SAN DIEGO COUNTY
ASSESSMENT PRACTICES SURVEY

NOVEMBER 2010

CALIFORNIA STATE BOARD OF EQUALIZATION

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KAROLINE CAZADD, INTERIM EXECUTIVE DIRECTOR
November 1, 2010

TO COUNTY ASSESSORS:

SAN DIEGO COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Honorable David L. Butler, San Diego County Assessor/Recorder/County Clerk, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, the State Legislature, and the San Diego 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 February through June 2009. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure
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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum 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 San Diego County Assessor/Recorder/County Clerk's Office.¹

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

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

¹ This report covers only the assessment functions of the office.
SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code\(^2\) section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the San Diego County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in San Diego County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2008-09 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.

\(^2\) 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.

The assessor has continued to improve the operation of the real property division since our prior survey.

The assessor's staff began work on a new Integrated Property Tax System (IPTS) with the auditor and tax collector. Although this project was subsequently discontinued, the assessor has devoted numerous hours of staff time working on the Computer Assisted Mass Appraisal (CAMA) portion of the total property tax system. He has made great strides with this part of the total system and is moving forward with the CAMA, even though the total IPTS project met with contractual problems and was terminated.

Scanning and imaging of all property assessment records has begun. Recorded documents, Preliminary Change of Ownership Reports (PCORs), and applications for review of assessment are included in the records being scanned. This will allow easy access and reference by the appraisal staff and better service to the public.

In response to recent massive wildfires, the assessor has developed a database of affected parcels with information on calamity applications, improvement status, and permit data. This database is used to track all aspects of the process, from calamity application to restoration of values.

The assessor has also developed a database of residential sales which blends in-house data with information from the Multiple Listing Service (MLS) and includes links to MLS listings and photographs. This database can be queried and reported in a number of ways, and has improved efficiency in processing transfers as well as assessment appeals.

In the administration area, we found the exemptions, assessment appeals, and disaster relief programs to be effectively run. Additionally, we did not find problems with staff property procedures or forms. However, we do note several areas of concern under the training and certification program.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, supplemental assessments, California Land Conservation Act (CLCA) property, possessory interests, leasehold improvements, and water company property. Our primary area of concern involves the change in ownership program. We made one recommendation to improve this program. The recommendation is for the assessor not to include confidential information provided on change of ownership statements on the transfer list. Our next area of concern was the assessor's valuation of timeshares at the lesser of the factored base year value or the current market value.
The assessor has made a number of improvements to the operation of the business property division over the last five years. These improvements include the establishment of a specialized roll-corrections unit for reviewing and processing valuation adjustments related to audits, appeals, and escapes. The number of data entry errors has been significantly reduced, and the number of internal controls increased.

The assessor was acknowledged in 2008 with the California State Association of Counties (CSAC) Challenge Award for the creation of a Mobile Audit Access program (MAA). This program provides county-wide system access to every auditor's desktop. This increased access resulted in the completion of an additional 121 audits, equivalent to the production of five "fully trained" auditors. Additionally, an audit standards committee was formed within the business property division in 2006. All audit templates and work papers were standardized. Monthly training sessions were provided to discuss the latest in assessment practices. These improvements have resulted in a reduction in supervisor audit review time, consistent application of valuation principles, and the production of audits that are easier for taxpayers to understand.

The assessor also implemented an accelerated audit performance timeline that, in five years, reduced the audit backlog from hundreds to fewer than ten. Auditors are required to both schedule and complete audits at a required monthly percentage throughout the year. For 2008-09 the result was a 99.21 percent completion rate.

As evidenced by the significant improvements noted above, the assessor has effective programs for the audit of personal property, valuation of business equipment, discovery of leased equipment, and the discovery and valuation of aircraft. The one area that needed improvement was the processing of business property statements. We made three recommendations for the improvement of this program. The most important of these is for the assessor to assess the section 463 penalty on both secured and unsecured property statements which are not received timely.

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

The San Diego 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 100.22 percent, and the sum of the absolute differences from the required assessment level was 0.67 percent. Accordingly, the BOE certifies that San Diego County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Improve the appraiser certification program by:
(1) ensuring appraisers meet the annual training requirements for section 671, and (2) notifying the BOE of changes to certified appraisers' employment status.
RECOMMENDATION 2: Do not include confidential information provided on the PCOR or COS on the transfer list.

RECOMMENDATION 3: Assess timeshares at the lesser of their factored base year value or the current market value.

RECOMMENDATION 4: Accept only completed business property statements.

RECOMMENDATION 5: Assess section 463 penalty on both secured and unsecured property when business property statements are filed late.

RECOMMENDATION 6: Reference section 463, applying the penalty for failure to file a property statement, and section 501, for the assessor's estimation of property value, when the assessor is making an estimate of value for non-filed property statements.
OVERVIEW OF SAN DIEGO COUNTY

San Diego County, located in the most southwest corner of California, was established by the State legislature on February 18, 1850, as one of the original 27 counties. At the time of its creation, San Diego County covered nearly 40,000 square miles. Included in the original county boundary were the present counties of San Diego, Imperial, Riverside, San Bernardino, and the eastern portion of Inyo.

Today, San Diego County covers approximately 4,255 square miles—65 miles from north to south and 86 miles from east to west. It is the third most populous county with 2.8 million inhabitants\(^3\) and has the third largest assessment roll behind only the counties of Los Angeles and Orange.\(^4\) San Diego County is bordered by Riverside County and Orange County to the north, Imperial County to the east, the Pacific Ocean to the west, and Mexico to the south.

The following table displays information pertinent to the 2008-09 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$183,836,002,000</td>
</tr>
<tr>
<td>Improvements</td>
<td>$211,862,339,000</td>
</tr>
<tr>
<td>Total Gross Secured</td>
<td>$395,698,341,000</td>
</tr>
<tr>
<td>Less Exemptions</td>
<td>($10,337,281,000)</td>
</tr>
<tr>
<td>Total Secured</td>
<td>$385,361,060,000</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Personal Property and Fixtures</td>
<td>$14,232,890,000</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>$399,593,950,000</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>$399,593,950,000</td>
<td>4.4%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>$382,596,095,000</td>
<td>9.2%</td>
<td>9.6%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$350,340,501,000</td>
<td>12.2%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2005-06</td>
<td>$312,145,696,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^3\) Data retrieved on April 19, 2010 from San Diego County's Health and Human Services website: http://www.sdcounty.ca.gov/hhsa/statistics_demographics.html.

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

The following table illustrates gross budget and staffing numbers in the assessor's office for recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>PERCENT CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>$33,932,537</td>
<td>-5.2%</td>
<td>268</td>
</tr>
<tr>
<td>2007-08</td>
<td>$35,810,127</td>
<td>21.4%</td>
<td>268</td>
</tr>
<tr>
<td>2006-07</td>
<td>$29,505,758</td>
<td>7.7%</td>
<td>268</td>
</tr>
<tr>
<td>2005-06</td>
<td>$27,385,361</td>
<td>2.5%</td>
<td>267</td>
</tr>
</tbody>
</table>

Presently, the number of employees totals 268, including 107 real property appraisers, 21 auditor-appraisers, 54 support staff, 50 technicians, and 36 vacant positions located in 5 office locations throughout the county. The assessor's main office is located in Downtown San Diego with district offices in San Marcos, Kearny Mesa, El Cajon, and Chula Vista. Beginning in July of 2009, the offices in Kearny Mesa and Chula Vista were closed to the public due to budgetary constraints. The assessor plans to reopen these offices to the public once the budget allows him to do so.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are 128 certified appraisers on staff, including the assessor. We found that 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.

The San Diego County Assessor's training coordinators oversee the training and certification program for appraisers. Each appraiser's educational progress is tracked and verified with BOE annual training reports. Appraisers are encouraged to take the necessary courses to obtain their advanced certificates as soon as possible. Appraisers who obtain an advanced certificate receive an extra $50 bi-weekly incentive.

According to BOE reports on training hours for certified appraisers, several appraisers with the assessor’s office were reported as deficient in training hours. Upon further investigation, it was
determined that about half of the appraisers with deficient hours have left the assessor's office. The assessor's reports to the BOE did not indicate the certified appraisers had left employment with San Diego County.

**RECOMMENDATION 1:** Improve the appraiser certification program by:
(1) ensuring appraisers meet the annual training requirements for section 671, and (2) notifying the BOE of changes to certified appraisers' employment status.

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

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

Failure to maintain the required continuing education could lead to confusion about current appraisal procedures and practices and 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.

**Notify the BOE of changes to certified appraisers' employment status.**

We found the assessor did not submit a notice of change of employment on BOE-743-A, Report of Property Appraiser's Change in Employment Status, for appraisers that changed employment status. The BOE's training unit provides each assessor with an annual report, summarizing each appraiser's training and certification status. The assessor should review the report to ensure its accuracy.

Rule 283(c) provides that a permanent certificate is suspended when the person to whom it was issued terminates employment with a county assessor, a city and county assessor, or an appraisal commission, but it is automatically reinstated when the person is again employed to perform the duties of an appraiser for property tax purposes. Pursuant to the GUIDELINES FOR APPRAISER'S CERTIFICATION AND TRAINING, transmitted by way of LTA 2003/068, the assessor should notify the BOE when a certified appraiser changes employment status. Failure to notify the BOE of changes to certified appraisers’ employment status creates confusion about the status of appraisers and confusion about training hour requirements.

**Staff Property Procedures**

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

The assessor discovers staff-owned properties through name recognition when a recorded deed is received in the office, through self-declaration by the staff member acquiring the property, and
from the certified staff’s annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests.

Form 700 requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interests in any business entities.

When an appraisal, for either a change in ownership or completed new construction, is required on a staff-owned property or business, the assignment is given to a senior appraiser responsible for the geographical area where the property is located. If the property is owned by a senior appraiser, then a senior appraiser from another area will do the appraisal. Upon completion of the appraisal, it is forwarded to an area supervisor for review and site inspection. The appraisal is then sent to the division chief I for review and approval. Once the division chief I has approved the appraisal, a memo is sent to the division chief II and chief of valuation informing them of the action taken. After 30 days, if no problems are discovered with the valuation, the value is enrolled. This process of review and approval prevents conflicts of interest in the appraisal of staff-owned properties.

We reviewed a number of staff-owned properties and found no problems with their valuation for changes in ownership and completed new construction.

**Assessment Appeals**

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

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

San Diego County Ordinance No. 4953, effective August 18, 1977, provides for the establishment and defines the duties of the county's assessment appeals board (AAB). In addition, the AAB has adopted local rules regarding its procedures. Currently, there are four AABs, each consisting of three members and two alternate members. The board of supervisors appoints members of the AAB.
The recent downturn of the housing market in San Diego County has triggered a substantial increase in the total number of appeals filed. For the 2008 lien date, more than 40,000 assessment appeal applications were filed, compared with 13,150 applications processed in 2007. The filing period for Applications for Changed Assessment in San Diego County is July 2 through November 30.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeals Filed</td>
<td>42,624</td>
<td>13,150</td>
<td>3,334</td>
<td>2,486</td>
<td>2,573</td>
</tr>
<tr>
<td>Appeals Carried Over From Prior Year</td>
<td>3,682</td>
<td>103</td>
<td>44</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Appeals Workload</strong></td>
<td><strong>46,306</strong></td>
<td><strong>13,253</strong></td>
<td><strong>3,378</strong></td>
<td><strong>2,488</strong></td>
<td><strong>2,573</strong></td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawn</td>
<td>2,987</td>
<td>2,083</td>
<td>1,754</td>
<td>1,492</td>
<td>1,635</td>
</tr>
<tr>
<td>Stipulation</td>
<td>5,437</td>
<td>5,564</td>
<td>648</td>
<td>333</td>
<td>355</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>110</td>
<td>45</td>
<td>32</td>
<td>33</td>
<td>36</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>66</td>
<td>409</td>
<td>442</td>
<td>292</td>
<td>353</td>
</tr>
<tr>
<td>Appeals Increased</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Determination*</td>
<td>794</td>
<td>1,470</td>
<td>399</td>
<td>294</td>
<td>192</td>
</tr>
<tr>
<td><strong>Total Resolved</strong></td>
<td><strong>9,394</strong></td>
<td><strong>9,571</strong></td>
<td><strong>3,275</strong></td>
<td><strong>2,444</strong></td>
<td><strong>2,571</strong></td>
</tr>
<tr>
<td>To Be Carried Over**</td>
<td>36,912</td>
<td>3,682</td>
<td>103</td>
<td>44</td>
<td>2</td>
</tr>
</tbody>
</table>

⁵ Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

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

Applications are received by the clerk, where they are date-stamped and reviewed for accuracy. The original application is scanned and a copy is retained by the clerk, who enters all pertinent information regarding the appeal (for example, type of appeal, owner's opinion of value, tax representative, and representative contact information) into a computerized database. The assessor has limited access to the database and is only able to enter information related to work assignments and scheduling. This shared program allows the assessor and the clerk to collaborate on the processing of assessment appeals as they are heard or otherwise resolved within the section 1604 required two-year time frame.

The majority of cases are assigned to an appraiser based on book assignments by appraiser identification codes. Cases which focus on ownership issues are handled by the assessor's

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⁵ Data taken from A Report of Budgets, Workloads, and Assessment Appeals Activities 2008-09, Table J. This information is current as of July 1, 2009.
"assessment appeals board crew." Appraisers have access to the database to review their work assignments and manage their caseloads. Once all of the information is evaluated, the applicant is presented with either a stipulation for reduction or a request to withdraw the case with no change. If the applicant accepts either the stipulation or decides to withdraw their appeal, the paperwork is processed by the clerk and updated in the database. The database tracks and generates stipulation and withdrawal letters which are sent to the applicant as contact notices. If the applicant chooses not to withdraw the appeal or stipulate to a value, the clerk schedules a hearing and sends a notice to the applicant.

Cases are presented before one of the county's four AABs. The applicant and their representative, the appraiser who develops the value determination for the appeal, the supervising appraiser, and a member of the assessment appeals board crew known as a crew-advocate are usually in attendance. Once the AAB renders a decision, the database is updated. The assessor and the clerk both track the progress of assessment appeals through the database to ensure that all appeals are resolved timely.

We reviewed several appeal cases prepared by the assessor's staff and found the assessor's opinion of value is well documented and supported by market data. The assessment appeal program is well administered, and the staff handling the appeals is experienced and well prepared. We found no problems with the assessor's assessment appeals program.

**Disaster Relief**

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

To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assesse 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 San Diego County Board of Supervisors has adopted a disaster relief ordinance which provides relief for any taxable property that is damaged or destroyed by misfortune or calamity. Ordinance No. 9889 was updated October 26, 2007 and conforms to all current statutory
provisions. With this authority, the assessor has taken a proactive stance, initiating reassessment upon discovery of damaged property and notifying taxpayers of proposed reassessments.

The following table represents the number of disaster relief assessments over recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>APPLICATIONS RECEIVED</th>
<th>APPLICATIONS COMPLETED</th>
<th>APPLICATIONS TO BE PROCESSED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>62</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,913</td>
<td>1,907</td>
<td>6</td>
</tr>
<tr>
<td>2006-07</td>
<td>77</td>
<td>77</td>
<td>0</td>
</tr>
</tbody>
</table>

The assessor discovers instances of properties damaged by disaster or calamity through building permits issued for repairs, newspaper articles, taxpayer-initiated contacts, and field canvassing. Additionally, appraisers report any disasters or calamities discovered in their assigned geographical areas of responsibility.

We found the assessor processed relief applications in a timely manner and was pro-active about notifying taxpayers of their rights under the county ordinance. Furthermore, in our review of parcels granted disaster relief, we found the assessor correctly calculated and assigned disaster relief to qualifying properties.

The assessor's application for disaster relief provides that the property owner has 12 months from the date the damage occurred to file the application and that the damage must be in excess of $10,000. The application is in compliance with the current provisions of section 170.

Applications for disaster relief are available on the assessor's website and at the public counter. Upon the discovery of a disaster or calamity, the assessor mails an application with a cover letter. The completed disaster relief applications are sent to the assessor's main office. Upon receipt they are date-stamped and the information is logged into a spreadsheet for tracking. A packet is assembled and sent to the appraiser assigned to the area in which the parcel is located. The packet contains a stipulation worksheet and denial form. After the appraiser analyzes the application, the packet is completed and returned to the main office. The assessor notifies the applicant of the amount of the proposed reassessment. The notice correctly states that the applicant may appeal the proposed reassessment to the local AAB within six months of the date of mailing the notice.

We found no problems with the assessor's disaster relief program.

**Exemptions**

**Church and Religious Exemptions**

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206,
exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of 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 assessor processed 120 church exemption claims and 1,430 religious exemption claims for the 2008-09 assessment roll. The following table illustrates church and religious exemption data 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>120</td>
<td>$39,281,280</td>
<td>1,430</td>
<td>$1,081,102,984</td>
</tr>
<tr>
<td>2007-08</td>
<td>95</td>
<td>$28,312,301</td>
<td>1,355</td>
<td>$1,015,832,012</td>
</tr>
<tr>
<td>2006-07</td>
<td>65</td>
<td>$9,289,598</td>
<td>1,308</td>
<td>$940,765,912</td>
</tr>
<tr>
<td>2005-06</td>
<td>97</td>
<td>$17,682,686</td>
<td>1,369</td>
<td>$901,341,435</td>
</tr>
</tbody>
</table>

The assessor maintains an effective program for administering the church and religious exemptions. The assessor has written procedures for processing exemptions which refer to the Assessors’ Handbook Section 267, Welfare, Church, and Religious Exemptions; Publication 149, Property Tax Welfare Exemption; and to other advisory information distributed at BOE exemptions workshops. Field inspections of properties for which the church or religious exemption are claimed are performed when necessary.

For religious exemptions the assessor sends BOE-267-SNT, Religious Exemption Change in Eligibility Termination Notice (card), and verifies that all claimants have returned the cards to his office. His procedures are effective, and we found no problems with his administration of the religious exemption.

As required by sections 255 and 256, claimants for the church exemption are required to file an annual claim using BOE-264-AH. As with the religious exemption program, we found the assessor's church exemption program well documented and properly administered.
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 that own and operate low-income housing and have a qualified organization (OCC holder) as the managing general partner. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

The assessor processed 3,970 welfare exemption claims for the 2008-09 assessment roll. The following table shows welfare exemption data taken from recent assessment rolls:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>WELFARE EXEMPTION</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>3,970</td>
<td>$7,759,007,659</td>
</tr>
<tr>
<td>2007-08</td>
<td>3,798</td>
<td>$7,102,171,751</td>
</tr>
<tr>
<td>2006-07</td>
<td>4,250</td>
<td>$6,689,528,248</td>
</tr>
<tr>
<td>2005-06</td>
<td>4,110</td>
<td>$6,076,907,071</td>
</tr>
</tbody>
</table>

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. During our review of exemption claims, we inspected claims for low-income housing property, including properties owned by a limited partnership holding an SCC. Our review indicated the assessor is properly administering the welfare exemption, obtaining an OCC from each claimant that requests a welfare exemption, reviewing each claim and any supporting documents before granting an exemption, appropriately examining an organization's property holding a valid SCC, and correctly allocating exemption values and taxable values of properties receiving partial exemptions. 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 value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of exemption is $100,000 or, for qualifying low-income veterans, $150,000. Both these amounts are adjusted annually by a cost of living index.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as their principal place of residence as of the lien date, or the property is otherwise ineligible.

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

The assessor processed 533,536 homeowners' exemption claims and 4,065 disabled veterans' exemption claims for the 2008-09 assessment roll. The following table illustrates homeowners' and disabled veterans' exemption data 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>533,536</td>
<td>$3,734,119,981</td>
<td>4,065</td>
<td>$402,623,947</td>
</tr>
<tr>
<td>2007-08</td>
<td>530,915</td>
<td>$3,715,637,031</td>
<td>4,075</td>
<td>$387,625,869</td>
</tr>
<tr>
<td>2006-07</td>
<td>526,224</td>
<td>$3,682,414,665</td>
<td>4,041</td>
<td>$369,224,603</td>
</tr>
<tr>
<td>2005-06</td>
<td>519,568</td>
<td>$3,635,568,814</td>
<td>3,994</td>
<td>$353,384,905</td>
</tr>
</tbody>
</table>

Our review indicates the assessor properly processed claims for homeowner's and disabled veteran's exemptions. The assessor submits information regarding homeowners' exemption claims to the BOE in the appropriate manner. Claim forms for the disabled veterans' exemption were submitted timely with proper exemption allowed, either basic or low-income, and for the year requested. 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. 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 BOE 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, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

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

Review of the forms used by the San Diego County Assessor's Office for the year 2009 revealed the following:

- The Assessor used 71 of the BOE-prescribed forms.
- Of the 71 forms used, 25 were rearranged.
- The assessor has timely provided the BOE with copies of rearranged forms, final prints, and forms checklists.

We have no recommendations for this program.

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6 Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.
ASSessment of Real Property

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of change in ownership for property tax purposes. Section 50 requires the assessor to 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.

County Specific Programs

The San Diego County Assessor and his staff pride themselves on educating the public about property tax issues and advising them of available tax programs. The assessor and his staff stress the importance of providing quality customer service to build a positive relationship with the public. To help build that relationship, the assessor has created a public outreach program. A representative from the assessor's office speaks to local clubs such as Kiwanis, Lions, and Rotary as well as senior communities regarding changes in ownership and various tax programs on a weekly basis. The response from the public has been positive.

The assessor is also proactive in notifying property owners of potential change in ownership exclusions when certain questions on BOE-502-A, Preliminary Change of Ownership Report (PCOR), or BOE-502-AH, Change of Ownership Statement (COS), indicate the possibility. When indicated, staff sends section 63.1 and section 69.5 claim forms and informational packets to property owners, tracks responses, and sends reminder letters before reassessing properties.
We commend the assessor for creating successful programs and for being proactive in public awareness.

Document Processing

San Diego County maintains detailed policies and procedures for staff in processing changes in ownership. The declining real estate market is reflected in the drop in transfers. The following table shows the total number of reappraisable transfers in San Diego County in recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>REAPPRAISABLE TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>72,115</td>
</tr>
<tr>
<td>2006-07</td>
<td>84,963</td>
</tr>
<tr>
<td>2005-06</td>
<td>108,497</td>
</tr>
<tr>
<td>2004-05</td>
<td>120,239</td>
</tr>
</tbody>
</table>

The assessor's primary source of discovering properties which have changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires a PCOR accompany documents submitted for recordation for the transfer of ownership of real property unless exempt from the requirement. If a transfer document is received without a PCOR, the recorder's office will apply a $20 charge to the recording fee. PCORs are available at both the assessor's and recorder's office as well as from the county's website. Local ordinance requires the assessor's parcel number on all deeds.

The recorder's office does not initially screen documents sent to the assessor. All recorded documents are sent electronically from the recorder's office to the assessor's office. Specialized sections in the assessor's office streamline the change in ownership process.

The Document Processing (DP) unit starts the process. The DP unit prints documents of interest and inputs information from deeds and other legal documents into the computer, which creates and updates taxable and nontaxable assessment records. Legal descriptions are verified, and the initial determination of reappraisability is made. If the transfer results in a reappraisable event and is a 100 percent transfer with a PCOR attached, the DP unit sends the information directly to an appraiser for valuation. If the transfer is questionable or is not a 100 percent transfer with a PCOR attached, the DP unit sends the document to the Sales Verification (SV) unit for additional research. Legal entity transfers are sent directly to the Legal Entity (LE) unit. If the transfer results in a non-reappraisable event, the information is noted, filed, and no further review is made. Approximately two weeks pass from the time the document is received from the recorder to the time the DP unit completes this portion of the change in ownership process.

The SV unit reviews the information entered by the DP unit for accuracy, makes contact with the property owner if necessary, sends any applicable forms to the property owner, tracks the forms, and makes a final determination on reappraisability. If the transfer results in a reappraisable event, the information is disbursed to the various field offices and assigned to appropriate
appraisers for valuation. We examined several recorded documents and found the assessor conducts a proper and thorough review for reappraisable events.

Penalties

Upon deed recordation, if a PCOR is not filed with the recorded document that involves a 100 percent transfer, the DP unit updates the property record on the computer and removes a "P" code, indicating no PCOR has been returned. This causes the computer to automatically generate the first COS with the date the COS is due. Approximately 31 days after the first mailing, a second COS is mailed via certified mail along with a penalty warning and penalty abatement application. The taxpayer is given an additional 15 days to respond to reach the mandated 45 days. San Diego County counts the allowed 45 days by business days, not calendar days. A log is maintained to track the final deadline for a property owner to file a COS before the penalty is processed. If the second COS is not returned by the deadline, the property is reappraised by an appraiser using the transfer tax, cost approach, or market approach to determine the new value. Once a new value has been placed on the property, the penalty is applied. The assessor cannot automatically abate a penalty since the county has not adopted a resolution in accordance with section 483 allowing such action; instead, the property owner must file an application for abatement with the board of supervisors.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The assessor's office refers to this listing as the sales index. The assessor's main office and field offices have computers available in the lobby for the public to access transfer information. As required by section 408.1(b), the sales index is divided into geographical areas. Pursuant to section 408.1(c), the sales index identifies the transferee, the parcel number, address, the date of recording, and recording reference number. Although the assessor meets the requirements of sections 408.1(a), (b), and (c), confidential information is inappropriately disclosed.

**RECOMMENDATION 2:** Do not include confidential information provided on the PCOR or COS on the transfer list.

The county's sales index electronically pulls the confirmed sales price of a property rather than the documentary transfer stamp value from the assessor's computer system. Therefore, the sales index contains confidential sales information furnished by the COS or PCOR.

While section 408.1(c)(6) provides that the transfer list include the consideration paid where know by the assessor, section 408.1(f) prohibits a county assessor from including information on the list which was furnished in the COS by the transferee and is not otherwise public information. Additionally, section 481 requires a county assessor to hold secret all information furnished on either the PCOR or COS.

As a PCOR and a COS are not public documents, the assessor should not include the confirmed sales price obtained from either of these documents on the sales index, except to the extent the information is otherwise disclosed, known, or published and available from other sources.
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.

The LE unit receives all recorded legal entity transfers from the DP unit to process. The county also discovers potential changes in control or ownership of legal entities from news articles, commercial appraisers, word of mouth, and BOE reports.

When the county receives the BOE monthly LEOP reports, a hard copy for each entity reporting property in San Diego County is printed. The LE unit reviews the effective date and what change(s) occurred. The reported parcel numbers located in San Diego County are checked against the assessor's database, and a name check is done to determine if any other parcel numbers in the county may be affected. Our review of several records showed the county does a thorough job in reviewing LEOP reports and reassessing all property interests identified on BOE-100-B, Statement of Change in Control and Ownership of Legal Entities. The assessor also reviews any additional properties owned by the entity not reported on the form. In recent years, the county has not discovered any late filings of BOE-100-B.

The LE unit also processes all long and short term lease transactions. The county discovers lease transactions through recorded documents. The county typically requests copies of all long term leases to discover lease terms for reappraisal purposes.

Once legal entity and lease documents have been processed and determined to be reappraisable events, the information is sent to an appraiser or auditor for valuation.

Change in Ownership Exclusions – Section 63.1

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of the principal residences and the first one million dollars of other real property between parents and children. The exclusion also applies to certain qualifying purchases or transfers from
grandparents to their grandchildren. Applications and information regarding the exclusion are available to the public at the assessor's office and at the assessor's website.

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>SECTION 63.1 CLAIMS Filed</th>
<th>SECTION 63.1 CLAIMS Granted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>6,245</td>
<td>6,394</td>
</tr>
<tr>
<td>2007-08</td>
<td>6,100</td>
<td>6,743</td>
</tr>
<tr>
<td>2006-07</td>
<td>6,570</td>
<td>7,533</td>
</tr>
<tr>
<td>2005-06</td>
<td>7,300</td>
<td>8,150</td>
</tr>
<tr>
<td>2004-05</td>
<td>7,490</td>
<td>7,686</td>
</tr>
</tbody>
</table>

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

Where a PCOR or COS indicates a transfer may qualify for the exclusion, the county sends interested parties a claim form along with a pamphlet explaining the exclusion. Claim forms are tracked, and a reminder letter is sent if a form is not returned within 15 days. If there has been no reply within six weeks of the initial claim form, the property is reappraised.

San Diego County submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the county receives the quarterly Report of Transfers Exceeding $1,000,000 from the BOE, the report is reviewed to determine if property in San Diego County has exceeded the limit. The county also tracks such transfers by social security number. If multiple properties transfer within a short period of time, the county allows the property owner or representative to determine which property(s) to exclude and which to reassess. If parcels exceeding the limit are in counties other than San Diego and the transfer dates are the same or within a short period of time, the county will first contact the property owner to determine how they would like to have the excess allocated and reassessed and then contact the other county to confirm how each will handle the excess. If transfer dates are not the same and the transfer in San Diego County is the most recent transfer exceeding the limit, the county will reappraise the property or portion of which exceeds the limit.

Pursuant to section 63.1(i), the county protects confidential information furnished on claims by keeping all claim forms in a locked and secure area not accessible to the public.

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7 Includes claims held over from prior years.
Change in Ownership Exclusions – Section 69.5

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 purchase or completion of the new construction of the replacement dwelling. Section 69.5 authorizes individual county boards of supervisors to expand this exclusion to include intercounty transfers.

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>SECTION 69.5 CLAIMS FILED</th>
<th>SECTION 69.5 CLAIMS GRANTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>1,342</td>
<td>1,163</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,544</td>
<td>1,350</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,803</td>
<td>1,585</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,721</td>
<td>1,453</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,602</td>
<td>1,311</td>
</tr>
</tbody>
</table>

San Diego County accepts base year value transfers from other counties. If a PCOR or COS indicates a transfer may involve a section 69.5 base year value exclusion, the county sends interested parties a claim form along with an informational packet explaining the exclusion.

All section 69.5 claims are reviewed by a Property Assessment Specialist III (PAS III). Appraisers determine the fair market value of both the replacement and original properties and return the values to the PAS III for approval. The PAS III determines if the claim will be accepted or denied and sends a letter to the property owner accordingly.

San Diego County submits required quarterly reports to the BOE listing approved section 69.5 exclusions. To avoid duplicate filing of a section 69.5 claim, the county tracks all applications in a database. When a claim is filed, a clerk enters the property owner's social security number into the computer system. The computer indicates if there is a match of the social security number; this allows the county to review information in the database and determine if the exclusion will be accepted or denied. The county also reviews the quarterly Duplicate SSN Report from the BOE to determine if any claims made in San Diego County duplicate any claims made in another county.

Pursuant to section 69.5(n), the county protects confidential information furnished on the claim form by scanning all forms into the computer system and allowing only authorized personnel to access the information. Hard copies of all claim forms are sent to a secure storage facility.
Change in Ownership Exclusions – Section 62(p)

As of January 1, 2006, San Diego County processes changes in ownership of registered domestic partners similar to the way interspousal transfers are processed. Before an exclusion is granted, the county requires confirmation that the partnership is registered with the California Secretary of State. Pursuant to section 62(p), San Diego County provides prospective relief for eligible transfers between January 1, 2000 and January 1, 2006. The county requires BOE-62-DP, Claim for Reassessment Reversal For Registered Domestic Partners, be filed to be considered for the relief. The county is aware a property owner must have filed a claim form by June 30, 2009 to receive a reversal of reassessment.

Valuation

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

Direct Enrollment Program

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

The assessor's computer system will directly enroll a confirmed sales price if it falls within certain parameters. The current program assigns a land value based on the neighborhood and does a cost approach on the improvement. All properties fitting the criteria for direct enrollment are reviewed by an appraiser to verify that the value accurately represents market value. Approximately 7 percent of all sales in 2008-09 were directly enrolled.

Improvement Bonds

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

San Diego County has a few improvement bonds in the Spring Valley and Chula Vista areas. We have no recommendations regarding improvement bonds for San Diego County
New Construction

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

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

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

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from 19 permit-issuing agencies. Four of these agencies transmit permits electronically; the others transmit permits in hard-copy format. The assessor also discovers new construction through field canvassing and by reviewing business property statements.

When new construction of more than $100,000 is noted on BOE-571-L, Business Property Statement (BPS), the business property division forwards a copy of the BPS to the real property division for assessment. This process is discussed in greater detail in the Leasehold Improvements section of the survey.

Permit Processing

Each permit-issuing agency sends permits to the nearest district office. The clerical staff at each district office review the permits to ensure the addresses and parcel numbers are correct and to cull plumbing, re-roofing, and other no-value-added projects. Relevant permit information from the remaining permits is entered into a spreadsheet which is forwarded to the downtown office.

The downtown office generates a Property Appraisal Record (PAR) for each parcel (multiple permits for the same parcel may all appear on one PAR). The PAR indicates a building permit was issued and includes the current roll values and a space to enter updated roll values. The assessor's system automatically delays the printing of PARs until completion of the construction project is likely to have occurred.

The downtown office also creates a Declaration of New Construction, which is mailed to the property owner. This letter requests information such as construction costs, completion date, and description of new construction. There are six Declaration of New Construction templates which vary based on permit and property type. Printed PARs and completed Declarations of New
Construction are sent to the Kearny Mesa office for distribution to the appropriate district office. At the district office the PARs and Declarations of New Construction are assigned to appraisers based on property type and geographical location.

In addition to permits, the assessor receives Notices of Completion and copies of building plans. The permit-issuing agencies send building plans directly to the local district offices where they are scanned into the computer imaging system. The scanned plans are accessible by the appraisers in any office, eliminating the need to transfer plans between offices.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The assessor relies primarily on the cost approach to value residential new construction; however, the market and income approaches may also be considered when appropriate. When valuing new construction for commercial and industrial projects, the assessor relies on cost, market and income approaches. The assessor uses a variety of sources to develop a cost indicator of value for new construction. These sources include Assessors' Handbook Section 531, Residential Building Costs (AH 531), owners' reported costs, and cost surveys conducted by the office. The Marshall Valuation Service is used for nonresidential properties.

If the permit is for a small, low-value project, the appraiser may value the construction without a field check using the information from the Declaration of New Construction. For larger projects a field check is required even if the questionnaire is completed and returned. Once a determination of value is made, the appraiser adds the new construction value to the prior roll value and enters the new total roll value on the PAR. A supervisor reviews the appraisal and forwards the PAR to Data Processing where the new value is entered into the computer system.

We found no problems with the assessor's program for discovery, valuation, and assessment of newly constructed property.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the factored base year value adjusted for inflation up to 2 percent.
The following table shows the number of decline-in-value assessments for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>NO. OF DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>96,745</td>
</tr>
<tr>
<td>2007-08</td>
<td>29,527</td>
</tr>
<tr>
<td>2006-07</td>
<td>19,389</td>
</tr>
<tr>
<td>2005-06</td>
<td>21,496</td>
</tr>
<tr>
<td>2004-05</td>
<td>23,727</td>
</tr>
</tbody>
</table>

Due to unfavorable economic conditions, property values in many areas of California have either declined or stagnated. As a result, assessors have reduced taxable values below FBYVs. San Diego County is no exception. The assessor continues to monitor the local market for any changes and is proactive in processing declines in value when discovered.

The assessor has written policies, procedures, and forms dealing with declines in value. The assessor relies on owner requests for review and assessment appeal filings to discover declines in value.

Appraisers keep abreast of recent developments and changes in the market by reviewing information from various sources such as newspapers and realty oriented websites. San Diego County does not have a formal or computerized program to annually identify properties with a market value less than the FBYV. However, the assessor has revised the decline-in-value program to include the use of a database to aid in handling the high volume of requests for decline-in-value reviews. The database is populated with an assortment of information from various sources. The database contains information from properties sold in prior years which have been identified as potential decline-in-value properties, information from assessment appeal cases and applications, existing properties with decline-in-value status, information compiled on neighborhoods, and information from Multiple Listing Service listings. The assessor has placed information on the San Diego County website to notify the public about declines in value and is proactive in performing market studies in defined neighborhoods. The assessor is currently making mass adjustments in homogeneous tracts where sufficient comparable sales data supports the reduction.

Our review of several decline-in-value properties shows the appraisers include comparative sales analysis with each property reviewed.

**Supplemental Assessments**

Sections 75 through 75.80 mandate that the assessor enroll supplemental assessments for changes in ownership and the completion of new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completion of new construction occurs between January 1 and May 31, then two supplemental
assessments will result from the same event: one for the remainder of the current fiscal year, and another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The San Diego Assessor has a completely automated, event-driven supplemental assessment system. Appraisers value properties and complete a posting sheet, which is submitted for data entry after review. Once the value is posted, the computer system automatically calculates the supplemental bill, sends out the Notice of Supplemental Assessment, and forwards the information to the auditor for billing. On average, taxpayers receive a supplemental bill within three to four months after the effective date of the reappraisable event.

We reviewed a number of records for properties experiencing a change in ownership or new construction. We found the assessor enrolls supplemental assessments in a timely manner, and the assessor's system accurately calculates the supplemental assessment amounts.

**California Land Conservation Act Property**

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, for example, hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

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

For the 2007-08 assessment roll, San Diego County had a total of 61,009 acres comprised of 991 parcels under CLCA contract, including 863 acres in nonrenewal status. The total assessed value for land and living improvements for all CLCA properties was $129,187,862. One staff appraiser is responsible for the assessment of all CLCA properties. Restricted values are calculated annually by the Agricultural Preserve Database (APD), a program developed by the assessor. The APD also tracks the factored base year value of each property and includes a field for the appraiser to input current market value. The APD then compares the three values and enrolls the lowest. Due to the high cost of property in San Diego County, the market value has consistently been the highest of the three values.

**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 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. We found that this is the assessor's policy and practice.

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.

The assessor gathers income and expense information from a variety of resources, including CLCA questionnaires, interviews with property owners and grove managers, agricultural classified advertisements, the yearly crop report, and the Farmland Trust. The assessor values most crop land based on share rent information gathered from the above sources. Grazing land is valued using the rent received per acre. Appropriate income and expense information is used to calculate an income per acre for each crop type. This value is entered into the APD each year.

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:

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8 Assessment of Agricultural and Open-Space Properties, October 2003, page II-51.
An interest component annually determined and announced by the BOE;

- 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.

The assessor utilizes appropriate capitalization rates, including a component for risk, when determining the restricted values of CLCA properties. As recommended by AH 521, the assessor uses a basic risk component of 1 percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. Pursuant to AH 521, this risk rate may be adjusted by the appraiser based on his knowledge of risk factors for various crop types. The appraiser continually documents and files information on factors which may significantly impact a property's projected net income stream. Once a risk rate is determined for each crop type, it is combined with the other components required by section 423(b) and entered into the APD.

By annually revaluing CLCA lands using the current yield rate and current economic income, the assessor has properly assessed these lands. Over all, we found the assessor has an effective CLCA program and is in compliance with applicable statutes.

**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 is responsible for identifying and valuing taxable possessory interests upon their creation, renewal, or renegotiation of the lease, and upon the construction of new improvements on the property.

The San Diego County assessor's program for discovering taxable possessory interests includes annual polling of all government entities in the county and requesting information on agreements with private parties. Each year the assessor contacts approximately 148 government agencies and 22 school districts by letter to request current information on new or changed tenancies and rents. There are 4,814 taxable possessory interests currently enrolled, having an assessed value of approximately $8.1 billion.
Valuation and monitoring of taxable possessory interests is the primary responsibility of two appraisers. The supervising appraiser reviews the valuation findings for all possessory interests.

We reviewed several taxable possessory interests with month-to-month terms of possession, including storage, office, restaurant, retail and employee housing uses. In determining the reasonably anticipated term of possession for these types of properties, the assessor considers the history, customs, and practices of the private possessor and the public owners and their relationships with each other. We looked at properties with one, two, and three-year anticipated terms. We found the assessor is properly assessing these properties as required by section 61(b)(2).

The assessor values taxable possessory interests at the lower of the factored base year value or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, change in rent, stated term of possession, or any other factors causing a decline in value.

We found the assessor's possessory interest program to be well administered, comprehensive, and in compliance with current statutes. We have no recommendations regarding the assessment of possessory interest properties for San Diego County.

**Restricted Historical Property**

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

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

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

For the 2007-08 assessment roll, the assessor enrolled 1,114 qualifying historical properties with an assessed value of $332,203,680. Of these, 881 are owner-occupied.
The following table illustrates the growth in assessed values for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>NO. OF PROPERTIES</th>
<th>NO. OF OWNER OCCUPIED</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>1,114</td>
<td>881</td>
<td>$332,203,680</td>
</tr>
<tr>
<td>2006-07</td>
<td>993</td>
<td>761</td>
<td>$312,458,559</td>
</tr>
<tr>
<td>2005-06</td>
<td>882</td>
<td>663</td>
<td>$280,250,537</td>
</tr>
<tr>
<td>2004-05</td>
<td>804</td>
<td>586</td>
<td>$235,266,699</td>
</tr>
</tbody>
</table>

We reviewed several historical property records. Most of the appraisal files include a property description record, a copy of the contract, and an annual valuation report. Some contracts are held in an imaging system; all document numbers for new contracts are noted on the appraisal parcel record.

The assessor annually enrolls properties of this classification at the lowest of their factored base year value, current market value, or restricted value. The assessor uses a 4 percent risk component for owner-occupied properties and a 2 percent risk component for non owner-occupied properties. The county's valuation procedures are in compliance with sections 439 through 439.4.

We found the assessor's restricted historical property program to be very effective and well administered.

**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 or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

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

Structural tenant improvements are discovered through the building permit process or reported costs on Schedule B of the BPS. When a taxpayer reports structural costs on Schedule B, the
business property division reviews any amount between $10,000 and $100,000 and determines the correct classification of the improvement and whether it is assessable. Any fixture reported between these amounts is classified as a fixture and enrolled as long as it appears consistent with the type of business conducted. Structural items between those amounts are reviewed to determine if the item is actually a structure or should be classified as a fixture. If the business appraiser determines that the item should be classified as a fixture, it is enrolled as such. Items determined to be structural or of questionable classification are forwarded to the real property division. If the total costs in the structure column are $100,000 or more, the business property division is required to send a copy of Schedule B to the real property division. The original BPS is entered in the assessor's imaging system and sent to the real property division through a workflow system.

The real property division sends a *Declaration of New Construction of Tenant Improvements* and rental information form to taxpayers to obtain more detailed costs and rental information. The real property division notifies the business property division of any improvements and which division will have the ultimate responsibility for enrolling the assessment. Generally, the real property division assesses tenant improvements to the owner of the structure. A tenant improvement record is kept in the real property appraisal file; this assists in tracking tenant improvements on a parcel having several tenancies.

We reviewed the assessor's records for discovery, coordination, classification, communication, and assessment process, and we found no problems in the assessor's leasehold improvement discovery and appraisal program.

**Timeshares**

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable non-real-property items. Examples of non-real-property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

San Diego County has 26 timeshare projects with 72,855 intervals. For the 2008-09 roll year, the total assessed value of these interests was $692,633,119. Each timeshare unit is assigned its own assessor's parcel number and land use code.

Timeshare values vary according to location, size of the living unit, and time of year purchased. In San Diego, locations near the beach or Del Mar Racetrack typically sell for higher prices compared to other locations. Timeshare intervals throughout the county for summer and the holidays sell for higher prices.

The assessor maintains timeshare appraisal records in electronic files. There are no hard-copy building records for individual timeshare interests, but each timeshare assessment can be
reviewed online by parcel number. Information in the database includes name of timeshare project, assessor's parcel number, unit type or model, parties involved in transfer, sales price, and sales date. This information allows the assessor to identify differences in sales price due to location and season and to identify sales between parties to determine if they are arms-length transactions. One appraiser is responsible for the assessment of all timeshare parcels in the county.

The county has made a study of initial timeshare sales from developers to private parties and determined that 35 percent of the sales price can be attributed to non-real-property items such as marketing, financing, exchange rights, furniture, club memberships, and maintenance fees. Consequently, upon such an initial sale only 65 percent of the sale price is enrolled.

The assessor relies primarily on the local resale market, using the sales comparison approach, to value timeshare estates transferred between individuals. We reviewed several timeshare estate properties and compared recent sales in each respective project with the assessor's enrolled values for the transfers. The market values were properly evaluated and enrolled. However, we did find one area needing improvement.

**RECOMMENDATION 3:** Assess timeshares at the lesser of their factored base year value or the current market value.

We found that once the market value of an individually traded timeshare estate was enrolled, the new base year value was not factored for inflation by the California Consumer Price Index pursuant to article XIII A. Instead, the assessor re-enrolled the original base year value every year despite evidence that the market value of these properties had changed significantly. The original base year value was maintained until the property sold again. Section 51 states that the taxable value of real property shall be the lesser of its base year value factored annually for inflation, or its full cash value, as defined in section 110, on lien date.

By failing to consider the factored base year values for timeshare estate properties and comparing them to current market values, the assessor may have underassessed or overassessed some of these properties. Furthermore, this method of valuation may lead to incorrect supplemental assessments by understating or overstating the taxable value on the current roll.

**Water Company Property**

Taxable water company properties may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company presents different assessment issues for the property owned by them.

We reviewed assessments of municipal water systems, private water systems, and mutual water companies and found the assessor correctly values these water systems.
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.

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 property taxpayers with personal property holdings subject to the property tax.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AUDITS SCHEDULED</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MANDATORY</td>
<td>752</td>
<td>774</td>
<td>717</td>
<td>764</td>
<td>741</td>
</tr>
<tr>
<td>NON-MANDATORY</td>
<td>20</td>
<td>23</td>
<td>27</td>
<td>13</td>
<td>47</td>
</tr>
<tr>
<td>CONTRACT AUDITS (CCASE)</td>
<td>103</td>
<td>154</td>
<td>150</td>
<td>180</td>
<td>140</td>
</tr>
<tr>
<td><strong>TOTAL AUDITS SCHEDULED</strong></td>
<td>875</td>
<td>951</td>
<td>894</td>
<td>957</td>
<td>928</td>
</tr>
<tr>
<td>UNFINISHED FROM PRIOR YEARS</td>
<td>12</td>
<td>11</td>
<td>26</td>
<td>33</td>
<td>99</td>
</tr>
<tr>
<td><strong>TOTAL AUDIT WORKLOAD</strong></td>
<td>887</td>
<td>962</td>
<td>920</td>
<td>990</td>
<td>1027</td>
</tr>
<tr>
<td><strong>AUDITS COMPLETED</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MANDATORY</td>
<td>860</td>
<td>927</td>
<td>882</td>
<td>951</td>
<td>947</td>
</tr>
<tr>
<td>NON MANDATORY</td>
<td>20</td>
<td>23</td>
<td>27</td>
<td>13</td>
<td>47</td>
</tr>
<tr>
<td><strong>TOTAL AUDITS COMPLETED</strong></td>
<td>880</td>
<td>950</td>
<td>909</td>
<td>964</td>
<td>994</td>
</tr>
<tr>
<td><strong>AUDITS CARRIED FORWARD</strong></td>
<td>7</td>
<td>12</td>
<td>11</td>
<td>26</td>
<td>33</td>
</tr>
</tbody>
</table>

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, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. The assessor requested only 12 waivers, all signed by property owners, for scheduled audits not completed during the current year. We 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 that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. We sampled several recently completed audits and found that in all cases mandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

**Business Property Statement Program**

Section 441 requires that each person, owning taxable personal property (other than a manufactured home) having an aggregate cost of $100,000 or more, to annually file a business property statement (BPS) with the assessor; other people 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.

**Discovery**

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate and current listings of assessable business properties. Discovery sources are field canvass, building permits, business licenses, business directories, telephone directories, BOE-600-B, *Report of Locally Assessable Equipment Leased to State Assessees*, and tenant information from landlords.

The assessor has an excellent discovery program in place to discover new businesses. One of the discovery methods the assessor uses is to assign appraisers field books to update annually with new businesses.

**Workload**

In 2008-09, the assessor processed over 100,000 property statements with a combined value of over $22 billion. When compared with the 2002-03 fiscal year in the prior survey, the assessor has seen an approximate 67 percent increase in filings with a value increase of approximately 44 percent.
The following table displays the assessor's workload of property statements for businesses, leased equipment, and other property types for the 2008-09 assessment roll:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>TOTAL COUNT</th>
<th>SECURED VALUE</th>
<th>UNSECURED VALUE</th>
<th>TOTAL VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>237</td>
<td>$6,023,259</td>
<td>$38,749,407</td>
<td>$44,772,666</td>
</tr>
<tr>
<td>Apartments</td>
<td>1,173</td>
<td>$52,279,634</td>
<td>$10,308,625</td>
<td>$62,588,259</td>
</tr>
<tr>
<td>Direct Bill</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Financial</td>
<td>1,325</td>
<td>$3,380,027</td>
<td>$116,176,966</td>
<td>$119,556,993</td>
</tr>
<tr>
<td>Gen. Business</td>
<td>62,805</td>
<td>$2,921,351,538</td>
<td>$15,001,006,122</td>
<td>$17,922,357,660</td>
</tr>
<tr>
<td>Leased Equip.</td>
<td>16,705</td>
<td>$0</td>
<td>$1,150,966,074</td>
<td>$1,150,966,074</td>
</tr>
<tr>
<td>Service Stations</td>
<td>728</td>
<td>$45,006,093</td>
<td>$70,984,689</td>
<td>$115,990,782</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vessels</td>
<td>18,217</td>
<td>$0</td>
<td>$838,135,218</td>
<td>$838,135,218</td>
</tr>
<tr>
<td>Aircraft</td>
<td>2,801</td>
<td>$0</td>
<td>$1,830,449,865</td>
<td>$1,830,449,865</td>
</tr>
<tr>
<td>Water Company</td>
<td>4</td>
<td>$0</td>
<td>$43,200</td>
<td>$43,200</td>
</tr>
<tr>
<td>Power Company</td>
<td>18</td>
<td>$7,192,646</td>
<td>$148,514,055</td>
<td>$155,706,701</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>104,013</strong></td>
<td><strong>$3,035,233,197</strong></td>
<td><strong>$19,205,334,221</strong></td>
<td><strong>$22,240,567,418</strong></td>
</tr>
</tbody>
</table>

We reviewed the assessor's property statement processing procedures and files to ensure they conform to statutory and regulatory guidelines. A sampling of BPSs was reviewed to verify the use of BOE-prescribed forms, processing by certified staff, completeness of statements, correct application of penalties, and coordination between the real property and business property division.

The assessor has excellent written procedures that are available to staff in an electronic format. In general, the assessor has an effective BPS program; however, we noted several areas where improvement is needed.

**RECOMMENDATION 4:** Accept only completed business property statements.

We found several accounts where *Part I: General Information* of the BPS was not complete. This section contains questions regarding possible changes in ownership, related entities in the county, ownership of land where the business is located, leasehold improvements, or a taxpayer's change in location.

Section 441(g) allows the assessor to refuse to accept any property statement he determines to be in error. Unanswered questions could be considered an error. Accepting incomplete BPSs increases the possibility of an erroneous assessment. When a taxpayer does not respond to these questions, important information is missing. This could result in erroneous assessments.
RECOMMENDATION 5: Assess section 463 penalty on both secured and unsecured property when business property statements are filed late.

We found the assessor is unable to assess a section 463 penalty on secured properties due to limitations of their computer system.

Section 441(b) provides that the penalty prescribed by section 463 be applied to statements not filed by May 7. Section 463 prescribes a late-filing penalty of 10 percent of the assessed value, to be added to the assessment on the current roll.

By applying the section 463 penalty only to accounts on the unsecured roll, the assessor is not treating all taxpayers in a uniform and equitable manner, and is not complying with statutory provisions. The assessor's practice may convey the message that, for certain property types, there are no consequences to late-filing.

RECOMMENDATION 6: Reference section 463, applying the penalty for failure to file a property statement, and section 501, for the assessor's estimation of property value, when the assessor is making an estimate of value for non-filed property statements.

The assessor has a responsibility to assess all property in the county. We found when the assessor had not received a property statement, the value was estimated and section 463 was cited. However, when an estimate is done due to the non-filing of a property statement, the assessor should cite section 463 for the penalty and section 501 for the estimate of value.

By using just section 463, the implication is that the statement was received but filed late. There are, however, instances when the assessor does not receive a property statement and will have to make an estimate based on the prior history of the company or the type of business.

E-Filing Business Property Statements

Section 441 allows BPSs to be filed in electronic media specified by the assessor. Property statements filed with the assessor using electronic media must have authentication methods specified by the assessor and approved by the BOE. The acceptance of an electronic filing (e-filing) is at the discretion of the assessor.

The assessor accepts two types of electronic filings. The first is the county's own e-file system that receives information directly from the taxpayer and is integrated directly into the county computer system. The other e-file system is the Standard Data Record (SDR) system, which is generally used by large corporations with locations in multiple counties.

E-filings are authenticated through the assignment of a unique public key code known as the Business Identification Number (BIN). This code is a random number known only to the taxpayer and the assessor.
The following chart indicates both the number of statements which are eligible for e-file and the number of e-filed statements received in recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL E-FILED</th>
<th>TOTAL ELIGIBLE FOR E-FILE</th>
<th>E-FILED PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>9,258</td>
<td>34,843</td>
<td>26.57 %</td>
</tr>
<tr>
<td>2007-08</td>
<td>8,276</td>
<td>34,600</td>
<td>23.92 %</td>
</tr>
<tr>
<td>2006-07</td>
<td>7,622</td>
<td>32,751</td>
<td>23.27 %</td>
</tr>
<tr>
<td>2005-06</td>
<td>8,450</td>
<td>33,852</td>
<td>24.96 %</td>
</tr>
</tbody>
</table>

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

We reviewed the written procedures and standardized valuation policies related to business property valuation.

**Application of BOE Recommended Index Factors**

The price indices used by the assessor parallel the indices published in AH 581 with the exception of specific types of equipment, namely pagers, facsimile equipment, high tech medical equipment, and photocopiers the CAA recommends should not be trended. We found the assessor's application of BOE-recommended valuation tables is both consistently and accurately applied.

**Classification**

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. We found no problems in the processing of the statements or in the classification of machinery and equipment.
Computer Valuation

Pursuant to section 401.5, the BOE also issues valuation factors for computer equipment (see AH 581, "Table 7: Computer Valuation Factors"). We found that the assessor has adopted the BOE factors and uses 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 lessors and lessees. We focused our analysis on the valuation methods applied, completeness of reporting, tracking of equipment, assessee designation, expired lease disposition, and processing procedures.

We found the assessor's leased equipment program to be well managed, especially in the areas of discovery, processing, tracking, and cross-checking leased equipment information.

Manufactured Homes

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

For the 2008-09 assessment roll, there were 36,548 manufactured homes located in 388 manufactured home parks in San Diego County with a total roll value of $3,480,361,886. If the home is situated on an approved permanent foundation system it is reclassified as real property. There are approximately 6,300 manufactured homes in San Diego County that have been affixed to a permanent foundation system.

Manufactured homes in San Diego County are shown on the tax bill as improvements, but they are classified as personal property for assessment purposes and are on the secured roll. The assessor is notified of assessable manufactured homes by information from the California Department of Housing and Community Development, dealer reports of sale, tax collector tax clearance certificates, and building permits.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, the
NADA Manufactured Housing Appraisal Guide (NADA) and the manufactured homes section of the Assessors' Handbook Section 531, Residential Building Costs (AH 531). The AH 531 is the guide used most commonly by the assessor's staff.

Real property appraisers in each district office value all manufactured homes in their assigned geographical area of the county.

For coaches on rental spaces in parks, 96 percent of the Mobilehome Owner's Declarations mailed to taxpayers are returned within 45 days or less. A random sample of recently returned requests revealed only one was returned later than 45 days. This was a voluntary conversion on an older, smaller manufactured home with nominal value. We found the assessor's program for obtaining information functions well except for a few unique cases involving nominal value, voluntary conversions, or units that were razed and removed.

Section 5801(b)(2) provides that manufactured homes shall not be classified as real property if they are not affixed to land on a permanent foundation system pursuant to Health and Safety Code section 18551. The current computer system does not allow manufactured homes to be shown on the tax bill as personal property. However, the assessor treats manufactured homes as personal property for assessment purposes. The assessor and the auditor-controller created a system whereby all manufactured homes are identified with a unique prefix to the parcel number. Certain special assessments including water bonds and flat rate charges such as vector control, street repair bonds and Mello-Roos bonds are properly excluded. Voter approved bonds, including city bonds, school bonds, and healthcare district bonds, are properly included or excluded as determined by the language of the bond issue as voted on and approved by the public.

We reviewed a number of manufactured home assessments, including transfers and new installations of manufactured homes. The assessor's manufactured home program is well administered, discovery procedures are good, and new construction and accessories are assessed properly. The program for valuing manufactured homes is effective and conforms to statutory provisions.

Aircraft

General Aircraft

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

For the 2008-09 assessment roll, the assessor enrolled approximately 2,500 general aircraft with a total assessed value of $963,655,314.
The assessor discovers general aircraft from listings obtained from the Federal Aviation Agency, airport operators reporting on BOE-577-B, *List of Aircraft*, and referrals from other county assessors' offices. We found the assessor annually submits an aircraft report to the California Department of Transportation, Division of Aeronautics, as required by section 5366. In addition, the assessor annually mails aircraft property statements to aircraft owners for aircraft having situs in the county.

We reviewed a sample of general aircraft accounts and found the staff uses the *Bluebook* as the primary guide for valuing aircraft with the *Vref* as an alternative guide for aircraft not listed in the *Bluebook*. Staff adjusts 10 percent downward for average condition, according to advisory material in LTA 97/03, and also makes adjustments for engine and airframe hours, condition of the aircraft, and any additional equipment. Our review indicated the appraisals were proper and well documented.

Certificated Aircraft

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

The assessor values certificated aircraft owned by 46 commercial airline companies serving San Diego County. For the 2008-09 assessment roll, the assessor enrolled an allocated value of $777,318,959 for certificated aircraft assessments. We reviewed three certificated aircraft and found the assessor uses the recommended worksheet and California Assessors' Association Aircraft Subcommittee values in processing the assessment of these certificated aircraft.

Fractionally Owned Aircraft

Fractionally owned aircraft are fleets of aircraft administered by a management company where ownership is divided into smaller fractional interests, similar to a timeshare in real property. The management company handles all operating requirements of the aircraft, including availability, maintenance, billings, shareowner usage, training, and flight crews.

San Diego County had five fractional aircraft management companies in the county for 2008 with an allocated value of $80,017,662. We reviewed several fractional aircraft samples and found the assessor is using the BOE-approved forms, BOE-571-L, *Business Property Statement*, BOE-570-FO-1, *Supplementary Schedule to the Business Property Statement – Aircraft Cost Report*, and BOE-570-FO-2, *Supplementary Schedule to the Business Property Statement – Aircraft Value Computation*.

In addition, we found the county is following the statutory guidelines for valuing the fractional aircraft based on the allocation factor formula and the *Aircraft Bluebook-Price Digest*, which is adjusted by 10 percent to provide a reasonable estimate of market value for an aircraft in average condition on lien date.
Historical Aircraft

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

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

San Diego County had approximately 250 historical aircraft assessed on the 2008-09 assessment roll with a total value of $9,457,930. We reviewed 19 of the active historical aircraft assessments and exemption claims. We found the assessor has properly assessed these aircraft, received the filing fee upon initial application, confirmed the aircraft was available for public display, applied the exemption, and obtained a signed affidavit for the historical aircraft exemption pursuant to section 220.5(c).
APPENDIXES

A. County-Assessed Properties Division Survey Group

San Diego County

Chief
Dean Kinnee

Survey Program Director:
Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:
David Dodson Supervising Property Appraiser

Survey Team Leader:
Pamela Bowens Supervising Property Appraiser

Survey Team:
Paula Eagleman Senior Specialist Property Appraiser
Tammy Aguiar Associate Property Appraiser
Michael Ash Associate Property Appraiser
Ardeshir Noroozkhani Associate Property Appraiser
Angie Berry Associate Property Appraiser
Jennifer Prince Associate Property Appraiser
Bryan Roth Assistant Property Appraiser
Catherine Houlihan Associate Property Auditor-Appraiser
Samantha Stewart Tax Technician
**B. Assessment Sampling Program**

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

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

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

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)

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

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

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

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

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

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

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

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

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

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

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

Government Code

15640. Survey by Board of county assessment procedures.

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

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

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

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

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

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

15641. Audit of records; appraisal data not public.

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

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the Board to any assessor, or by the Board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.
Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. **Research by board employees.**

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

15643. **When surveys to be made.**

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

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

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. **Recommendations by Board.**

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

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

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

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

(3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.
Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

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

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

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

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

1. Uniformity of treatment for all classes of property.

2. Discovering and assessing newly constructed property.

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


5. Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

6. Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.

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

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

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

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

Section 15645 of the Government Code provides that the assessor may file with the BOE 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 San Diego County Assessor's response begins on the next page. The BOE has no comments on the response.
September 23, 2010

Dean Kinnee  
Chief, County Property Tax Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

Pursuant to Section 15645 of the California Government Code, I have enclosed my responses to the recommendations contained in the Assessment Practices Survey of the 2008-09 assessment roll conducted by the State Board of Equalization survey team. You will note that I agree with most of the recommendations, and have initiated changes to implement the recommendations. Please incorporate my responses in the final Assessment Practices Survey Report.

The State Board of Equalization performs a vital oversight role in these surveys, ensuring public confidence in our process. I would like to express my appreciation to you and the entire State Board of Equalization survey team for the professional manner exhibited throughout the survey and conferences. I am pleased the report acknowledges significant operational improvements since the last survey, and identifies many of our programs as being effective and well administered.

Finally, I wish to acknowledge the staff of the San Diego County Assessor’s Office for their outstanding efforts, dedication, professionalism and commitment to public service. Their commitment to excellence is unparalleled.

Thank you for the opportunity to provide our comments. Should you have any questions, please do not hesitate to contact me directly at (619) 531-5507 or Diana Lackey, Chief Deputy Assessor, at (619) 531-5023.

Sincerely,

[Signature]

DAVID L. BUTLER  
Assessor/Recorder/County Clerk

DLB:jmr

Enclosures
San Diego County
Response to the Assessment Practices Survey
2008-09

Recommendation 1: Improve the appraiser certification program by: (1) ensuring appraisers meet the annual training requirements for section 671, and (2) notifying the BOE of Changes to certified appraisers’ employment status.

Assessor’s Response: We agree with both parts of the recommendation and have implemented changes to ensure compliance as required by section 671 and to make sure the BOE is timely informed of personnel changes.

Recommendation 2: Do not include confidential information provided on the PCOR or COS on the transfer list.

Assessor’s Response: System changes have been initiated to address this issue and to correct the problem.

Recommendation 3: Assess timeshares at the lesser of their factored base year value or the current market value.

Assessor’s Response: We agree with the recommendation. However, given current budget constraints, reduced staffing, and the corresponding need to prioritize our responsibilities, there are not sufficient resources for an annual review and analysis of timeshare market trending. Currently, timeshare parcels have an average assessed value of $10,000, which we believe reflect appropriate fair market values. As staff resources become available, we will annually prepare a supporting analysis.

Recommendation 4: Accept only completed business property statements.

Assessor’s Response: We agree with the intent of this recommendation, but respectfully disagree with the definition of “completed” property statement. The Assessor values over 100,000 property statements annually. These statements are reviewed for ownership, situs, cost detail, securability, and verification of authorized preparation. While there are additional questions on the statement that may provide useful information, their incompleteness does not limit the ability to determine a correct assessment, which is our primary goal. We acknowledge the need for accurate filings and have implemented a review process for the 2010 filing year which verifies changes in legal entities through the State’s form
BOE-100-B, to identify possible active businesses in the County. These reviews will be done as part of our "Escape" program each year.

**Recommendation 5:** Assess section 463 penalty on both secured and unsecured property when business property statements are filed late.

Assessor's Response: *We agree, and have added a manual review of all secured statements to validate timely filings and apply the section 463 penalty under the R&T Code. Due to the current computer system limitations, 'potentially' securable accounts filed late will be processed on the unsecured roll with the 463 penalty.*

**Recommendation 6:** Reference section 463, applying the penalty for failure to file a property statement, and section 501, for the assessor's estimation of property value, when the assessor is making an estimate of value for non-filed property statements.

Assessor's Response: *We agree and have initiated modifications to the current valuation system to apply both the 463 and the 501 penalties automatically upon use of the assessor's estimation of property value.*