statement and scan in the bar code located on the front page. This first step tells the system the statement has been returned. Under certain circumstances, such as when a parcel is expired or a change in ownership has occurred, the system software will stop the process and ask for more information before the entry can be completed. The statements are then reviewed for mailing address changes, changes in ownership, and related business interests.

We reviewed the business property statement program, including processing procedures, use of BOE-prescribed forms, processing by non-certified staff, taxpayer interactions, completeness of the property statements, authorized signatures, application of penalties, real property division coordination, and record storage and retention. In addition, we reviewed several active business property statements. We found all statements sampled evidenced the proper usage of BOE-prescribed forms, and were properly signed.

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property, among which are taxpayer self-reporting and periodic field canvassing. Other means of discovery utilized by the assessor include reviewing city and county business licenses and fictitious business name filings, real property appraiser referrals, business directory services, and BOE notifications. Lastly, the assessor utilizes a proactive form of discovery by sending to all commercial rental property owners requests for tenant information. This mode of discovery can often be a highly productive form of information gathering for the assessor. We found the assessor employs effective methods for discovering business personal property.

Filing Procedures

Under section 441.5, in lieu of completing the property statement, information required of the taxpayer may be furnished to the assessor as attachments to the property statement provided the attachments are in a format as specified by the assessor and a copy of the actual property statement is signed by the taxpayer and carries appropriate reference to the data attached. In Sacramento County, the assessor allows taxpayers to submit attachments in lieu of completing business property statements as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits the signed original front page of the property statement. We reviewed several business property statements and found the taxpayer or an authorized agent appropriately signed the statements, even when a rendition was attached to an original of the business property statement.

Our review also included verifying the assessor's procedures for processing late-filed and non-filed statements. The statements we sampled evidenced the proper application of the late-filing penalties pursuant to section 463. Furthermore, habitual non-filers, those who do not file for four consecutive years, are contacted in an attempt to collect accurate assessment information. If no other information is available, the assessor will conduct a field review or perform a property tax audit.
Direct Billing

Many assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a business property statement. Typically, the assessor establishes an initial value and continues it for several years. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes and restaurants, and professional firms with small equipment holdings.

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

The assessor maintains a significant direct billing program with 5,146 participating accounts for the 2008 lien date. In Sacramento County, property statements are sent to the participating businesses every four years to update assessment information. An internally generated form is also sent annually to the property owners to establish whether significant changes have occurred affecting taxability or situs of the business property. The program is well regulated and appropriate controls are in place to reduce the chance of escape assessments.

Overall, we found the assessor's business property statement processing program to be largely administered in an effective manner.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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

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

The assessor uses the valuation factor tables published by the California Assessors' Association to assess business equipment. These factors follow the AH 581 factors closely except for older equipment, in which case the percent good of the equipment is held at a certain minimum level. The index and percent good factors are programmed into the assessor's assessment system. The factors are updated each year prior to the lien date.

Overall, the assessor has an effective program for the valuation of business equipment; however, we did find one area where improvement can be made.
RECOMMENDATION 6: Assess all taxable supplies.

We found the assessor has a policy that if supplies are not reported on the property statement, the assessor does not estimate or assess an amount for supplies.

Generally, all businesses require a minimum amount of supplies to conduct business. Supplies may include fuel, spare parts, office supplies, chemicals used to produce a chemical or physical reaction, janitorial and lavatory supplies, medical supplies, computer supplies, or accounting supplies.

Since business supplies are subject to property taxes, they are reportable on the annual business property statement. Taxpayers may neglect reporting supplies because the amount on hand is a small percentage of the total cost of the taxable property. In those cases, the assessor should estimate a reasonable amount and assess supplies to the taxpayer. For example, Assessors' Handbook Section 504, Assessment of Personal Property and Fixtures, states the percentage of annual purchases method results in a reasonable estimate of the value of supplies on the lien date. This method summarizes total yearly supplies purchased, and estimates the supplies turnover rate based on frequency and quantities of supplies purchased during the year.

The assessor's practice of not estimating a reasonable amount of supplies when a taxpayer fails to report supplies on the BPS may result in lost revenue to the county.

Computer Valuation

Pursuant to section 401.5, the BOE issues valuation factors for computer equipment (see AH 581, "Table 7: Non-Production Computer Valuation Factors").

We reviewed the computer valuation tables used by the assessor and found the assessor has adopted the Board factors and used them in valuing computer equipment.

Leased Equipment

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

We reviewed the annual property statements of several accounts and found the assessor properly reviewed the V-600B form, properly assessed the lessee when the lessor was a financial institution on the state-approved list, properly assessed self-constructed leased equipment at a trade-level adjusted cost, and properly valued short and long term leases.

Additionally, we verified the assessor received sufficient information from the lessor to determine the in-service date, acquisition cost (including sales tax), the name of the lessee, situs, and a description of the equipment involved.
In our prior survey, we recommended the assessor cross-reference the lessor and lessee business property statements to ensure the continued assessment of leased equipment upon the expiration of a lease. We are repeating this recommendation since the assessor has not yet developed a procedure to ensure the assessment of leased equipment retained by the lessee upon expiration of a lease.

**RECOMMENDATION 7:** Ensure leased equipment continues to be assessed if retained by the lessee at the expiration of the lease.

Section 405(a) provides that "the assessor shall annually assess all taxable property in his county, except state-assessed property, to the persons owning, claiming, possessing, or controlling it on the lien date."

When an equipment lease expires and the lessor is no longer reporting the equipment to the assessor, many times the lessee has acquired the property by exercising a lease option. From that point on, the lessee should report the equipment on the BPS as its property.

The assessor's policy is to follow up on off-lease equipment only when audited; however, we found off-lease conditional sales equipment falling below the audit level; such equipment would escape assessment.

The assessor has no policy to track acquisitions of leased equipment by lessees at the end of their lease terms. As a result, such property seldom continues to be assessed once a lease is terminated.

Failure to assess all leased equipment retained by the lessee may result in lost tax revenue.

**Manufactured Homes**

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

The assessor enrolled 7,769 manufactured homes on the 2007-08 secured roll, with an approximate value of $250.9 million. In Sacramento County, one real property appraiser is responsible for all manufactured homes. The appraiser uses the National Automobile Dealer Association's Manufactured Housing Appraisal Guide (NADA) to value transfers of manufactured homes. Using the NADA value guide ensures no site value is included in the manufactured home value.

The assessor discovers new and transferred manufactured homes through a variety of resources. Lists are provided twice monthly by the California Department of Housing and Community Development (HCD); these lists include manufactured homes voluntarily converted from vehicle license fee status to local property taxation. Taxpayers, motivated by the receipt of a tax bill for a manufactured home having been sold, often contact the assessor's office to report sales or
transfers of manufactured homes not recorded with HCD. Tax clearance certificates issued by the tax collector are required for proof of ownership in order to sell a manufactured home. Mobile home park managers may contact the assessor with information on transfers. Building permits issued for manufactured housing may indicate a transfer as well as dealer reports of sale. All of this information, plus field inspections, is used by the assessor's staff to discover manufactured home transfers.

Our investigation found one area where improvement can be made.

**RECOMMENDATION 8:** Annually determine the fair market value of manufactured homes in decline in value status.

The assessor does not annually determine the fair market value of manufactured homes in decline in value status. The assessor uses NADA to initially value manufactured homes when there is a change in ownership. For subsequent years, the initial assessed value is held constant and considered fair market value. However, most price guides suggest manufactured homes depreciate in value over time.

Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its full cash value, as determined pursuant to section 110, as of the lien date.

As a consequence of not annually determining the fair market value of manufactured homes in decline in value status, the assessor does not comply with statute and may be incorrectly assessing manufactured homes.

**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.

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. For the purposes of California property taxation, vessels are valued at their fair market value every year as of the January 1st lien date. Sections 401 and 401.3 require the assessor to assess vessels at market value each year. In Sacramento County, the assessor appraises vessels when newly enrolled in the county. He then applies a market derived depreciation rate to arrive at values for subsequent lien dates. Sacramento County has a low value property tax ordinance exempting from taxation property valued at less than $5,000. Therefore, vessels with values falling below the low value property tax ordinance threshold are exempted on the tax roll.
Sacramento County Assessment Practices Survey

The following table shows the number and value of vessels assessed in Sacramento County during recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>NUMBER OF VESSELS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>11,569</td>
<td>$253,142,337</td>
</tr>
<tr>
<td>2006-07</td>
<td>10,988</td>
<td>$233,865,682</td>
</tr>
<tr>
<td>2005-06</td>
<td>10,249</td>
<td>$210,107,110</td>
</tr>
<tr>
<td>2004-05</td>
<td>10,369</td>
<td>$196,997,922</td>
</tr>
</tbody>
</table>

Sacramento County is an inland community with a large number of pleasure boats and personal watercraft. The county encompasses 41 marinas and numerous waterways. The assessor enrolled 11,569 vessels on the 2007-08 assessment roll with a total assessed value of $253,142,337.

One assessment technician, assisted by two office specialists, under the direction of a supervising auditor-appraiser, administers the assessor’s vessel program. The assessor values new vessels predominately with the aid of the National Automobile Dealers' Association Marine Appraisal Guide (NADA). However, the assessor will utilize other value guides when appropriate. The assessor correctly adds a sales tax component of value, makes adjustments for vessel condition, motor and motor condition, accessories, and deductions for trailers as appropriate. The assessor utilizes DMV reports, marina reports, periodic field canvasses, and referrals from other counties as methods of discovery. Furthermore, Sacramento County has developed an automated process whereby the computer tape provided by the DMV is downloaded into the boat maintenance work screen and cross-referenced with currently enrolled vessel information to update ownership records and to identify vessels entering or leaving the county.

Vessel Property Statements

The assessor sends a vessel property statement to the owner of all vessels newly enrolled in the county, as well as those subject to a change in ownership. Form BOE 576-D is used to annually solicit information from registered vessel owners who own assessable vessels costing in excess of $100,000, in compliance with section 441. A county-developed property statement, Vessel Owner's Report, is sent to owners of vessels new to the county or those subject to a change in ownership, and costing less than $100,000. Upon receipt of a completed vessel statement, an assessment technician processes the statement and derives a value using one of the published value guides. The supervising auditor-appraiser reviews a sampling of the processed statements. The size of the sample is dependent upon the daily volume of vessel enrollments.

Findings

We reviewed several vessel assessments in detail. Our sampling included vessels with values in excess of $100,000, those subject to the assessor's application of an annual depreciation rate, and vessels that were appraised. We found the assessor is properly assessing the vessels in a timely manner. We have no recommendations in regards to this topic.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Sacramento County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:

David Dodson Supervising Property Appraiser

Survey Team Leader:

Glenn Danley Senior Specialist Real Property Appraiser

Survey Team:

John Frank Senior Specialist Real Property Appraiser
Teresa Quento Senior Specialist Auditor-Appraiser
Michael Brennan Associate Real Property Appraiser
Robert Rossi Associate Real Property Appraiser
Jennifer Prince Assistant Real Property Appraiser
Bryan Bagood Assistant Real Property Appraiser
Jeffery Arthur Associate Auditor-Appraiser
Catherine Houlihan Associate Auditor-Appraiser
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Aaron Martinez Tax Technician
B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁹ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹⁰

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.

---

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.
Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

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

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


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

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

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

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

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

(2) Discovering and assessing newly constructed property.

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

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

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

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

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

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

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

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

The Sacramento County Assessor's response begins on the next page. The BOE has no comments on the response.
March 2, 2010

Mr. Dean Kinnee, Chief
County Assessed Properties Division
State Board of Equalization
PO Box 942879  MIC:62
Sacramento CA  94279-0062

Dear Mr. Kinnee:

Enclosed is our response to the Board’s recent Assessment Practices Survey of our office and its eight recommendations. This response is made pursuant to section 15645 of the Revenue & Taxation Code for inclusion with the final published survey report.

We would like to acknowledge the professional and considerate manner in which the Board survey crew conducted themselves while surveying the office, performing the sampling program, and interviewing our staff. We appreciate their constructive comments and suggestions for improvement regarding our operations.

We believe these periodic surveys are a useful tool, providing constructive observation and suggestions for proper administration of the various functions carried out by the Assessor’s Office. We believe this function of the Board is an important element of ensuring that our property tax system is kept uniform and in compliance with current laws.

In this survey, you make eight recommendations. This is an improvement for our office over the 2005 survey. We agree with many of your recommendations and will work to make the necessary changes. Other recommendations, even though we agree with them, may take longer than desired to implement due to our current funding and staffing levels. Where we have differences of opinion regarding your recommendations, they are noted.

As you are aware, Sacramento County has experienced a severe decline in property value over the last several years. The resulting decrease in the roll value and county general fund, combined with record numbers of assessment appeals, has placed a great strain on our resources. We continue to explore new ways of doing more with less. However, budget and workload issues will continue to threaten our ability to complete all of our legal mandates despite our desire to do otherwise.

The results of this audit are a tribute to my staff’s competence, as evidenced by the 99.4% assessment accuracy ratio determined by your sampling program. I compliment my staff for their dedication, hard work and professionalism in the face of an ever-increasing workload and limited resources. I continue to receive compliments from our customers on a regular basis about the outstanding service they provide. I am honored to serve with them and believe they are the reason we are able to achieve our goals in providing equitable, timely, and accurate property tax assessments to fund public services.

Sincerely,

Kenneth D. Stieger, Assessor

Enclosure
RECOMMENDATION 1: Ensure appraisers meet the annual training requirements for section 671.

Response: We agree. We have made great progress since 2008 and will continue to rectify the issue. However, the current budget situation will impact our ability to completely resolve the training requirements issue immediately.

RECOMMENDATION 2: Ensure all qualifying new construction is assessed by including all deck and patio permits on the assessable new construction list.

Response: We agree. As resources become available, we will review lower value permits, though we doubt significant value is being lost.

This office does not operate with unlimited resources. Hard choices must be made, including decisions that may forego revenue when personnel are unavailable to complete appraisals on these lower value permits. Should the state ever step up to meet its funding obligation on behalf of schools for property tax administration, we may at some future date have the ability to engage in low-return activities such as this.

RECOMMENDATION 3: Revise CLCA procedures by:
(1) classifying irrigation wells as land;
(2) using an appropriate income stream for capitalizing restricted tree and vine income;
(3) using a multi-year weighted average price and production estimate when valuing trees and orchards;
(4) correctly calculating the value of CLCA land in nonrenewal status according to section 426;
(5) using appropriate expenses in determining the income stream when valuing restricted land; and
(6) using the correct land charge when valuing living improvements.

Recommendation 3. (1) Classify irrigation wells as land.

Response: We disagree. We view wells, pumps, and pressure systems as one appraisal unit -- one part simply cannot function without the others. Additionally, the cost of a well, pump, pressure system, and septic system are typically reported to us as a single lump-sum figure without breakdown among the various integrated elements.
Recommendation 3. (2) Use an appropriate income stream for capitalizing restricted tree and vine income.

Response: We disagree. We believe our method reflects the practices of producers in our area. In our experience, most living improvements are quickly replaced once they are beyond their maximum production potential. We don't see a long period of decline; rather the living improvements are replaced or grafted and thus enter a new exemption period. When resources become available, we will evaluate our policy and take steps to make the necessary adjustments if we determine that our current process results in inaccurate valuations.

Recommendation 3. (3) Use a multi-year weighted average price and production estimate when valuing trees and orchards.

Response: We agree and will adjust our procedure to comply.

Recommendation 3. (4) Correctly calculate the value of CLCA land in nonrenewal status according to section 426.

Response: We agree. The manual calculations on the referenced parcels were done incorrectly. This was a training issue, not a reflection of our policy. Additional training has been completed to insure compliance.

Recommendation 3. (5) Use appropriate expenses in determining the income stream when valuing restricted land.

Response: We agree and will adjust our procedure to comply.

Recommendation 3. (6) Use the correct land charge when valuing living improvements.

Response: We agree and will adjust our procedure to comply.
RECOMMENDATION 4: Improve the assessment of leasehold improvements by:
(1) creating and implementing written procedures that describe how to systematically identify and assess leasehold improvements and
(2) ensuring all leasehold improvements are assessed by referring reported structural and land improvement costs from Schedule B of the BPS to the real property division.

Recommendation 4. (1) Create and implement written procedures describing how to systematically identify and assess leasehold improvements.

Response: We agree, although the Personal Property Division already has many written procedures. We currently have a clear written division of responsibility between real property and personal property. We will increase our written instructions, education and enforcement of our procedures, noting the action taken on each real property file.

Additionally, the use of our discovery memo has increased substantially between real property and personal property over the last year. However, we do not believe it is necessary to track each discovery memo.

Recommendation 4. (2) Ensure all leasehold improvements are assessed by referring reported structural and land improvement costs from Schedule B of the BPS to the real property division.

Response: We agree and will adjust our cost threshold to ensure all material improvements are assessed. As resources allow, Personal Property Division will initially track these statements to determine if any value could be missed given the permits already reviewed by the Real Property Division.

RECOMMENDATION 5: Appraise mineral properties as a complete appraisal unit for purposes of measuring declines in value.

Response: We disagree. In order to appraise mineral properties as a complete appraisal unit for measuring declines in value, we would have to obtain the profit and loss statements for the entire business. The individual mineral companies in our county will NOT provide this information. Our office has requested this information in the past. The companies state that it is proprietary information, very confidential and cannot be released. Our mineral consultant/contractor who performs these appraisals for our office confirms that this is the situation with having access to this kind of data.
RECOMMENDATION 6: Assess all taxable supplies.

Response: We agree and will assess all taxable supplies appropriately.

RECOMMENDATION 7: Ensure leased equipment continues to be assessed if retained by the lessee at the expiration of the lease.

Response: We agree, although currently we do verify through the audit process that leased equipment continues to be assessed upon lease termination.

In order to better track leased equipment retained by the lessee once the lease terminates, we will institute a sampling procedure that tracks the material leases to ensure we are continuing to assess properly, as resources and staffing allow.

RECOMMENDATION 8: Annually determine the fair market value of manufactured homes in decline in value status.

Response: We already do. BOE reached an erroneous conclusion that we do not annually determine the fair market value and compare it to factored Prop 13 value.

As evidence for this, they cite the fact that we enrolled two mobilehomes at the same value for a number of years in a row. We did this, but for each of those years, we believed that the value represented the fair market value. We did not skip the step of estimating market value, as their recommendation implies.

Our value conclusions, similar to the results of any appraisal, may be disputable, but they did represent our estimate of market value as of lien date.