September 30, 2009

TO COUNTY ASSESSORS:

SAN LUIS OBISPO COUNTY
ASSESSMENT PRACTICES SURVEY

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2007. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure
# TABLE OF CONTENTS

INTRODUCTION .......................................................................................................................... 1

SCOPE OF ASSESSMENT PRACTICES SURVEYS ........................................................................ 2

EXECUTIVE SUMMARY .............................................................................................................. 3

OVERVIEW OF SAN LUIS OBISPO COUNTY .............................................................................. 5

ADMINISTRATION ......................................................................................................................... 6

  BUDGET AND STAFFING ........................................................................................................... 6
  APPRAISER CERTIFICATION ...................................................................................................... 7
  STAFF PROPERTY PROCEDURES ............................................................................................... 7
  ASSESSMENT APPEALS .............................................................................................................. 7
  DISASTER RELIEF ....................................................................................................................... 8
  ASSESSMENT ROLL CHANGES ................................................................................................. 10
  LOW-VALUE PROPERTY TAX EXEMPTION ................................................................................ 11
  EXEMPTIONS ............................................................................................................................ 12
  RACEHORSE ADMINISTRATIVE TAX ...................................................................................... 14

ASSESSMENT OF REAL PROPERTY .......................................................................................... 15

  CHANGE IN OWNERSHIP ......................................................................................................... 15
  NEW CONSTRUCTION ............................................................................................................... 18
  DECLINES IN VALUE ................................................................................................................ 20
  SUPPLEMENTAL ASSESSMENTS ............................................................................................... 21
  CALIFORNIA LAND CONSERVATION ACT PROPERTIES ....................................................... 22
  TAXABLE GOVERNMENT-OWNED PROPERTIES ................................................................... 23
  TAXABLE POSSESSORY INTERESTS .......................................................................................... 23
  RESTRICTED HISTORICAL PROPERTIES .............................................................................. 24
  LEASEHOLD IMPROVEMENTS .................................................................................................. 25
  TIMESHARES ............................................................................................................................ 26
  WATER COMPANY PROPERTIES ............................................................................................. 27
  MINERAL PROPERTIES ............................................................................................................ 28
  PIPELINE RIGHTS-OF-WAY ...................................................................................................... 29

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES ....................................................... 31

  AUDIT PROGRAM ..................................................................................................................... 31
  BUSINESS PROPERTY STATEMENT PROCESSING .................................................................... 32
  BUSINESS EQUIPMENT VALUATION ......................................................................................... 33
  LEASED EQUIPMENT ............................................................................................................... 33
  MANUFACTURED HOMES ......................................................................................................... 34
  AIRCRAFT .................................................................................................................................. 34
  VESSELS .................................................................................................................................... 36
  ANIMALS ................................................................................................................................... 38

APPENDIXES ................................................................................................................................ 39
INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the San Luis Obispo County Assessor's Office.

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

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

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

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

Our survey of the San Luis Obispo 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 Luis Obispo County who provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2007 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

---

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

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas for improvement since our last assessment practices survey. Our recommendations concern portions of programs that are currently effective but need additional improvement.

The assessor effectively manages his administrative programs, including, but not limited to, appraiser certification, staff property procedures, assessment appeals, and exemptions.

The assessor also effectively manages many of his programs for assessing real property, including change in ownership, new construction, supplemental assessments, declines in value, and California Land Conservation Act properties. Regarding taxable possessory interests, however, the assessor does not use the stated term of possession for valuation purposes, in compliance with Rule 21.²

The assessor has effective programs for the audit of taxable personal property and fixtures, the valuation of business equipment, and the discovery and valuation of leased equipment and aircraft, to name a few. There are two areas of the vessel assessment program, however, that need improvement. The assessor does not include sales tax as a component of value and does not apply the 10 percent penalty for late filing or failure to file a vessel property statement.

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

The San Luis Obispo County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2007-08 assessment roll indicated an average assessment ratio of 99.99 percent, and the sum of the absolute differences from the required assessment level was 0.38 percent. Accordingly, the BOE certifies that San Luis Obispo County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

² All rule references are to sections of the California Code of Regulations, Title 18, Public Revenues.
Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

**RECOMMENDATION 1:** Periodically determine the market value of a taxable possessory interest based on the stated term of possession as required by Rule 21. ...............................................................24

**RECOMMENDATION 2:** Revise vessel procedures by: (1) adding sales tax as a component of market value, and (2) applying the 10 percent penalty for late filing or failing to file a *Vessel Property Statement* as required by section 463................................................37
OVERVIEW OF SAN LUIS OBISPO COUNTY

San Luis Obispo County is situated about half way between San Francisco and Los Angeles counties on the California Central Coast. It is south of Monterey County, west of Kern County, and north of Santa Barbara County. The inland portion of the county is dominated by ranches, farms, and vineyards. One of the more noted landmarks is the Hearst Castle, located in the north coast region of the county.

The following table displays information pertinent to the 2007-08 assessment roll as provided by the assessor:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>104,589</td>
</tr>
<tr>
<td>Commercial/Industrial</td>
<td>9,478</td>
</tr>
<tr>
<td>Agricultural</td>
<td>13,730</td>
</tr>
<tr>
<td>Other Secured</td>
<td>15,229</td>
</tr>
<tr>
<td><strong>Total Secured</strong></td>
<td><strong>143,026</strong></td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Personal Property &amp; Fixtures</td>
<td>18,597</td>
</tr>
<tr>
<td><strong>Total Assessment Roll</strong></td>
<td><strong>161,623</strong></td>
</tr>
</tbody>
</table>

The next table illustrates the growth in assessed values for 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>2007-08</td>
<td>$38,149,418,000</td>
<td>9.3%</td>
<td>9.6%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$34,907,682,000</td>
<td>12.9%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2005-06</td>
<td>$30,927,953,000</td>
<td>11.6%</td>
<td>11.1%</td>
</tr>
<tr>
<td>2004-05</td>
<td>$27,725,124,000</td>
<td>10.4%</td>
<td>8.3%</td>
</tr>
<tr>
<td>2003-04</td>
<td>$25,104,414,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

3 State Board of Equalization Annual Report, Table 7
ADMINISTRATION

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

Budget and Staffing

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

As shown in the following table, the assessor's budget has grown more than 40 percent over recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>ANNUAL INCREASE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>$8,207,665</td>
<td>4.8%</td>
<td>89</td>
</tr>
<tr>
<td>2006-07</td>
<td>$7,832,600</td>
<td>17.3%</td>
<td>89</td>
</tr>
<tr>
<td>2005-06</td>
<td>$6,674,961</td>
<td>11.5%</td>
<td>87</td>
</tr>
<tr>
<td>2004-05</td>
<td>$5,987,363</td>
<td>3.8%</td>
<td>85</td>
</tr>
<tr>
<td>2003-04</td>
<td>$5,768,270</td>
<td>12.5%</td>
<td>87</td>
</tr>
</tbody>
</table>

The assessor has a staff of 88 full-time employees and 1 part-time employee. Staffing has remained relatively constant over recent years, with minor changes due to retirements and promotions.

At the time of our survey field work, staff consisted of the assessor, the assistant assessor, 5 assessment managers, 5 assessment analysts, 3 supervising appraisers, 26 appraisers, 1 supervising auditor-appraiser, 4 auditor-appraisers, 2 half-time auditor-appraisers (5 FTE), 1 cadastral mapping system supervisor, 4 cadastral mapping systems specialists, 2 assessment technician supervisors, 18 assessment technicians, 1 supervising property transfer technician, 12 property transfer technicians, 1 administrative clerk, 1 accounting technician, and 3 administrative assistants.
Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes as an employee of any county or city and county unless he or she holds a valid certificate issued by the BOE. There are a total of 39 certified appraisers on staff, including the assessor. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

An assessment analyst acts as the appraiser certification coordinator for the assessor's staff. The analyst tracks the training needs of newly hired appraisers and auditor-appraisers, and ensures they obtain their temporary certificates, receive necessary training, and timely complete the BOE certification process. As a supplement to BOE training, newly hired appraisers receive additional in-house training.

We found the assessor's appraiser training and certification program to be effective and efficient.

Staff Property Procedures

As part of our review of how the assessor maintains the integrity of his assessment roll, we examined his policy regarding the assessment of employee-owned property. Although there is no written policy, it has long been the practice in the San Luis Obispo County Assessor's Office that no employee may prepare or influence the assessment of property in which he or she holds an ownership interest.

We reviewed the appraisal and business property files for several parcels or accounts owned by current staff of the assessor's office. In every instance, the most recent valuation of the property had been prepared by a certificated employee other than the employee who owned the property.

The San Luis Obispo County Board of Supervisors appoints three permanent and three alternate members to the assessment appeals board. These members have completed the training required by section 1624.02.
The following table illustrates the appeal workload for recent years:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Appeals:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications Received</td>
<td>92</td>
<td>91</td>
<td>100</td>
<td>124</td>
<td>106</td>
</tr>
<tr>
<td>Carried Over</td>
<td>73</td>
<td>40</td>
<td>66</td>
<td>37</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>165</td>
<td>131</td>
<td>166</td>
<td>161</td>
<td>113</td>
</tr>
<tr>
<td><strong>Resolution:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hearing-reduced</td>
<td>8</td>
<td>1</td>
<td>3</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Hearing-increased</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Hearing-upheld</td>
<td>0</td>
<td>2</td>
<td>6</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Stipulation</td>
<td>0</td>
<td>8</td>
<td>8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Withdrawn</td>
<td>83</td>
<td>44</td>
<td>103</td>
<td>79</td>
<td>58</td>
</tr>
<tr>
<td>Non Appearance/Invalid</td>
<td>23</td>
<td>2</td>
<td>6</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total resolved</strong></td>
<td>114</td>
<td>58</td>
<td>126</td>
<td>95</td>
<td>76</td>
</tr>
<tr>
<td><strong>Carried over to next year</strong></td>
<td>51</td>
<td>73</td>
<td>40</td>
<td>66</td>
<td>37</td>
</tr>
</tbody>
</table>

The application for an assessment appeal is available from the clerk/recorder's public counter, website, or through the mail. All assessment appeals are filed with the clerk of the board of supervisors, who reviews them before forwarding copies of the applications to the assessor. The appraiser who is responsible for the area in which the property under appeal is located prepares the appraisal of the property and presents the assessor's case at the hearing. The assessor also attends each of the hearings, which are held six times a year.

All appeals filed within the past five years have been heard within the required two-year statutory time frame, unless the taxpayer agreed to a waiver of the statutory time limit as provided in section 1604(c)(1) and Rule 309(b). We conclude the assessor is properly administering the assessment appeals program.

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding $10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.
To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessees with an application for reassessment. Additionally, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment without the need for an application if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

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

The San Luis Obispo County Board of Supervisors amended its disaster relief ordinance in 2002. In our review of the disaster relief program, we found the county ordinance and the assessor's program reflect the current provisions of section 170. The ordinance applies to misfortune or calamity where the amount of damage to taxable property (both real and personal) equals or exceeds $10,000.

The assessor discovers instances of disaster or calamity by reviewing newspaper articles and building permits, field canvassing, and through taxpayer-initiated contacts. Upon the discovery of a misfortune or calamity, the assessor mails an application to the property owner. Returned applications are logged in, analyzed, and processed.

The assessor uses prorated roll corrections for making section 170 reductions and for restoring value to the roll when repair or restoration is complete. If the property is not restored fully as of the subsequent lien date, a value representing partial restoration is placed on the roll and the property owner is mailed a Notice of Assessment Value.

The following table lists the number of claims processed by the assessor in recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>CLAIMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>26</td>
</tr>
<tr>
<td>2005-06</td>
<td>46</td>
</tr>
<tr>
<td>2004-05</td>
<td>68</td>
</tr>
</tbody>
</table>

We reviewed a number of claims that had been approved and processed; we found that the assessor handled them properly. The assessor processes disaster relief claims timely and his policies and procedures for the processing of disaster relief claims are correct and in compliance with section 170.
Assessment Roll Changes

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

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

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>ROLL CHANGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>3,463</td>
</tr>
<tr>
<td>2005-06</td>
<td>2,689</td>
</tr>
<tr>
<td>2004-05</td>
<td>4,071</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,756</td>
</tr>
<tr>
<td>2002-03</td>
<td>1,276</td>
</tr>
</tbody>
</table>

Roll changes are initiated in different ways depending on the nature of the change. Roll changes involving changes of ownership are initiated by the Assessment Services Section, but new construction roll changes are assigned to real property appraisers for roll change initiation. The county does have a low-value property tax exemption for escaped assessments. It is implemented automatically by the computer system.

The assessor's Notice of Proposed Escape Assessment meets the requirements of section 531.8. Section 531.8 requires that the notice contain the amount of escaped assessment, the telephone number of the assessor's office, and the heading "Notice of Proposed Escaped Assessment." In addition, the notice must be provided to the taxpayer 10 days prior to the enrollment of the escape assessment.

In addition, section 534(b) provides that an escape assessment is effective only after the county assessor has notified the assessees either personally or by United States mail. This code section also specifies that the notice shall include all of the following: the date the notice was mailed, information regarding the assessees's right to an informal review and the right to appeal the assessment, the deadline for filing an appeal, and guidelines which include a description of the requirements, procedures, and deadlines for applying for a reduction of an assessment pursuant to section 1605.

The assessor uses form BOE-66-A, Notice of Enrollment of Escape Assessment to timely notify taxpayers of the enrollment of an escape assessment. The assessor adds penalties and interest
when terminating a homeowners’ exemption when the assessees did not notify the assessor the
property no longer qualified. Additionally, the assessor notifies the county auditor to apply
interest as provided by section 506; a coded entry to the electronic assessment system
automatically adds interest to the tax bill.

We reviewed and traced several roll changes, all of which were performed in a correct and
timely manner.

Low-Value Property Tax Exemption

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

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

The San Luis Obispo County Board of Supervisors passed Ordinance No. 3016 on
November 25, 2003, authorizing this exemption commencing with the 2004-05 tax year and each
year thereafter. The ordinance applies to all real property with a base year value less than or
equal to $2,500, and all personal property with a full cash value less than or equal to $5,000.

The ordinance also exempts from property taxation all manufactured homes and associated
accessories subject to local assessment with a full cash value less than or equal to $5,000 and
taxable possessory interests with a base year value less than or equal to $5,000, as well as all
taxable possessory interests involving temporary or transient use of a publicly owned fairground,
fairground facility, convention facility, or cultural facility with a base year value less than or
equal to $50,000. In addition to low-value property, the ordinance exempts payment of property
taxes resulting from escaped assessments that are $50 or less, and cancels supplemental
assessments with a resulting tax bill that is $50 or less.

The computer system automatically applies an exemption amount equal to the base year value or
the full cash value, and enrolls a zero ($0) value on the roll.

The assessor properly exempts from taxation all properties qualifying for the low-value property
tax exemption.
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 from property taxation property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

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

The assessor processed 14 church exemption claims and 235 religious exemption claims for the 2006-07 assessment roll. The following table illustrates the number of properties and the amount of assessed value exempted under the church and religious exemptions for recent roll years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>CHURCH EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
<th>RELIGIOUS EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>14</td>
<td>$4,725,786</td>
<td>235</td>
<td>$107,412,753</td>
</tr>
<tr>
<td>2005-06</td>
<td>12</td>
<td>$4,419,094</td>
<td>238</td>
<td>$104,464,149</td>
</tr>
<tr>
<td>2004-05</td>
<td>12</td>
<td>$2,858,410</td>
<td>234</td>
<td>$98,724,916</td>
</tr>
<tr>
<td>2003-04</td>
<td>12</td>
<td>$3,629,902</td>
<td>234</td>
<td>$96,555,927</td>
</tr>
<tr>
<td>2002-03</td>
<td>20</td>
<td>$4,749,345</td>
<td>239</td>
<td>$93,098,278</td>
</tr>
</tbody>
</table>

Our current review indicates that the assessor properly processed church and religious exemption claim filings. We found no problems with the assessor's church and religious exemption program.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for qualifying 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 Organizational Clearance Certificates (OCCs) to qualified organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

The following table shows the number of properties and the amount of assessed value exempted under the welfare exemption for recent roll years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>WELFARE EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>653</td>
<td>$300,839,574</td>
</tr>
<tr>
<td>2005-06</td>
<td>616</td>
<td>$257,159,487</td>
</tr>
<tr>
<td>2004-05</td>
<td>559</td>
<td>$218,567,611</td>
</tr>
<tr>
<td>2003-04</td>
<td>503</td>
<td>$148,890,874</td>
</tr>
<tr>
<td>2002-03</td>
<td>654</td>
<td>$186,954,432</td>
</tr>
</tbody>
</table>

We reviewed a variety of welfare exemption claims, including first-time 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. Accordingly, we have no recommendations in this area.

**Homeowners' and Disabled Veterans' Exemptions**

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

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

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

The assessor processed 48,184 homeowners' exemption claims and 244 disabled veterans' exemption claims for the 2006-07 assessment roll. The following table illustrates the number of properties and the amount of assessed value exempted under the homeowners' and disabled veterans' exemption for recent roll 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>2006-07</td>
<td>48,184</td>
<td>$337,345,199</td>
<td>244</td>
<td>$25,508,497</td>
</tr>
<tr>
<td>2005-06</td>
<td>47,687</td>
<td>$333,529,932</td>
<td>236</td>
<td>$23,350,070</td>
</tr>
<tr>
<td>2004-05</td>
<td>47,443</td>
<td>$332,010,389</td>
<td>227</td>
<td>$22,016,661</td>
</tr>
<tr>
<td>2003-04</td>
<td>47,265</td>
<td>$330,848,257</td>
<td>219</td>
<td>$20,976,846</td>
</tr>
<tr>
<td>2002-03</td>
<td>47,349</td>
<td>$330,295,642</td>
<td>223</td>
<td>$19,599,241</td>
</tr>
</tbody>
</table>

In San Luis Obispo County, our review of the homeowners' and disabled veterans' exemption records indicated that the assessor is properly processing these exemptions. Accordingly, we have no recommendations in this area.

**Racehorse Administrative Tax**

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

The assessor annually sends form BOE-571-J, *Annual Racehorse Tax Return*, and form BOE-571-J1, *Annual Report of Boarded Racehorses*, prior to December 15, thereby meeting the requirements of Rule 1045. For the 2007-08 roll, there were 278 racehorse tax returns filed. Examinations of tax returns delivered to the tax collector and maintained by the assessor indicated the assessor effectively administers the racehorse in-lieu tax.
**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; and
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts and taxable government owned property.

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

**Change in Ownership**

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

**Document Processing**

The San Luis Obispo County Clerk-Recorder codes all recorded documents and electronically transferred document imagery daily to the assessor. Copies of form BOE-502-A, Preliminary Change of Ownership Report (PCOR), are transferred to the assessor's appraisal support staff for scanning. As required by law, both the assessor and the recorder make the PCOR available to the public for filing purposes. Additionally, PCORs and other change of ownership forms are available online and from title companies. In every instance when a deed is recorded and a PCOR is not provided, or is not completed in its entirety, the recorder charges a $20 fee.

Incoming deeds are first received by the transfer unit. The transfer unit verifies legal descriptions and notes assessor's parcel numbers (APNs). Approximately 30 percent of incoming deeds are forwarded to the mapping unit, which investigates more complex legal descriptions. The transfer unit also inputs information from the PCOR into the computer system. On an annual basis the assessor processes approximately 32,000 incoming recorded documents for changes in ownership. Approximately 36 percent of these result in reappraisals.
The following table shows the total number of recorded documents received by the assessor's office and the total number of those determined to result in reappraisable events transfers for recent roll years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DOCUMENTS RECEIVED</th>
<th>REAPPRAISABLE EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>27,521</td>
<td>10,204</td>
</tr>
<tr>
<td>2005-06</td>
<td>33,439</td>
<td>10,709</td>
</tr>
<tr>
<td>2004-05</td>
<td>33,772</td>
<td>12,598</td>
</tr>
<tr>
<td>2003-04</td>
<td>32,672</td>
<td>12,526</td>
</tr>
</tbody>
</table>

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation (with examples) of section 64 changes in ownership or control and applicable exclusions. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the transfers of legal entity interests, and thus, no notice of any real property transfers or change in control of the legal entity.

The BOE's LEOP unit investigates and verifies changes in control and ownership of legal entities, and transmits to each county a listing, with corresponding property schedules, of the 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 lack of reliable data provided by the entities, assessors should thoroughly research each named entity's holdings to verify that all affected parcels are identified and properly reappraised.

When the assessor receives the LEOP listing from the BOE, the assessor's transfer unit identifies the parcels and updates the computer system. We found that the assessor processes LEOP notices properly, and promptly revalues parcels that have undergone a change of ownership.

We reviewed ten legal entities reported to the assessor as having experienced a change in control. We found that the assessor took appropriate action in reviewing and reappraising the real property parcels owned by these entities and that the staff processes LEOP transfers in a timely manner.

Section 408.1 Transfer Lists

Section 408.1 requires that the assessor maintain a list, available to the public that shows property transfers that have occurred in the prior two years. The list, which is divided into geographical areas, must include the name of the transferor and transferee if available, assessor's parcel number, address of the sales property, date of transfer, date of recording and recording reference number, and, when known by the assessor, the indicated amount of consideration paid.
In San Luis Obispo County, the assessor provides the public with a computer listing showing property transfers that have occurred over the prior two years. This list is updated quarterly. Properties are listed in order by APN with all required information.

Section 69.5 Base Year Value Transfer

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner meets certain requirements, including being at least 55 years of age, timely filing of a claim, and the properties are located within the same county.

We reviewed several base year value transfers, including filed applications, and found all documents to be in compliance. The following table depicts the number of section 69.5 transfers over the past several years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>129</td>
</tr>
<tr>
<td>2005-06</td>
<td>169</td>
</tr>
<tr>
<td>2004-05</td>
<td>112</td>
</tr>
</tbody>
</table>

Section 63.1 Exclusion

Section 63.1 allows an exclusion from the definition of change in ownership for the purchase or transfer of principal residences and the first $1 million of other real property between parents and their children. Certain transfers from grandparents to their grandchildren are also excluded. Information regarding the provisions of section 63.1 is available at the assessor's public counter along with forms for filing for the exclusion. Forms are also available on the assessor's website.

We reviewed several of these transfers, including filed applications, and found all documents to be in compliance. The following table depicts the number of section 63.1 transfers over the past several years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>1,597</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,589</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,248</td>
</tr>
</tbody>
</table>
Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements that generally enhance the land value of privately owned real property, such as sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for repayment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with the 1911, 1913, or 1915 Bond Acts.

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

The assessor's current market analysis for residential and commercial properties in San Luis Obispo County indicates there is no evidence in the marketplace to justify the addition of bond amounts to transfer prices.

Resident-Owned Mobilehome Parks (ROPs)

Sections 62.1 and 62.2 provide that the transfer of a mobilehome park, where the park is ultimately purchased by at least 51 percent of the tenants renting the individual spaces of the park, is not a change in ownership. Qualifying conversions of mobilehome parks to resident ownership under these sections permit the residents of the park to retain the base year value of the previous park owner, rather than triggering a reassessment of the park to current market value. Sections 62.1 and 62.2 create three change-in-ownership exclusions with respect to transfers of parks:

- Transfers to resident-owned entities;
- Transfers of rental spaces to the residents; and
- Transfers to non-resident-owned entities.

In San Luis Obispo County, there are currently four ROPs where each owner has a fractional interest in the space in which his or her mobilehome sits and where each owns shared areas in the park in common. The four ROPs in San Luis Obispo County have met or exceeded the participation level in advance of the required deadline as a requirement of financing. Since the parks do not use recorded deeds to transfer ownership interests, the assessor acquires a list of all recent changes in ownership from park management. This includes information set forth in section 62.1(b)(5). Transferred interests within ROPs are tracked by the assessor. Separate assessments have been created for all parks as provided by section 2188.10.

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 a new base year value for the portion of any taxable real property newly constructed. Section 71 further requires the assessor to determine the full cash value of any newly constructed real property in progress on each lien date until the completion of construction and to determine the entire portion of property newly constructed on its date of completion. Finally, section 71 provides that the full cash value of the completed new construction becomes the new base year value of the newly constructed property. However, the base year value of the remainder of the property assessed, which did not undergo new construction, remains unchanged.


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

**Discovery**

Building permits are the main source the assessor uses to discover assessable new construction. There are eight permit-issuing agencies in San Luis Obispo County, including the county of San Luis Obispo. To ensure all qualifying new construction is assessed, section 72(a) requires the permit-issuing agency to transmit a copy of any building permit issued to the assessor.

The assessor receives permits from the county building department electronically every night, and hard copies once a month from the other agencies. The assessor sends questionnaires to all property owners who have been issued assessable building permits. Approximately 25 to 50 percent of the questionnaires are returned to the assessor. The appraiser assigned to work the permit field-inspects and values the new construction. Field inspections help to verify information received from the questionnaires and from building plans and permits. Documentation of new construction assessments is adequate and valuations are reasonable. Permits issued for replacement or for repair and maintenance are properly considered non-assessable permits.

Once the appraiser determines a value, support staff reviews the appraisal, checks for math errors and posts the new value. Because the assessor field inspects all properties with new construction permits, many unpermitted projects in the area surrounding the permitted project are discovered that would otherwise escape assessment.

The assessor processed 17,870 permits for the 2006-07 roll resulting in $944,959,026 of new assessed value.
Valuation

Section 71 requires the assessor to value construction in progress at its full value on each lien date. Completed new construction is assessed by estimating its full value as of the date of completion.

In San Luis Obispo County, appraisers usually determine the completion status of new construction from on-site reviews or from notices of completion from the building departments. When the new construction is complete, the assessor will revalue the completed new construction and send a notice of supplemental assessment to the assessor. The assessor primarily determines the value of new construction by the market approach, but also relies on several cost sources, including local cost studies; Assessors' Handbook Section 531, Residential Building Costs; the owner's actual cost; and, for commercial and industrial properties, Marshall Valuation Service.

Overall, the assessor has an effective program for new construction.

**Declines in Value**

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

The following table illustrates the total number of properties that had declines in value for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DECLINE-IN-VALUE PARCELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>8,385</td>
</tr>
<tr>
<td>2005-06</td>
<td>8,035</td>
</tr>
<tr>
<td>2004-05</td>
<td>8,246</td>
</tr>
<tr>
<td>2003-04</td>
<td>7,942</td>
</tr>
<tr>
<td>2002-03</td>
<td>7,965</td>
</tr>
</tbody>
</table>

The assessor uses a computer program to assist in annually determining the current market value for properties that have suffered a decline in value. The program is most effective in the more homogeneous neighborhoods. Current market values are determined by appraisers with the aid of the computer program. The values are subsequently reviewed by a supervisor. The assessor also depends on the appraisers' knowledge of their assigned areas. On occasion, declines in value may be discovered when analyzing subsequent sales of the property.
The assessor's office allows the taxpayer to initiate an assessment review using the Application for "Decline in Value" Reassessment (Prop. 8). This form is available online or at the public counter in the assessor's office, or may be obtained through the mail. Applications may be filed at the assessor's office in person or by mail. All applicants receive a letter of acceptance or denial. Upon a completed decline-in-value review, the assessor sends a notice of the results to the assessee.

In the event the results of the informal review are not agreeable to the taxpayer, the taxpayer may obtain an Application for Changed Assessment. Applications may be filed at the clerk-recorder's office in person or by mail.

The assessor reviews all decline-in-value properties annually to determine the current market value. Properties currently in decline in value status are tracked on the assessor's computer system. As of the lien date, each appraiser reviews the computer files for decline-in-value properties within his or her assigned geographic area.

When returning an assessment either in whole or in part to its factored base year value, the assessor's notice to the property owner provides the property's factored base year value, its current market value, and information about assessment appeal procedures as required by section 619. We found that decline in value properties were properly assessed.

**Supplemental Assessments**

Sections 75 through 75.80 mandate the processing of supplemental assessments by the assessor for changes in ownership and for the completion of new construction that occur after the lien date. 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 completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, 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 assessor's computer system automatically processes supplemental assessments. Appraisers initiate supplemental assessments whenever a change in ownership or new construction occurs. The computer system automatically calculates the supplemental assessment amounts and generates the notices to the taxpayer. This Notice of Supplemental Assessment generated by the automated system includes all of the information required by section 75.31.

After sending the notices to property owners, the assessor forwards supplemental assessment information to the county auditor. Most supplemental tax bills are issued within 90 days from the date of the notice of supplemental assessment. The process ensures supplemental assessments will be processed in a timely manner.

The assessor correctly makes two supplemental assessments for events occurring on or after January 1 and on or before May 31, and one supplemental assessment for events occurring on or after June 1 and before the succeeding January 1. Additionally, the assessor properly applies the inflation factor for the following lien date when a supplemental assessment event occurs on or
after January 1 and on or before June 30, and properly enrolls supplemental assessments for all small value changes.

The assessor grants the builders' exclusion authorized in section 75.12 when timely claims are submitted. The assessor properly makes supplemental assessments for business fixtures, leasehold improvements, manufactured homes, timeshares, and state-assessed properties acquired by a private party. The assessor also correctly does not issue supplemental assessments for taxable government-owned property.

We found no problems with the assessor's supplemental assessment program.

**California Land Conservation Act Properties**

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

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

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

For the 2007-08 roll year, San Luis Obispo County had approximately 4,000 parcels comprising a total of 800,000 acres encumbered by CLCA contracts. Included in this acreage are 16,675 acres in nonrenewal status and 633 acres in Farmland Security Zone Contracts, which are a more restrictive form of the CLCA contracts. No contracts have been cancelled since the last survey. The total assessed value for CLCA land and improvements for 2007-08 was approximately $849 million.

Most of the rural property in San Luis Obispo County is used for rangeland, row crops, and fruit and nut crops. The bulk of the agricultural revenue generated in the county is derived from these crops with wine grapes and row crops providing the largest percentage.

The valuation of CLCA properties in San Luis Obispo County is the responsibility of four real property appraisers. In addition, an assessment supervisor reviews the completed appraisals. The appraisers mail CLCA questionnaires annually and analyze the information with other sources of agricultural data to determine the appropriate income and expenses for various crop types throughout the county.
We found the assessor correctly estimates the income stream for living improvements by utilizing an inclining-stable-declining approach to the income stream; processes compatible use income correctly; values homesites in compliance with section 428; and, pursuant to sections 75.14 and 52(a), does not issue supplemental assessments for restricted land.

Restricted values are automatically calculated by the computer system using a capitalization rate consistent with statutory provisions. The system was built in-house and has been adapted over the years to meet changing and current requirements. The assessor uses the correct interest component and recognizes that the risk component varies according to the risk associated with the various types of land and crops; the assessor assigns risk components of 0.25 percent for cash rent land, 0.50 percent for share crop land, and 2.0 percent for trees and vines.

We have no recommendations for the current CLCA assessment program.

**Taxable Government-Owned Properties**

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

For the 2007-08 assessment roll, the assessor enrolled 84 taxable government-owned properties with a total assessed value of approximately $8.8 million.

The assessor determines the status of government-owned properties at the time of acquisition by comparing tax rate area maps to the county's list of government agencies located within each tax rate area. Providing the property was taxable at the time of acquisition and is located outside the agency's jurisdiction, the assessor values these taxable government-owned properties annually at the lowest of their restricted value, factored base year value, or current market value.

We reviewed several taxable government-owned properties and found the assessor correctly values improvements, and properly does not issue supplemental assessments nor assess agricultural leases on these properties. Additionally, the assessor correctly assesses taxable government-owned land on which there is a taxable possessory interest.

We have no recommendations for the assessor's program for the valuation of taxable government-owned properties.

**Taxable Possessory Interests**

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

For the 2007-08 assessment roll the assessor enrolled 587 taxable possessory interests with a total assessed value of $176,868,342. The types of taxable possessory interest assessed include airport hangars, cable television franchises, grazing permits, faculty housing, airplane landing rights, boat slips, concessions, retail shops, restaurants, and others. Taxable possessory interests are enrolled on the secured roll.

The primary discovery source of taxable possessory interests is the response of the public agencies to a letter sent annually to all known lessors of publicly owned real property requesting information about lessees. Appraisers, transfer technicians, and appraisal support staff are all involved in processing taxable possessory interests.

In our prior survey report, we recommended the assessor reassess taxable possessory interests according to Rule 21. The assessor has not implemented this recommendation.

**RECOMMENDATION 1:** Periodically determine the market value of a taxable possessory interest based on the stated term of possession as required by Rule 21.

We found the assessor does not use the stated term of possession when determining the current market value of a taxable possessory interest for each lien date. Instead, he enrolls the factored base year value until either the contract term of possession expires or there is a change in ownership.

Rule 21(d)(1) provides that a contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence the lessor and lessee have reached a mutual understanding or agreement that calls for a different term. Rule 21 also provides the "stated term of possession" for a taxable possessory interest is the remaining period of possession. Thus the stated term of possession declines on each lien date, which may have a material effect on the value of the interest. For this reason, the appraiser must estimate the current market value on the lien date (based on the stated term of possession), compare this value with the factored base year value, and enroll the lower of the two values.

Though the assessor is not required to reassess all properties each year, he should ensure that the assessments of taxable possessory interests with stated terms of possession are periodically reviewed to ensure declines in value are consistently recognized. Failing to assess a taxable possessory interest using the stated term of possession may overstate its taxable value.

**Restricted Historical Properties**

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

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

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

In San Luis Obispo County, there are 31 enforceably restricted historical properties on the local property tax roll. With the exception of one property in Arroyo Grande and one in Paso Robles, all are in the city of San Luis Obispo. The total assessed value of the 31 properties on the 2007-08 assessment roll is $7,825,704.

The following table summarizes the assessed values for restricted historical properties for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>ASSESSMENTS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>31</td>
<td>$7,825,704</td>
</tr>
<tr>
<td>2006-07</td>
<td>28</td>
<td>$7,327,673</td>
</tr>
<tr>
<td>2005-06</td>
<td>28</td>
<td>$5,374,229</td>
</tr>
</tbody>
</table>

We reviewed the assessor's records for seven restricted historical properties. The property files contained the worksheets showing the calculations for the current assessed value. We found the assessed values were reviewed annually, the economic rent was used in the income approach, and, as appropriate, supplemental assessments were not issued for property subject to a contract for historical preservation. We also found the capitalization rate used includes all four required components, including the correct interest rate as reported by the BOE.

We found no problems with the assessment of restricted historical properties.

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

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

Procedures for discovery of such new construction include identifying leasehold improvement construction permits, sending new construction questionnaires to tenants, examining rent rolls to look for tenant changes and rent changes, and coordination between the business property and real property staff. The BPS is also a useful source for discovering leasehold improvements.

Real property staff is responsible for assessing leasehold improvements classified as structures. The business property staff assesses leasehold improvements classified as fixtures. We found the San Luis Obispo County Assessor properly classifies reported structural improvements on the secured roll and fixtures on the unsecured roll.

For permits involving fixtures, the real property staff sends a form called Business Property Transmittal to the business property staff. Conversely, if the business property staff discovers newly constructed structures, they send a report entitled Real Property Transmittal to the real property staff. These forms facilitate communication between the real property and business property staff, helping to ensure the assessment of completed new construction in a timely manner and to prevent escaped assessment of completed new construction.

We found coordination between the staff was consistent and treatment of leasehold improvements in compliance with current statutes.

**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 nonreal property items (considered non-taxable). Examples of nonreal property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

There are two timeshare projects in San Luis Obispo County, one project consists of 9,193 timeshare units and the other consists of 875 recreational vehicle timeshare units. The
developer for these projects markets both annual weekly shares and alternating annual weekly shares for specific units. Assessments are coded and tracked with a number, which is linked with the homeowners' association's fee parcel number.

Section 998 provides that the full taxable value of a timeshare interest shall be determined by finding the real property value of the interest involved, and shall not include the value of any nonreal property items. Timeshare interests are analyzed to segregate and remove personal property and nonreal property items to determine the current market value of a timeshare interest at the time of transfer.

The assessor relies primarily on comparables derived from the resale market of individual timeshares. He found there was no seasonal influence reflected in timeshare values for this market area. The assessor systematically reviews timeshare values each year for declines in value.

We reviewed a number of timeshare assessments and found no deficiencies in the assessment of timeshare projects.

**Water Company Properties**

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

**Municipal Water Systems**

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments located within city limits, and property owned by water districts located within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California Constitution provides that publicly owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district.

San Luis Obispo County has 40 municipal water systems. All municipal water systems are located within city limits or district boundaries except for two parcels assessed as taxable government-owned property.

**Private Water Companies - Regulated by the California Public Utilities Commission (CPUC)**

Private, for-profit water companies are subject to rate base regulation by the CPUC. Under this form of regulation companies are allowed to charge rates that will enable them to cover costs and provide a fair rate of return on invested capital. San Luis Obispo County has two private for-profit water companies regulated by the CPUC.
We found the assessor uses the Historical Cost Less Depreciation (HCLD) approach to determine the current market value for properties owned by these companies. The assessor compares the value indicated by the HCLD approach to the factored base year value, and enrolls the lower of the two. We found these values to be reasonable, and the water company properties to be properly assessed.

**Unregulated Private Water Companies**

There are two unregulated private water companies operating in San Luis Obispo County. The assessor receives annual reporting from one company and uses information from that reporting to value property owned by that company.

Despite repeated requests, the other company refuses to file annually as required by section 441(d)(1). Consequently, the assessor enrolls an estimated assessment for property owned by that company.

**Mutual Water Companies**

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

There are 148 mutual water companies operating in San Luis Obispo County. We found the value of mutual water company property was correctly reflected in the assessments of the lots served by the water systems. The assessor applies the proper procedures when assessing mutual water companies located within the county.

We have no recommendations for assessing water company property.

**Mineral Properties**

By statute and case law, mineral properties are taxable as real property. These properties are subject to special rules designed to accommodate their unique characteristics. There are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties. San Luis Obispo County has no geothermal properties.
Petroleum Properties

The enrolled value for petroleum properties is approximately $40 million. In 2005 San Luis Obispo County ranked eighth in the state in oil production with 642,000 barrels, which represented less than 0.3 percent of the state's total production. Most of the county's petroleum production comes from the Arroyo Grande field. The other fields in the county are mature and near the end of their economic lives. The petroleum properties are appraised by a supervising property appraiser. This appraiser has been working with these properties for a number of years.

We have no recommendation regarding petroleum property appraisal.

Mining Property

There are 42 mining parcels located in San Luis Obispo County. The properties are appraised by a supervising property appraiser. The total mining property roll value is $12 million. Mining properties are appraised using the discounted cash flow analysis method. Forecasts of future revenues and expenses are made based upon historical data submitted from taxpayers in their annual reports. Estimated reserves are based on reports from taxpayers and analysis of use permit applications.

Comparisons of the factored base year value and the current market value are made for the entire appraisal unit in compliance with Rule 469(e)(2)(C). The assessor's mineral program follows the current BOE guidelines.

Pipeline Rights-of-Way

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

When valuing the pipeline rights-of-way prior to the appellate court decision, the BOE developed "density classifications" for appraisal purposes. Currently, assessors generally use the BOE-developed classifications. Should an assessor choose to use different classifications or associated values, the assessor will lose the benefit of a statutory presumption of correctness. (See section 401.10(a).)

The assessor has assigned a supervising appraiser to monitor and assess the 23 pipeline rights-of-way, which are held by nine companies. The assessor uses the density classifications found in section 401.10(a)(1)(A). In San Luis Obispo County, pipeline rights-of-way are classified as low density. The assessor maintains a separate base year value for each parcel, but assesses the rights-of-way to a single countywide parcel as required by section 401.8(a).

For the 2007-08 assessment roll, the total value of the pipeline rights-of-way in San Luis Obispo County was $6,446,092. We found the assessor values pipeline rights-of-way in accordance with the provisions of sections 401.8 through 401.13.
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

As of September 2007, the assessor's staff assigned to the business property program consisted of six positions: one supervising auditor-appraiser, four auditor-appraisers, and one part-time auditor-appraiser.

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

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

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

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

The following table shows the total number of audits completed for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL AUDITS</th>
<th>MANDATORY AUDITS</th>
<th>NONMANDATORY AUDITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>110</td>
<td>85</td>
<td>25</td>
</tr>
<tr>
<td>2005-06</td>
<td>98</td>
<td>79</td>
<td>19</td>
</tr>
<tr>
<td>2004-05</td>
<td>95</td>
<td>67</td>
<td>28</td>
</tr>
<tr>
<td>2003-04</td>
<td>88</td>
<td>81</td>
<td>7</td>
</tr>
</tbody>
</table>

Based on recent audit history, the assessor is in compliance with the number of audits mandated pursuant to section 469.

**Business Property Statement Processing**

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

For the 2006-07 assessment roll, San Luis Obispo County processed a total of 14,760 BPSs with a value of $1.35 billion; 3,564 vessel statements with a value of $59.35 million; and 385 aircraft statements with a value of $73.42 million for all aircraft in the county. In total, the resulting business and personal property assessments amounted to approximately $1.5 billion.

Pursuant to section 442, every person owning, claiming, possessing, controlling, or managing property shall furnish any required information or records to the assessor for examination at any time. Data submitted on the BPS serves as the basis for the subsequent business property assessment.

Many assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain qualified, lower value small business accounts without requiring the annual filing of a BPS. The assessor establishes an initial value and continues the value for several years, with only periodic property statements or field reviews required. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes and restaurants, and professional firms with small equipment holdings.
The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements processed by the assessor.

The San Luis Obispo County Assessor's criteria for direct billing are: (1) the cost of assets must be $50,000 or less, (2) the taxpayer must have only a single account, not multiple accounts, (3) the taxpayer must have consistently filed for the past two years, and (4) the taxpayer is scheduled to receive a property statement every four years. Taxpayers are removed from the direct billing program if they fail to file in the fourth year, if the cost of assets exceeds $50,000, or, if in the opinion of the auditor-appraiser it is otherwise warranted. We reviewed a sample of direct billing accounts and did not find any problems with the program.

We found the assessor's discovery process to be effective. In addition, we found the assessor correctly applies section 463 penalties to all late-filed and non-filed BPSs with the exception of vessel statements, which is addressed below in the vessel section of this report.

**Business Equipment Valuation**

**Commercial, Industrial, and Agricultural Equipment**

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

Section 401.5 provides that the 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 Index and Percent Good Factors* (AH 581).

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

We found no problems with the assessment of business 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*. 
When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

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

We reviewed nine leasing accounts and found the assessor has good assessment practices relating to leased equipment. The assessor compares the data reported on lessors' BPSs with the data reported on the lessees' BPSs to ensure there are no double or escape assessments.

We have no recommendations in this area.

**Manufactured Homes**

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

The assessor's primary method of discovering manufactured homes is through the State Department of Housing and Community Development's (HCD) listing of transfers, and dealer reports. For assessment year 2007-08, the assessor enrolled manufactured homes in 114 mobilehome parks with a total assessed value of $130,494,080.

A manufactured home within a mobilehome park is valued by a designated team within the residential appraisal division. The valuation of all other manufactured homes on fee-owned land is the responsibility of the appraiser within whose work area they are located.

In our prior survey, we recommended the assessor enroll manufactured homes as personal property. Notwithstanding, the assessor continues to enroll manufactured homes as improvements on the secured roll; however, since we found no problems with this classification, we will not repeat this recommendation.

**Aircraft**

There are three types of aircraft that are subject to personal property tax: general aircraft (including experimental aircraft and fractionally owned aircraft), certificated or commercial aircraft, and historical aircraft.
General Aircraft

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

For the 2006-07 assessment roll, the assessor enrolled 375 general aircraft with a total assessed value of $57,058,021.

The assessor discovers general aircraft from listings obtained from the U.S. Department of Transportation, Federal Aviation Administration, airport operators reporting on form BOE-577-B, List of Aircraft, and referrals from other county assessors' offices. We found the assessor annually submits an aircraft report to the State Department of Transportation, Division of Aeronautics, as required by section 5366.

The following table summarizes the number of general aircraft and their assessed value of the in San Luis Obispo County for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>AIRCRAFT</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>375</td>
<td>$57,058,021</td>
</tr>
<tr>
<td>2005-06</td>
<td>407</td>
<td>$80,255,719</td>
</tr>
<tr>
<td>2004-05</td>
<td>347</td>
<td>$84,343,744</td>
</tr>
<tr>
<td>2003-04</td>
<td>364</td>
<td>$38,288,274</td>
</tr>
</tbody>
</table>

The assessor annually mails a locally-developed aircraft property statement to aircraft owners for aircraft having situs in the county. The filing deadline is February 15. A 10 percent penalty for failure to file or late-filing of the statement is imposed, when appropriate, as permitted by section 5367.

We reviewed a sample of 11 general aircraft accounts. We found the assessor uses the Bluebook as the primary guide for valuing aircraft with the Vref as an alternative guide for aircraft not listed in the Bluebook. A 10 percent downward adjustment is made for average condition, and adjustments are also made for engine and airframe hours, condition of the aircraft, and any additional equipment. Our review indicated the appraisals were adequate 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 (the period is 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 five commercial airline companies serving
San Luis Obispo County. For the 2007-08 assessment roll, the assessor enrolled an allocated
value of $15,638,517 for certificated aircraft assessments.

We reviewed the assessment of two certificated aircraft and found the assessor uses the
recommended worksheet and California Assessors' Association Aircraft Subcommittee values in
processing the assessments.

Historical Aircraft

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

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

There were ten historical aircraft assessed on the 2006-07 roll in San Luis Obispo County with a
total value of $724,000. We reviewed four of the active historical aircraft assessments and
exemption claims. We found the assessor has properly assessed these aircraft, applied the
exemption, and has properly obtained a signed affidavit for the historical aircraft exemption
pursuant to section 220.5(c).

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the
discovery of assessable vessels include reports from the State Department of Motor Vehicles
(DMV), referrals from other counties, information provided by the vessel owners themselves,
documentation issued by the United States Coast Guard, harbormasters' reports, and field
canvassing.
The following table details the vessel assessments in San Luis Obispo County in recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>PLEASURE VESSELS</th>
<th>DOCUMENTED VESSELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>3,474</td>
<td>$53,967,780</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90</td>
</tr>
<tr>
<td>2005-06</td>
<td>3,413</td>
<td>$52,567,526</td>
</tr>
<tr>
<td></td>
<td></td>
<td>99</td>
</tr>
<tr>
<td>2004-05</td>
<td>3,168</td>
<td>$47,477,580</td>
</tr>
<tr>
<td></td>
<td></td>
<td>105</td>
</tr>
<tr>
<td>2003-04</td>
<td>3,253</td>
<td>$47,481,220</td>
</tr>
<tr>
<td></td>
<td></td>
<td>108</td>
</tr>
</tbody>
</table>

In our review of vessel assessments, we found areas where improvements to the program are needed.

**RECOMMENDATION 2:** Revise vessel procedures by: (1) adding sales tax as a component of market value, and (2) applying the 10 percent penalty for late filing or failing to file a Vessel Property Statement as required by section 463.

**Add sales tax as a component of market value.**

The assessor annually values vessels by referring to the *ABOS Marine Blue Book* and the *BUC Used Boat Guide*. However, because these vessel guides have national application, they do not include California sales tax in the listed values which must be included to obtain the full value of the vessels. We found the assessor developed an indicated value from these guides without adding a sales tax component to the price to arrive at the full value of the vessel.

Generally, when determining market value where cost is the basis of value, sales or use tax, freight, and installation costs are elements of the value as stated in Assessors' Handbook Section 576, *Assessment of Vessel*, at page 13. Also, in the court case of *Xerox Corp. v. Orange County*, 66 Cal.App.3d 746, the court ruled that under the market value concept, where price is the basis of value, the sales tax and freight charges are elements of value. Without including all the elements of the cost, the assessor's values are understated.

**Apply the 10 percent penalty for late filing or failing to file a Vessel Property Statement as required by section 463.**

The assessor currently does not impose a 10 percent penalty for late filing or failing to file a Vessel Property Statement.

Section 463 requires the assessor to add a 10 percent penalty for late filing or failing to file a BOE-prescribed property statement such as the BOE-576-D, *Vessel Property Statement*. By not adding the penalty, the assessor is not in compliance with the provisions of section 463.
Animals

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and by Rule 133(a)(2)(D).

San Luis Obispo has very few assessable animals. Most animals are reported either on form BOE-571-F, Agricultural Property Statement, or on form BOE-571-F2, Registered and Show Horse Statement. All recipients of the Agricultural Property Statement receive a Registered and Show Horse Statement.

Methods of discovering taxable animals include referrals from the real property unit, review of local telephone yellow pages and Agricultural Property Statements, and audits of agricultural property.

We reviewed the procedures for discovering and assessing taxable animals and found the program to be well administered.
APPENDIXES

A. County-Assessed Properties Division Survey Group

San Luis Obispo County

Chief
Dean Kinnee

Survey Program Director:
Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:
Sally Boeck Supervising Property Appraiser

Survey Team Leader:
Glenn Danley Senior Specialist Property Appraiser

Survey Team:
Jim McCarthy Senior Mining and Petroleum Engineer
Dale Peterson Senior Specialist Auditor-Appraiser
Dave Barbeiro Associate Auditor-Appraiser
Catherine Houlihan Associate Auditor-Appraiser
Maureen Spurlock Associate Auditor-Appraiser
Bob Marr Associate Property Appraiser
Jay Price Associate Property Appraiser
Michael Brennan Associate Property Appraiser
Zella Cunningham Associate Property Appraiser
Andy Austin Assistant Property Appraiser
Prubjit Singh Tax Technician I
B. Assessment Sampling Program

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

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

The Board's County-Assessed Property 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.

---

5 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.

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

Government Code

15640. Survey by Board of county assessment procedures.

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

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

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

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

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

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

The Board shall permit an assessee of property to inspect, at the appropriate office of the Board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.
15642. Research by Board employees.

The Board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also 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 10 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 10 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 10 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.
Rule 371. **Significant assessment problems.**

(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 possessor 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 Luis Obispo County Assessor's response begins on the next page. The BOE has no comments on the response.
September 10, 2009

David Gau
State Board of Equalization
Property and Special Taxes Department
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Gau:

In accordance with Section 15645 of the California Government Code, attached is my response to the San Luis Obispo County Assessment Practices Survey as presented by the State Board of Equalization in August of 2009. Please include my response in your final survey report.

We appreciate your acknowledgement that our office has an effective overall assessment program and that we meet the requirements for assessment quality established by section 75.60.

The Mission of this office is to provide information, services and accurate property assessments through our personal commitment to integrity, mutual respect and teamwork. This survey affirms our commitment to providing the tax payers of San Luis Obispo County fair and equitable assessments through quality assessment practices.

We also wish to acknowledge and thank the State Board of Equalization's survey and sample team for their amiable, professional and courteous manner in which they conducted themselves while in the course of this Assessment Practice Survey.

Sincerely,

Tom J. Bordonaro, Jr.
County Assessor

Enclosures

c:  Ms. Sally Boeck

TJB:hf
Response to State Board of Equalization
Assessment Practices Survey
September 2009

Recommendation 1: Periodically determine the market value of a taxable possessory interest based on the stated term of possession as required by Rule 21.

Response: The assessor does have a procedure in place to periodically review taxable possessory interests for potential declines in value as well as for the issuance of new leases, each of which creates an appraisable event. A work trigger is added to all taxable possessory interest parcels to identify when the actual or imputed term (for month to month) of possession ends.

At this time our office lacks the resources to attempt annual reviews of taxable possessory interest. Since, Section 51 (e), states in part that: “Nothing in this section shall be construed to require the assessor to make an annual reappraisal ...” we do not believe an annual review is mandated.

Recommendation 2: Revise vessel procedures by: (1) adding sales tax as a component of market value, and (2) applying the 10 percent penalty for late filing or failing to file a Vessel Property Statement as required by section 463.

Response: The assessor agrees with the Board’s findings in Recommendation 2. We will be taking steps to review the recommendations and take appropriate measures to address our current boat / vessel valuation practice.