

SANTA BARBARA COUNTY ASSESSMENT PRACTICES SURVEY

JUNE 2014

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2014/030

June 25, 2014

TO COUNTY ASSESSORS:

**SANTA BARBARA COUNTY
ASSESSMENT PRACTICES SURVEY**

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

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

Mr. Holland 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/ Mike Harris for

Dean R. Kinnee, Chief
County-Assessed Properties Division
Property and Special Taxes Department

DRK:dcl
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Santa Barbara County Assessor's Office.¹

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

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

¹ This report covers only the assessment functions of this office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code² 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 B.

Our survey of the Santa Barbara County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Santa Barbara County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.

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

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

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

While facing the challenges of budget and staffing reductions in recent years, the assessor continues to improve the overall operation of the office. Some efficiencies developed and implemented by the assessor include:

- E-filing program for accepting business property statements.
- Automated and enhanced databases for the vessel, aircraft, and taxable possessory interest programs.
- Mineral property web application enabling automated letter/form generation and bar coding.
- Expansion of the Laserfiche online document management system, bar coding, and scanning capabilities.

In addition, the assessor is in the process of developing an entirely new secured property tax system that is projected to be fully implemented by October 2014. This new system should be helpful to the assessor in addressing some of our recommendations, as noted in this report, regarding penalty and supplemental assessment processing.

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

In the area of administration, we found that the assessor is properly handling the staffing, workload, and assessment appeals programs. However, we noted that the staff property and activities program and the exemptions program are in need of improvement.

In the area of real property assessment, the assessor has effective programs for declines in value and California Land Conservation Act (CLCA) property. However, we noted a need for improvement in the following programs: change in ownership, new construction, taxable possessory interests, and mineral property.

In the area of personal property and fixtures assessment, we found that the assessor has effective programs for assessing manufactured homes and aircraft. However, we found that the audit, business property statement, business equipment valuation, and vessels programs are in need of improvement.

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

We found no significant assessment problems as defined in Rule 371. Since Santa Barbara County was not selected for assessment sampling pursuant to Government Code section

15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Santa Barbara County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Expand the written procedures for the assessment of staff-owned property.....11

RECOMMENDATION 2: Do not apply late-filing provisions when the claimant fails to timely file BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*.....16

RECOMMENDATION 3: Improve the administration of the disabled veterans' exemption program by developing and implementing proper procedures to provide training and guidance for staff when processing disabled veterans' exemption claims18

RECOMMENDATION 4: Include all required information on the two-year transfer list pursuant to section 408.1(c).....21

RECOMMENDATION 5: Improve the LEOP program by: (1) reassessing all properties owned by legal entities that have undergone a change in control or ownership, and (2) applying appropriate penalties as required by section 482(b).22

RECOMMENDATION 6: Reappraise all properties exceeding the \$1 million exclusion provided in section 63.1.25

RECOMMENDATION 7: Improve the new construction program by: (1) enrolling escape assessments for unpermitted new construction when appropriate, and (2) enrolling all assessable new construction.29

RECOMMENDATION 8: Improve the taxable possessory interests program by: (1) using Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*, (2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) reappraising taxable possessory interests in compliance with section 61(b)(2), and (5) properly issuing supplemental assessments for taxable possessory interests.....34

RECOMMENDATION 9: Improve the mining property program by: (1) measuring declines in value for mining properties using the entire appraisal unit as required by Rule 469, and (2) treating settling ponds as a separate appraisal unit.37

RECOMMENDATION 10: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.40

RECOMMENDATION 11: Improve the business property statement (BPS) program by applying late-filing penalties to secured business property accounts pursuant to section 463.....42

RECOMMENDATION 12: Improve the business equipment valuation program by: (1) correctly classifying machinery and equipment reported on business property statements (BPS), and (2) issuing supplemental assessments for structural improvements assessed on the unsecured roll.43

RECOMMENDATION 13: Improve the vessels program by adding sales tax as a component of market value.....48

OVERVIEW OF SANTA BARBARA COUNTY

Santa Barbara County is located in the southern portion of California, along the Pacific Coast. The county encompasses a total area of 3,789 square miles, which consists of 2,735 square miles of land and 1,054 square miles of water. Included in this area are four of the Channel Islands: San Miguel Island, Santa Cruz Island, Santa Rosa Island, and Santa Barbara Island. Santa Barbara County is bordered to the north by San Luis Obispo County, to the northeast by Kern County, to the east by Ventura County, and to the south and west by the Pacific Ocean.

Santa Barbara County was one of the 27 original counties of California and was created at the time of statehood in 1850. The county has eight incorporated cities: Buelton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria, and Solvang. The city of Santa Barbara is the county seat. As of 2012, Santa Barbara County had a total population of 431,249.



The following table displays information pertinent to the 2012-13 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$30,237,066,058
	Improvements	\$31,967,243,802
	Personal Property	\$584,004,315
	Total Secured	\$62,788,314,175
Unsecured Roll	Land	\$209,110,846
	Improvements	\$1,136,087,647
	Personal Property	\$1,716,623,000
	Total Unsecured	\$3,061,821,493
Exemptions³		(\$3,075,408,346)
	Total Assessment Roll	\$62,774,727,322

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

ROLL YEAR			
2012-13	\$62,774,727,000	0.9%	1.4%
2011-12	\$62,198,552,000	1.5%	0.1%
2010-11	\$61,303,644,000	0.4%	-1.9%
2009-10	\$61,063,351,000	0.6%	-2.4%
2008-09	\$60,677,947,000	4.9%	4.7%

³ The value of the Homeowners' Exemption is excluded from the exemptions total.

⁴ State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

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

Budget and Staffing

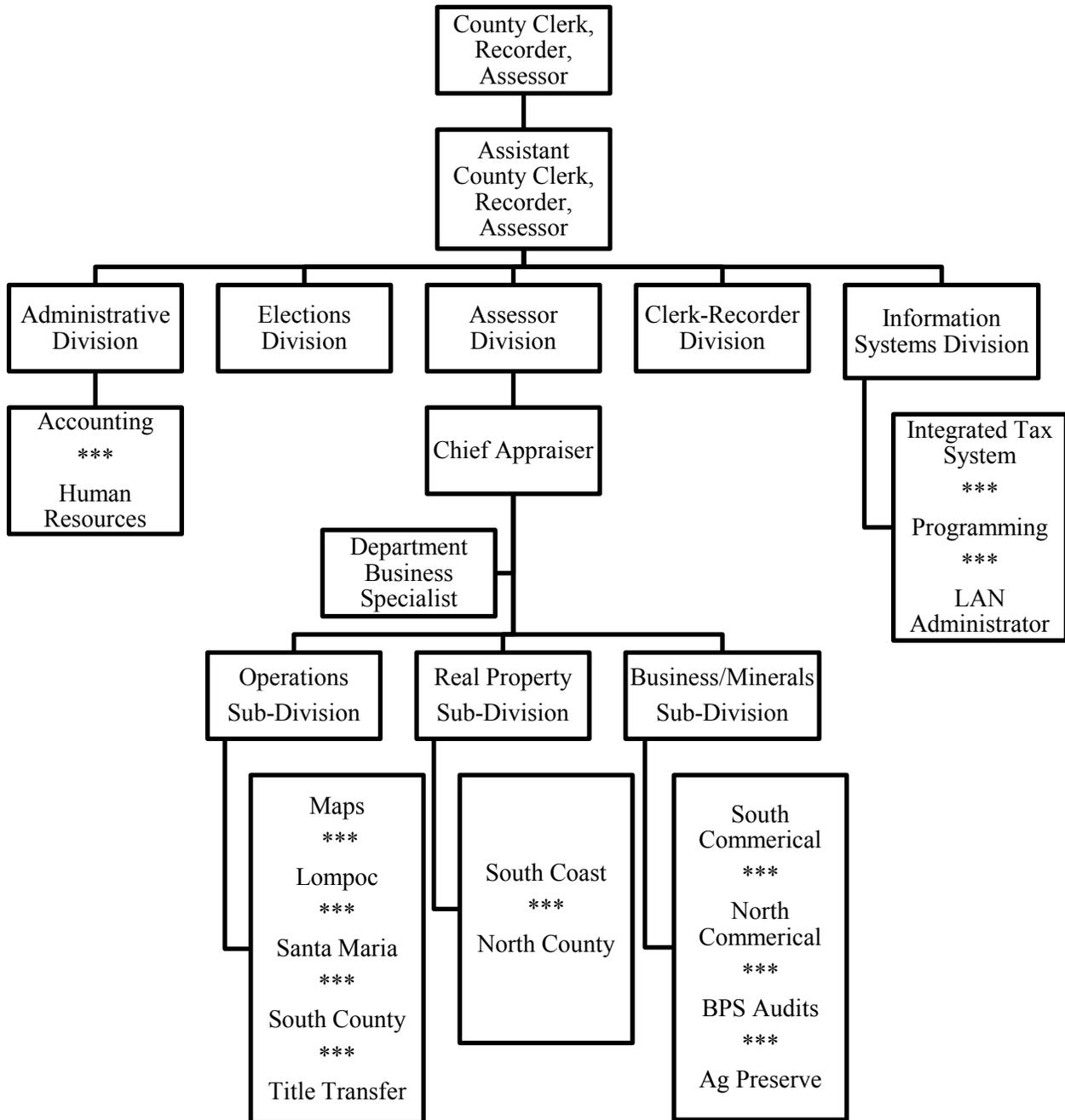
The following table shows the assessor's budget and staffing over recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2012-13	\$9,224,873	-7.1%	70
2011-12	\$9,928,002	-6.3%	72
2010-11	\$10,591,529	10.2%	79
2009-10	\$9,609,188	3.8%	83
2008-09	\$9,259,612	8.2%	81

At the time of our survey, the assessor had 70 budgeted full-time permanent positions. These positions consisted of the assessor, assistant assessor, 1 chief appraiser, 6 managers, 22 appraisers, 6 auditor-appraisers, 4 mapping/GIS analysts, 8 computer analysts, 1 technical/professional, and 20 support staff.

In addition to the assessor's main office located in the city of Santa Barbara, the assessor has two field offices, which are located in the cities of Santa Maria and Lompoc.

The following is an organizational chart for the Santa Barbara County Assessor's Office:



Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

As shown in the previous tables, the gross budget has increased three of the past five years, most recently showing a decrease, while the total assessment roll value has increased each of the past five years. In addition, the assessor has experienced a 15.7 percent reduction in staff from the 83 positions reported for 2009-10 to the 70 current positions reported for 2012-13. During this time, the assessor's workload has been changing. The number of reappraisable transfers due to changes in ownership has increased three of the past four years, most recently showing a significant increase. The number of new construction assessments has decreased three of the past four years, most recently showing an increase. In contrast, the number of decline-in-value assessments has increased three of the past four years, most recently showing a decrease. The number of assessment appeals filed has been fluctuating, showing a decrease one year, then an increase the next year, most recently showing a decrease.

These trends are shown in the following table:

WORKLOAD DESCRIPTION	2012-13	2011-12	2010-11	2009-10	2008-09
Reappraisable Transfers	8,754	6,770	6,763	6,175	6,946
New Construction Assessments	3,647	3,590	3,922	4,392	4,951
Decline-In-Value Assessments	20,552	21,715	20,747	20,309	19,429
Assessment Appeals Filed	669	893	779	779	1,378

Staff Property and Activities

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

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

At the time of hiring, new employees at the assessor's office are required to review and acknowledge receipt of the *County of Santa Barbara Clerk-Recorder-Assessor Policies and Procedures* in regards to conflicts of interest. The assessor's written conflict of interest policy addresses conflicts of interest, financial disclosure, outside employment, and employee property reporting requirements. The conflict of interest policy and related training materials are available to all staff on the assessor's computer system.

According to the assessor's conflict of interest policy, no employee shall conduct work resulting in a changed assessment on property owned by the employee, their relatives, or any other relationship where there might be an appearance of bias. In such cases, the property is reassigned to another staff appraiser and a supervisor reviews and approves all completed work related to the property in conflict. Violations of this policy may result in discipline up to and including termination of employment. In addition, the assessor's policy does not allow employees to engage in non-assessor office appraisals, property tax, or appraisal related activities within Santa Barbara County. The conflict of interest policy also prohibits assessor's staff from representing applicants for compensation before the assessment appeals board.

In order to avoid conflicts of interest, all outside employment by an assessor's staff member must be approved by the assistant assessor prior to acceptance of the position. Employees must submit a *County of Santa Barbara Outside Employment Notification* form for approval of any outside employment activities.

The assessor coordinates with the clerk of the board of supervisors (clerk) to ensure compliance with Form 700 filing requirements as cited in section 672. The assessor provides electronic forms and instructions to all certified staff, including information on the consequences of noncompliance. The human resources manager collects all Form 700s from employees and sends them to the clerk. Upon confirmation that all employees are in compliance, notification is sent to the BOE.

We reviewed several staff-owned property records and assessments. In general, we found that the assessor is properly handling assessments of staff-owned property and we found no evidence that any staff was directly involved in the assessment of their own property. In addition, we found that the assessor is ever alert to potential conflicts of interest. However, we did note an area where improvement is needed.

RECOMMENDATION 1: Expand the written procedures for the assessment of staff-owned property.

Although the assessor's conflict of interest policy addresses the assessment of staff-owned property and conflicts of interest, the policy does not include adequate mechanisms to monitor

compliance. We found that the assessor does not maintain a list of staff-owned properties. In addition, the assessor does not maintain a formal system for employees to report activities involving their real and/or personal property, and the assessor does not track or document those activities involving staff-owned properties.

Letter To Assessors (LTA) No. 2008/058 was issued as a guide to assist assessors in establishing procedures relative to the assessment of staff-owned property. The procedures for the assessment of staff-owned property need not be lengthy or complicated, but should be formalized in a written format and provided to all staff. The procedures adopted by the assessor should:

- Clearly define the assessor's policies and procedures,
- Establish staff's responsibilities,
- Create a file or listing of all staff-owned property in the county,
- Contain well-defined review procedures, and
- Accurately track and document all events with potential assessment implications.

An expansion of the assessor's existing procedures for staff-owned property that includes these bulleted practices is recommended. It would also be a good business practice for the assessor to develop and/or incorporate the use of a form for staff to document all events and activities related to real and personal property that they own within the county subject to taxation. A sample form used for this purpose is included in LTA No. 2008/058, *Employee Property Activity Report*. Further development of the written procedures in these areas will help ensure that staff is aware of and follows office policy.

Assessment Appeals

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

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

Santa Barbara County has two assessment appeals boards (AAB). Each board consists of five members appointed by the board of supervisors. Pursuant to section 1624.01, all members of the AAB have successfully completed the required training as provided in section 1624.02. The county does not have hearing officers. In Santa Barbara County, the assessment appeals filing

period is July 2 through November 30. Electronically filed assessment appeal applications are not accepted at this time.

The clerk is responsible for providing applications for changed assessment to the public, receiving the completed applications, and providing copies of the completed applications to the assessor. Once an application is received, the clerk date and time stamps it; reviews it for completeness and accuracy; and determines if it is valid and timely filed. The clerk then enters the necessary data from the application into the assessment appeals database, which the assessor has shared access. The clerk sends copies of the applications to the assessor's office and schedules the appeals for hearing.

The clerk and the assessor work together to track the progress of the assessment appeals in an effort to resolve all appeals within the two-year time period. Each of the division managers in the assessor's office tracks the progress of the appeals that are scheduled for hearing, while the clerk tracks the two-year time period for each appeal to make sure it is scheduled and resolved timely. Reports are generated from the shared assessment appeals database, and the managers and clerk use these reports for tracking purposes. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

The following table sets forth the appeal workload over recent years:

YEAR	2012-13	2011-12	2010-11	2009-10	2008-09
Appeals Filed	669	893	779	779	1,378
Appeals Carried Over From Prior Year	1,034 ⁵	819 ⁶	141 ⁷	601 ⁸	315
Total Appeals Workload	1,703	1,712	920	1,380	1,693
Resolution:					
Withdrawn	330	262	361	514	287
Stipulation	390	389	243	489	63
Appeals Reduced	0	1	9	4	4
Appeals Upheld	7	9	9	251	5
Appeals Increased	0	0	0	0	0
Other Determination*	28	25	38	12	28
Total Resolved	755	686	660	1,270	387
To Be Carried Over**	948	1,026	260	110	1,306

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

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

The assessor has written policies and procedures for staff to follow when handling assessment appeals. The managers in each division review any incoming appeals in their division and distribute the appeals to the appropriate appraiser. Appraisers prepare and present the assessment appeals that are assigned to them.

Once an assessment appeal has been assigned to the appropriate appraiser, the appraiser attempts to contact the applicant prior to the scheduled hearing in an effort to resolve any discrepancies. If an applicant decides to withdraw an appeal or agrees to a stipulated value, the assessor sends a

⁵ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" in *A Report on Budgets, Workloads, and Assessment Appeals Activities* for 2012-13. The assessor reported 1,034; however, the number should be 1,026, as indicated by the number "To Be Carried Over" from 2011-12, based on the numbers previously reported by the assessor.

⁶ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" in *A Report on Budgets, Workloads, and Assessment Appeals Activities* for 2011-12. The assessor reported 819; however, the number should be 260, as indicated by the number "To Be Carried Over" from 2010-11, based on the numbers previously reported by the assessor.

⁷ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" in *A Report on Budgets, Workloads, and Assessment Appeals Activities* for 2010-11. The assessor reported 141; however, the number should be 110, as indicated by the number "To Be Carried Over" from 2009-10, based on the numbers previously reported by the assessor.

⁸ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" in *A Report on Budgets, Workloads, and Assessment Appeals Activities* for 2009-10. The assessor reported 601; however, the number should be 1,306, as indicated by the number "To Be Carried Over" from 2008-09, based on the numbers previously reported by the assessor.

letter with a withdrawal or stipulation form to be returned with the applicant's signature. If no agreement can be reached between the applicant and the appraiser, the assessment appeals process continues and the assessment appeal is prepared for a scheduled hearing before the AAB. The assessor reviews each assessment appeal scheduled for hearing prior to the appraiser's presentation before the AAB.

In Santa Barbara County, assessment appeals hearings are typically held on the last Thursday of each month. During our survey, we were able to attend an AAB hearing. The assessor's staff was well prepared and presented the assessment appeals adequately. In addition, we reviewed copies of several assessment appeals packets and found them to be concise and properly documented. Overall, we found the assessor's assessment appeals program to be efficient and well administered. We have no recommendations for this program.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

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

The following table shows religious and church exemption data for recent years:

YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2012-13	32	\$45,609,789	226	\$123,406,179
2011-12	32	\$44,735,918	222	\$119,379,656
2010-11	35	\$50,173,948	213	\$105,441,744
2009-10	42	\$52,513,653	208	\$114,103,119
2008-09	223	\$149,168,252	42	\$16,543,449

We reviewed several church and religious exemption claims in Santa Barbara County. We found the files to be well documented with detailed notes as to each property's use, any issues associated with the property, and any contact made with the claimant. In addition, we found that the assessor properly applies late-filing provisions in accordance with sections 270 and 271 when claims are not filed timely. Overall, we found the assessor's church and religious exemptions program to be efficient and well administered. However, we found an area in need of improvement.

RECOMMENDATION 2: Do not apply late-filing provisions when the claimant fails to timely file BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*.

We found that it is the assessor's policy to apply late-filing provisions for properties receiving the religious exemption if the claimant fails to return BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, or returns it after February 15.

The religious exemption, once filed, remains in effect until terminated or until the property is no longer eligible. Pursuant to section 257.1, the assessor mails an annual notice, BOE-267-SNT, to claimants of the religious exemption in order to ascertain continued eligibility for the exemption. The failure of the claimant to return the form may prompt a site visit from the assessor to ensure continued eligibility; however, statutes do not provide a basis for applying late-filing provisions. The religious exemption is not one of the exemptions specified in section 254 requiring an annual filing with the assessor.

The assessor's practice of applying late-filing provisions on a property when an annual claim is not timely filed for the religious exemption is contrary to statute and may cause taxpayers to be denied the full exemption for which they are entitled to receive.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added.

Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

The following table shows welfare exemption data for recent years:

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2012-13	1,022	\$2,756,834,258
2011-12	1,025	\$2,405,418,240
2010-11	1,019	\$2,063,152,907
2009-10	1,007	\$1,869,380,782
2008-09	972	\$1,646,625,673

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

Overall, we found that the assessor has an effective welfare exemptions program and we have no recommendations for this program.

Disabled Veterans' Exemption

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

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

The following table shows disabled veterans' exemption data for recent years:

YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2012-13	369	\$40,979,718
2011-12	351	\$37,617,258
2010-11	339	\$35,867,001
2009-10	324	\$34,019,265
2008-09	312	\$31,303,123

During our survey, we reviewed several disabled veterans' exemption claims, including both basic and low-income provision claims. We found several areas in the administration of the disabled veterans' exemption program that need improvement.

RECOMMENDATION 3: Improve the administration of the disabled veterans' exemption program by developing and implementing proper procedures to provide training and guidance for staff when processing disabled veterans' exemption claims.

We found a variety of issues while reviewing the assessor's disabled veterans' exemption program. These issues included inconsistencies in prorating disabled veterans' exemptions, accepting annual low-income certifications lacking signatures, using dates provided by the claimant as the effective date of disability, and incorrectly applying late-filing provisions. While some of the exemption irregularities we found may have been oversights rather than established policies, we found enough examples on a variety of issues to indicate that the assessor's disabled veterans' program is not being implemented properly.

The disabled veterans' exemption is one of the most complex property tax exemptions. A variety of documents, dates, exemption limits, assessed values, and ownership conditions must be reviewed when administering the exemption. Additionally, exemption amounts and income ceilings for the low-income provision of the exemption change annually. It is vital that staff have a working knowledge of applicable statutes and that a supervisory review occurs to ensure compliance with these statutes, as well as ensuring equal treatment to all claimants.

ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, taxable possessory interests, and mineral property.

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

Change in Ownership

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

Discovery

The assessor's primary means of discovering properties that have changed ownership is through the analysis of deeds and other documents recorded at the recorder's office. The assessor also discovers potential changes in ownership through change of address requests, notifications of a death of a property owner, newspaper articles, information from other counties, and correspondence from taxpayers.

The following table shows the total number of recorded documents received and the total number of reappraisable transfers processed in Santa Barbara County in recent years:

YEAR	RECORDED DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2012-13	20,205	8,754
2011-12	16,651	6,770
2010-11	15,858	6,763
2009-10	16,955	6,175
2008-09	17,037	6,946

Document Processing

The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents submitted for recording that transfer ownership of real property. If a document is received without a PCOR, the recorder adds a \$20 charge to the recording fee. PCORs are available to the public at both the assessor's and recorder's offices, as well as on the assessor's website. Santa Barbara County has a local ordinance that requires the assessor's parcel number (APN) to be included on all recorded documents involving real property.

In Santa Barbara County, the assessor also functions as the county clerk and recorder. Recorded documents are prescreened by the recorder's office and sent electronically to the assessor's office on a nightly basis. Each administrative office professional (AOP) in the Title Transfer Section processes a day of recordings at a time. The original PCORs that correspond with that day's recordings are retrieved from the recorder's office and are merged with the proper recorded document.

The AOP reviews each recorded document in order to identify the property being transferred and to verify that the property being transferred is owned by the grantor(s) as specified on the deed. The AOP then determines the percentage of ownership interest being transferred and whether any of that percentage being transferred results in a reappraisable event. Transfer information is entered into the computer system, causing any applicable exclusion claim forms and cover letters associated with a particular type of transfer to be automatically generated and sent to the property owner. For transfers resulting in a reappraisable event, the property record file is pulled and forwarded to the appropriate appraiser for valuation.

We examined several recorded documents and found that the assessor has an effective program for the discovery and determination of reappraisable events.

Penalties

When a recorded document is received without a PCOR or the PCOR is incomplete, it is left to the appraiser's discretion whether a BOE-502-AH, *Change in Ownership Statement* (COS), is sent to the property owner. Since the assessor has such a high success rate of PCORs being filed at the time of recording a document, it is not a common occurrence for a COS to be sent to a property owner. However, when a COS is sent to a property owner, an AOP tracks the progress of the COS on a spreadsheet. In recent years, the few COSs that have been sent out have been returned timely and, therefore, the assessor has not had to implement the late-filing penalty process. We found no problems with the assessor's penalty process.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The transfer list is available to the public on computer terminals located in the lobby at the assessor's office. In compliance with section 408.1(b), the transfer list is divided into geographical areas by APN and it is updated on a nightly basis. Pursuant to section 408.1(c), the transfer list contains the APN, address of the property, date of recording, recording reference number, and consideration paid. The assessor observes the confidentiality provisions of section 481, which

precludes the disclosure of information on a PCOR or COS. Although the assessor meets most of the requirements of section 408.1(c), there is required information that is not included on the transfer list.

RECOMMENDATION 4: Include all required information on the two-year transfer list pursuant to section 408.1(c).

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

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

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.⁹ The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

⁹ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

In Santa Barbara County, the assessor's main source of discovery for changes in control or ownership of legal entities is by reviewing the monthly LEOP reports from the BOE. The assessor also discovers potential changes in control or ownership of legal entities through newspaper articles, statements of partnership, business property statements, and by information received from the public.

The monthly LEOP reports are reviewed by the Title Transfer Section in order to determine if any property in Santa Barbara County is owned by a legal entity having undergone a change in control or ownership. A name search is also conducted to ensure that all of the entity's real property is reassessed. Once the real property parcels have been identified and the change in control or ownership has been determined to be a reappraisable event, the information is forwarded to the appraisal staff for valuation.

We reviewed several property records and found areas in need of improvement.

RECOMMENDATION 5: Improve the LEOP program by: (1) reassessing all properties owned by legal entities that have undergone a change in control or ownership, and (2) applying appropriate penalties as required by section 482(b).

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

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

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

Apply appropriate penalties as required by section 482(b).

We found several instances where penalties were not applied when an entity failed to file a BOE-100-B or filed a BOE-100-B late, even though the assessor had been notified by the BOE's LEOP Division to apply the penalty.

Sections 480.1 and 480.2 require the filing of a signed BOE-100-B whenever a legal entity has undergone a change in control or ownership. At the time of our survey, section 482(b) provided that if a person or legal entity failed to file a BOE-100-B within 90 days of a change in control or

ownership or within 90 days of a written request from the BOE, whichever occurred earlier, they were subject to a 10 percent penalty.¹⁰

The BOE provides the assessor with several reports, as well as copies of BOE-100-Bs, indicating whether a penalty applies. The assessor should review these reports and the BOE-100-Bs to identify entities with late-filings or failures to file and apply penalties accordingly. By failing to apply the required section 482(b) penalty, the assessor is not following statutory requirements and is not treating all taxpayers equitably.

Change in Ownership Exclusions – Section 63.1

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

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

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

Applications regarding section 63.1 exclusions are available to the public at the assessor's office and on the assessor's website.

¹⁰ Effective January 1, 2010, Senate Bill 816 (Stats. 2009, ch. 622) amended section 482(b) to provide for the application of a penalty if a person or legal entity failed to file a statement within 45 days of: (1) the date the change in control or the change in ownership occurred, or (2) the date of a written request from the BOE (filing of BOE-100-B), whichever occurred earlier. Prior to January 1, 2010, the penalty was only applicable if the statement was not filed within 45 days of a written request. In addition, effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement from 45 days to 90 days for a legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurred earlier.

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

YEAR	SECTION 63.1 CLAIMS FILED	SECTION 63.1 CLAIMS GRANTED
2012-13	1,381	1,090
2011-12	1,873	1,238
2010-11	1,550	1,451 ¹¹
2009-10	1,139	1,057
2008-09	1,265	1,217

The assessor is proactive regarding public awareness of potential change in ownership exclusions. If a PCOR indicates that a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, an AOP sends a claim form, along with a cover letter, to the property owner advising them of a possible exclusion from reassessment. The AOP tracks the progress of the requested claim form through the computer system. If the property owner fails to respond within 45 days of the first request, the AOP will send a second notice giving the property owner additional time. After 60 days from the second notice, if the property owner has still not responded or filed a completed claim form for exclusion, the AOP processes the transfer for reappraisal and forwards the file to the appraisal staff for valuation. Pursuant to Ordinance No. 4801, if the property owner later provides the completed exclusion claim form, the assessor may still grant the exclusion, but may charge the property owner a \$175 fee, since the form was not filed timely.

When a section 63.1 claim form is received, the AOP, with assistance from the appraiser, determine whether the exclusion is accepted or denied. The property owner is notified in writing when a claim form is accepted or denied.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property in Santa Barbara County has exceeded the limit. If properties exceeding the limit include properties in counties other than Santa Barbara County, the assessor coordinates with those counties and the property owner to determine which properties to exclude and which to reassess.

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

¹¹ The assessor reported the number of Claims Granted for year 2010-11 as "451" on *A Report on Budgets, Workloads, and Assessment Appeals Activities*. We confirmed that this number was reported in error and should have been reported as "1,451."

We reviewed several section 63.1 claims and noted an area in need of improvement.

RECOMMENDATION 6: Reappraise all properties exceeding the \$1 million exclusion provided in section 63.1.

During our survey, we found several properties listed on the BOE's *Report of Transferors Exceeding \$1,000,000*, which the assessor either failed to reappraise those portions exceeding the \$1 million limit or failed to report to the BOE the corrections necessary to resolve the issue.

Section 63.1(a)(2) excludes from reassessment the purchase or transfer of the first \$1 million of full cash value of all real property, other than a principal residence, of an eligible transferor in the case of a purchase or transfer between parents and their children. Based on optional quarterly reports submitted by assessors to the BOE listing approved section 63.1 transfer exclusions, the BOE tracks transferors and the properties transferred for each county in an effort to enforce the \$1 million limit. The BOE sends out a *Report of Transferors Exceeding \$1,000,000*, which lists the transferor and the properties that have been excluded. Assessors should review this list and report any necessary corrections to the BOE, such as duplicate submissions or errors in the value submitted. For those properties exceeding the limit, the assessor should determine if a reassessment is valid and coordinate with the taxpayer and any other counties involved to make sure the exclusion is not granted on properties once the \$1 million limit has been exceeded.

By allowing the exclusion of properties once the \$1 million limit has been exceeded, the assessor is allowing certain properties to be excluded from reassessment that would otherwise be reassessable.

Change in Ownership Exclusions – Section 69.5

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

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

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

Santa Barbara County does not accept base year value transfers from other counties. Section 69.5 applications are available to the public at the assessor's office and on the assessor's website.

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

YEAR	SECTION 69.5 CLAIMS FILED	SECTION 69.5 CLAIMS GRANTED
2012-13	122	36
2011-12	100	28
2010-11	109	43
2009-10	114	37
2008-09	112	40

If a PCOR indicates that a transfer may involve a base year value exclusion and a claim form has not already been submitted, an AOP sends a claim form, along with a cover letter, to the property owner. Once a section 69.5 claim has been submitted for approval, an appraiser determines the fair market value of both the replacement and original properties in order to determine whether the property values meet the exclusion requirements before accepting or denying the claim. The property owner is notified in writing when a claim is accepted or denied.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. When the assessor's office receives a *Duplicate SSN Report* from the BOE, the report is reviewed to determine if any claims made in Santa Barbara County are subject to reassessment due to a duplicate filing.

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

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

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to determine whether the reported sale price reflects market value; the sale price is not automatically enrolled.

The assessor's computer system maintains a sales database for all property types to assist appraisers in the valuation process. The database is updated as transfers are processed by the appraiser and sales are enrolled into the computer system. Residential properties experiencing a change in ownership are valued using the comparative sales approach, while commercial and agricultural properties are valued using the comparative sales and income approaches. Market value conclusions are documented on the appraisal record and any supporting documents are attached to the file. All appraisals are reviewed and approved by an assessment supervisor. Field inspections are conducted on all transfers, except those transfers involving condominiums or tract housing.

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

New Construction

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

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

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

Discovery

The assessor has written policies and procedures governing the assessment of new construction. Building permits are the primary means of discovering new construction activity. Other methods of discovery include field canvassing and reviewing business property statements.

The assessor receives building permits from the following permit issuing agencies: County of Santa Barbara Building & Safety Division, City of Carpinteria Building and Safety Division, City of Goleta Building and Safety Division, City of Guadalupe Building Department, City of Lompoc Building Division, City of Santa Barbara Building & Safety Division, City of Santa Maria Building Division, and City of Solvang Planning & Community Development Department. The City of Buellton contracts through the County of Santa Barbara Building & Safety Division to issue building permits for new construction in its jurisdiction. In addition, the County of Santa Barbara Environmental Health Division of the Public Health Department issues permits for water wells and septic systems.

The following table shows the total number of building permits received and the total number of new construction assessments processed in recent years:

YEAR	BUILDING PERMITS	NEW CONSTRUCTION ASSESSMENTS
2012-13	5,470	3,647
2011-12	5,385	3,590
2010-11	5,850	3,922
2009-10	6,588	4,392
2008-09	7,426	4,951

Permit Processing

The assessor receives building permits from the various permit-issuing agencies either electronically or in hard-copy format, depending on the agency. The permit-issuing agencies also provide the assessor with notice of completions, final dates, and hard-copies of building plans.

The assessor's Operations Division is responsible for reviewing and screening the building permits in order to determine which permits indicate assessable new construction. All assessable new construction permits are entered into the computer system and appear as items to be worked in the appropriate appraiser's work queue. Permits indicating non-assessable new construction, such as mechanical, plumbing, reroofing, and small electrical repairs, are not entered into the computer system and are discarded.

Data for unpermitted new construction is entered into the computer system upon discovery. The escaped new construction is valued and enrolled as of the date of discovery and no escape assessments are issued. The assessor enrolls supplemental assessments, as allowed by law, for unpermitted new construction upon discovery.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For CIP, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We found no problems with the valuation of CIP.

Valuation

The assessor values new construction as of the date of completion. Appraisers determine the completion status of new construction through field inspections, information provided by the permit-issuing agencies, and cost questionnaires from property owners. When valuing new

construction, the assessor uses mainly the cost approach; however, comparative sales, and/or income approaches are also used when appropriate. A variety of sources are used to develop a cost indicator of value for new construction, including Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), the owner's reported costs, and *Marshall Valuation Service*. Unit cost factors and the source of the costs are documented on the property record.

Summary

We reviewed several residential, commercial, and agricultural property records involving recent new construction and found areas in need of improvement.

RECOMMENDATION 7: Improve the new construction program by: (1) enrolling escape assessments for unpermitted new construction when appropriate, and (2) enrolling all assessable new construction.

Enroll escape assessments for unpermitted new construction when appropriate.

We found that it is the assessor's practice to enroll unpermitted new construction as of the date of discovery rather than the date of completion. The assessor then issues a supplemental assessment for the new construction using the date of discovery as the event date. The assessor does not attempt to determine the actual date of completion for the new construction and no escape assessments are issued for any prior years escaping assessment.

Section 531 states that if any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment. Section 532 provides that an assessment shall be made within four years after July 1 of the assessment year in which the property escaped taxation or was underassessed.

In addition, section 50 provides that values determined for new construction shall be entered on the roll for the lien date next succeeding the date of completion of the new construction. Section 71 provides that new construction in progress on the lien date shall be appraised at its full value on said lien date and each lien date thereafter until the date of completion, at which time the entire newly constructed portion of the property shall be reappraised at its full value.

When unpermitted new construction is discovered, the assessor should make every effort to determine the actual completion date of that new construction, and issue the appropriate supplemental assessment and escape assessments as allowed by statute. The date of discovery should only be used as the event date as a last resort when all other efforts to obtain the actual completion date have been exhausted. The assessor's current practice allows those taxpayers with unpermitted new construction to escape assessment for all prior years, even though the new construction was assessable had the assessor been aware of its existence. In addition, this practice causes unequal treatment of taxpayers.

Enroll all assessable new construction.

We found several examples where the appraiser determined the value for new construction, but did not enroll the value, indicating on the property record that the amount of the value added was insufficient to enroll.

The Santa Barbara County Board of Supervisors has adopted a low-value ordinance; however, it does not include a provision for the exemption of real property. In addition, section 155.20(e)(1) provides that a county board of supervisors does not have the authority to exempt new construction from property taxation, unless the new total base year value of the property, including the new construction, is \$10,000 or less. Therefore, when part of a larger structure, low-value new construction should be valued and enrolled.

The assessor's practice of not enrolling all assessable new construction may result in escaped assessments of certain low-value projects and cause unequal treatment of taxpayers.

Declines in Value

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

The following table shows the number of decline-in-value assessments in Santa Barbara County in recent years:

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2012-13	20,552
2011-12	21,715
2010-11	20,747
2009-10	20,309
2008-09	19,429

Due to unfavorable economic conditions, Santa Barbara County, like many other counties, has experienced a notable decline in property values. Consequently, there has been a significant increase in the total number of properties eligible for decline-in-value assessment. While the table shows the number of decline-in-value assessments most recently decreasing in 2012-13, the previous years from 2008-09 through 2011-12 represent increases in the number of decline-in-value assessments. These increases represent a significant increase in workload for the assessor and his staff.

Discovery and valuation of properties with declines in value are high priority for the assessor. The assessor has been proactive in discovering and adjusting the assessments of properties affected by declines in value. Methods of discovery used to identify potential declines in value

are taxpayer requests for an informal review, assessment appeals, and appraiser familiarity with market conditions in their assigned geographic areas. The assessor's website provides information to the public regarding declines in value and the informal review process. Forms for filing a request for review are available at the assessor's office and on the assessor's website.

When a property is initially being reviewed for a possible decline in value, it is reviewed and valued manually by the appraiser of that geographic location. If the property is determined to be in decline-in-value status, the reduced value is placed on the roll and the property is coded with a "V" in the computer system for identifying and tracking purposes. When a property owner requests an informal review of their property for a possible decline-in-value and the appraiser determines a reduction is not warranted, a letter of denial is sent to the property owner advising them of the denial and explaining the property owner's right to file an assessment appeal.

Once a property is established and placed on the roll in decline-in-value status, subsequent annual reviews are performed by an automated computer system. This system was developed in-house and is mainly for valuing single-family residences, condominiums, and vacant land. Each year, the assessor analyzes current market data for 40 designated geographic areas in the county. Based on this analysis, median values and percentages of reduction are determined for each area, and this data is then input into the automated computer system. Income properties and other specialized properties are reviewed manually by an appraiser on an annual basis, using an appropriate valuation method, until the FBV is restored. An end report showing all properties being reduced is reviewed by the assessment supervisors and any discrepancies are reviewed.

On March 6, 2012, the Santa Barbara County Board of Supervisors adopted Resolution No. 12-43, authorizing the assessor to use the county website to provide value notices pursuant to section 621. A value notice is posted on the assessor's website for a property owner when the assessed value has been temporarily reduced due to a decline in value, when a reduced value remains unchanged on the roll for the current assessment year, or when the FBV has been fully or partially restored. In accordance with section 619, the value notice includes the proposed decline-in-value assessment, the FBV, a statement of the assessment appeals filing period, a notification of hearings by the assessment appeals board, and the stipulation process.

We reviewed several decline-in-value assessments and found that the assessor properly reviews and adjusts properties experiencing a decline in value pursuant to section 51. Each decline-in-value assessment is coded to prevent the assessor's computer program from automatically applying the annual inflation factor to the prior year's taxable value and to ensure that the decline-in-value assessment is annually reviewed. The property records were well documented, and the values were reasonable and well supported.

Overall, the assessor has an effective and well administered declines in value program. We have no recommendations for this program.

California Land Conservation Act Property

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

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

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

For the 2012-13 roll year, Santa Barbara County had 2,292 parcels encumbered by CLCA contracts, encompassing approximately 549,530 acres. The total assessed value for land and improvements was \$1,857,836,908. Santa Barbara County has 60 parcels in nonrenewal status. There have been no contracts cancelled in recent years.

In Santa Barbara County, the gross value of agricultural production for 2012 was \$1,291,008,000. This was an 8 percent increase from the 2011 value of \$1,194,379,056. In 2012, Santa Barbara County's top five crops by value were strawberries, broccoli, wine grapes, head lettuce, and avocados.

The valuation of CLCA properties in Santa Barbara County is the responsibility of two appraisers and an assessment supervisor. Income and expense data is gathered from a variety of sources, including annual open-space questionnaires to property owners and information from the county's annual crop report. This data is used to determine income and expense rates to be used in the valuation process.

The assessor has developed and implemented an automated computer system for valuing restricted properties in the county. Income and expense data is entered into the computer system, which then calculates the restricted values. When developing a capitalization rate to be used in the valuation process, the assessor correctly includes the current interest component provided annually by the BOE, a risk component, and a property tax component. The assessor properly compares the restricted value to the factored base year value and the current market value, enrolling the lower of the three values.

The assessor correctly treats homesites and related homesite improvements as a separate appraisal unit when reviewing declines in value and correctly enrolls the lower of factored base year value or current market value for the unrestricted property.

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

In our review of the assessor's CLCA program, we found that the assessor properly uses an inclining-stable-declining method to value living improvements and properties in nonrenewal

were valued correctly. The assessor's CLCA program is efficient and well administered. We have no recommendations for this program.

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 2012-13 roll year, the assessor enrolled 2,609 taxable possessory interests with a total assessed value of \$501,908,831. These 2,609 taxable possessory interests were located on real property owned by approximately 70 different public agencies in Santa Barbara County. Some of the uses on these publicly owned properties included airplane tie downs and hangars at the county airfield, concessionaires and private users of the county fairgrounds and convention center, boat slips at public marinas, and cable television franchises. The assessment roll correctly shows the name of the specific local, state, or federal agency that holds title to the real property where the taxable possessory interest is situated.

In Santa Barbara County, the assistant assessor and two division managers are responsible for the assessment of all taxable possessory interests located in the county. As part of the discovery process, an administrative office professional (AOP) sends out a county-developed *20XX Possessory Interest Information* questionnaire each year, along with a cover letter, to all public agencies owning real property in the county. When completed questionnaires are returned, the AOP reviews each questionnaire for potential changes in ownership by identifying any new tenants, new or renewed lease agreements, or vacated sites as reported by each public agency. For new taxable possessory interests, an appraisal file is created, and for taxable possessory interests that have been vacated or terminated, both paper and electronic files are deleted and/or deactivated. The AOP then forwards the public agency's returned questionnaire, along with all new and existing taxable possessory interest files associated with that public agency, to the appropriate staff member for further review and valuation.

The primary method of valuation used by the assessor to value taxable possessory interests is the income approach-direct method. In the direct method, the value of the taxable possessory interest is determined by discounting the estimated future market rent over the reasonably anticipated term of possession.

Santa Barbara County has adopted Ordinance No. 4556, on December 7, 2004, which exempts all possessory interests with a base year value less than, or equal to, \$5,000, and all possessory interests, for a temporary or transient use, in a publicly owned fairground, fairground facility, convention facility, or cultural facility, with a base year value less than, or equal to, \$50,000. We found that the assessor is properly applying the low-value exemption for taxable possessory interests.

We reviewed a number of taxable possessory interest assessments and found several areas in need of improvement.

RECOMMENDATION 8: Improve the taxable possessory interests program by: (1) using Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*, (2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) reappraising taxable possessory interests in compliance with section 61(b)(2), and (5) properly issuing supplemental assessments for taxable possessory interests.

Use Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*.

We found that the assessor uses a locally-developed form to send to public agencies each year for reporting taxable possessory interests in lieu of the Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*, which was developed and prescribed by the BOE for this purpose. Letter To Assessors (LTA) No. 2011/019 provides a copy of the revised BOE-502-P, and discusses the revisions and intended use of this Board-prescribed form.

Section 480.6 provides that every state or local governmental entity that is the fee owner of real property in which one or more taxable possessory interests have been created shall either file any preliminary change in ownership report or change in ownership statement otherwise required to be filed with respect to any renewal of a possessory interest, or annually file with the county assessor, no later than the 15th day of the first month following the month in which the lien date occurs, a real property usage report. Government Code section 15606(d) requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. Rule 171 further provides that the assessor shall use Board-prescribed forms and property statements. In addition, LTA No. 2004/049 advises that an assessor may not use a locally-developed form if there is a Board-prescribed form available. Since the BOE has developed and prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*, to be used to meet the reporting requirements of section 480.6, the assessor must use this form.

The assessor's practice of using a locally-developed form in-lieu of a Board-prescribed form is contrary to regulation.

Use the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests.

We found several instances in which the assessor did not use the stated term of possession as the reasonably anticipated term of possession when valuing a taxable possessory interest with a stated term of possession. For example, we found several taxable possessory interests with

contracts indicating a 1-year stated term of possession in which the assessor used a 5-year term of possession, rather than the 1-year stated term, to value the taxable possessory interests.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on the lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

We found no evidence in the files demonstrating that the public owner and private possessor had reached a mutual understanding or agreement, whether in writing or not, such that the stated term of possession should not be deemed to be the reasonably anticipated term of possession. Therefore, the assessor should use the stated term of possession to establish the base year value of the taxable possessory interest and then, for subsequent years, periodically review the taxable possessory interest for a possible decline in value using a declining term based on the remaining term of possession. If the assessor does have clear and convincing evidence to support using a term other than the stated term of possession, then the assessor should properly document that evidence in the file.

The assessor's practice of using a term of possession different from the stated term of possession is contrary to Rule 21 and may result in incorrect assessments.

Periodically review all taxable possessory interests with stated terms of possession for declines in value.

We found that for taxable possessory interests having stated terms of possession, the assessor does not periodically review these taxable possessory interests for possible declines in value. Instead, the assessor enrolls the factored base year value each year until either a change in ownership occurs or the stated term of possession ends.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or

longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

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

Reappraise taxable possessory interests in compliance with section 61(b)(2).

We found several instances where the assessor failed to reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used by the assessor to initially value the taxable possessory interest.

Section 61(b) provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property for any term. Further, section 61(b)(2) provides that in the case of a renewal or extension, the assessor shall, at the end of the initial term of possession used by the assessor to value the taxable possessory interest, establish a new base year value based upon a new reasonably anticipated term of possession.

By not revaluing taxable possessory interests at the end of the reasonably anticipated term of possession, the assessor is not in compliance with statutory provisions and may enroll inaccurate assessments.

Properly issue supplemental assessments for taxable possessory interests.

We found that the assessor does not issue supplemental assessments for taxable possessory interests that are enrolled on the unsecured roll. The assessor indicated that his computer system does not allow supplemental assessments to be issued for property on the unsecured roll. In addition, we found that for those taxable possessory interests enrolled on the secured roll, the assessor is correctly issuing supplemental assessments when warranted; however, the assessor incorrectly calculates the supplemental assessment for newly created taxable possessory interests by offsetting the new base year value against the prior year's assessed value.

Taxable possessory interests, like other real property, are subject to supplemental assessments whenever there is a change in ownership or completed new construction. Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction. In addition, Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), advises that the supplemental assessment amount for a newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

The assessor's failure to properly issue supplemental assessments is contrary to statute and results in unequal treatment of taxpayers.

Mineral Property

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

There are no assessable high temperature geothermal properties in Santa Barbara County.

Petroleum Property

Santa Barbara County ranks sixth in oil production in California, producing 2.3 percent of the state's production in 2012. The county ranks ninth in natural gas production. These figures do not include federal offshore production that is brought onshore through pipelines leading into the county. Our review found no problems with the assessor's program for assessing petroleum properties.

Mining Property

There are several mining properties located in Santa Barbara County. These properties vary in size and complexity from small gravel operations to a large diatomaceous earth mine. For many of the properties the assessor uses the royalty method to determine the value of the mineral rights. Our review found areas in need of improvement with the assessor's program for assessing mining properties.

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

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

The assessor does not consider the total value of the appraisal unit when determining whether to enroll the adjusted base year value or the current market value of the mining property for the lien date. The value of fixtures and improvements is determined separately from the rest of the mineral property using percent good tables.

For some mining properties, this practice would be appropriate. Some mining properties do not have any equipment located at the mining operation. When needed, the taxpayer will move equipment onto the site to extract and process what is needed for near term use. The equipment may be located at a central location and service several sites. For these mining properties, it would be proper for the equipment to be treated as a separate appraisal unit.

For other mining properties, however, this practice would be incorrect. Most mining properties have extensive fixtures and equipment associated with the mining operation. Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land, improvements including fixtures, and reserves. The assessor's practice treats fixtures and equipment as a separate appraisal unit and measures declines in value without respect to the total appraisal unit.

Treat settling ponds as a separate appraisal unit.

Our review of the mining property appraisal records indicated that the assessor does not determine a separate base year value for settling ponds on mineral properties in Santa Barbara County.

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

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

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

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

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

Audit Program

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

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

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

In Santa Barbara County, the assessor's audit section is comprised of the business division manager, an assessment supervisor, four auditor-appraisers, and two administrative office professionals.

The following table shows the assessor's audit workload and production over recent years:

YEAR	2011-12	2010-11	2009-10	2008-09	2007-08
Audits Scheduled	179	230	217	168	335
Audits Carried Over from Prior Year	35	23	22	74	81
Total Audit Workload	214	253	239	242	416
Audits Completed	92	218	216	220	342
Audits Carried Forward	122	35	23	22	74

As previously noted, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 216 audits per year. The assessor completed 216 audits for the 2009-10 roll year and 218 for the 2010-11 roll year. However, the assessor completed only 92 audits for the 2011-12 roll year, failing to meet the minimum number of audits required as defined by section 469.

RECOMMENDATION 10: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

The assessor failed to conduct the minimum number of audits required under the provisions of section 469 for the 2011-12 roll year. The assessor's shortfall is likely due to budgetary and staffing constraints.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well managed assessment program.

By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

Statute of Limitations

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

waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

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

Audit Quality

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

We sampled several recently completed audits and found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, properly classifies equipment, conducts field inspections, properly enforces the county's personal property low-value ordinance, and performs assessment roll changes to reflect audit findings. We found the audits were accurate, well documented, and supported by comprehensive audit checklist defining the areas of investigation.

Business Property Statement Program

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

Discovery

The assessor utilizes a wide range of tools for discovering taxable business property. In addition to taxpayer self-reporting and periodic field canvassing, the assessor reviews city and county business licenses, fictitious business name filings, business directory services, real property appraiser referrals, landlord reports of tenants, and BOE notifications. We found that the assessor employs effective methods for discovering business personal property.

General Statement Processing

As BPSs are received, they are opened, date stamped, and sorted for scanning. Statements are reviewed for completeness and the inclusion of an authorized signature. Incomplete BPSs, including those submitted without an authorized signature, are copied and returned to the property owner, along with a letter indicating the reason for the rejection of the BPS. BPSs are

processed daily as they are assigned to an auditor-appraiser. Cost information included on the BPS is entered into the computer system by an auditor-appraiser.

Summary

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, application of penalties, coordination with the real property division, and record storage and retention. In addition, we reviewed several recently processed BPSs. In all cases observed, we found that BPSs accepted by the assessor evidenced the proper usage of Board-prescribed forms and were completed in sufficient detail. However, we found areas in need of improvement.

RECOMMENDATION 11: Improve the business property statement (BPS) program by applying late-filing penalties to secured business property accounts pursuant to section 463.

We found that when a BPS for an unsecured business property account is submitted late, the assessor's computer system automatically applies the section 463 penalty to the unsecured account. However, when a BPS for a secured business property account is submitted late, the assessor does not apply the section 463 penalty to the secured account. According to the assessor, this is due to the limitations of the assessor's computer system.

Section 441(b) provides that the penalty prescribed by section 463 shall be applied to statements not filed by May 7. Section 463 prescribes a late-filing penalty of 10 percent of the assessed value to be added to the assessment on the current roll. The assessor's practice of applying late-filing penalties only to accounts on the unsecured roll is not in compliance with statute and results in the unequal treatment of taxpayers.

Business Equipment Valuation

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

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

The assessor classifies business property accounts by industry type. Business class codes have been established to standardize equipment lives assigned to particular industries for valuation purposes. Appraisal personnel are given latitude to adjust default valuation tables to accommodate the individual business environments and characteristics of the property being appraised. We reviewed the written procedures and standardized valuation policies related to business equipment valuation and found them to be adequately compiled and sufficiently detailed.

Application of Board-Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581, with the exception of specific types of equipment, such as pagers, facsimile equipment, and high tech medical equipment, that the CAA recommends should not be trended. We reviewed the assessor's valuation tables and a number of processed business property statements (BPS). We found the assessor's application of Board-recommended valuation tables to be both consistently and accurately applied.

Mobile Construction and Agricultural Equipment Valuation Factors

The assessor currently utilizes separate and appropriate factor tables for new and used mobile construction and agricultural equipment in accordance with the instructions on Table 5 and Table 6 in AH-581. Section 401.16(a)(2) allows the assessor to average the new and used percent good factors for both mobile construction and mobile agricultural equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. Where the condition is indicated, the assessor should use the "new" or "used" table. We reviewed the assessor's factor tables related to this issue and found the Board-recommended cost index and depreciation tables to be correctly compiled.

Classification

For assessment purposes, machinery and equipment costs reported on Schedule A of the BPS may represent personal property, fixtures, or both. A fixture is an item of tangible property that was originally personal property, but is now classified as real property for property tax purposes because it has become physically or constructively annexed to real property with the intent that it remain annexed indefinitely. During our review, we found areas in need of improvement concerning the classification and valuation of taxable business property.

RECOMMENDATION 12: Improve the business equipment valuation program by:
(1) correctly classifying machinery and equipment reported on business property statements (BPS), and
(2) issuing supplemental assessments for structural improvements assessed on the unsecured roll.

Correctly classify machinery and equipment reported on business property statements (BPS).

We found that the assessor is not classifying a portion of machinery and equipment reported in bulk as fixed machinery and equipment when processing BPSs. When machinery and equipment is reported in bulk, there is often some percentage of assets that meet the criteria for fixtures. However, the assessor does not make a determination as to what percentage, if any, of the reported machinery and equipment should be classified and valued as fixtures.

Classification is an important element of the local assessment function for several reasons. Principally, it is important because property tax law requires the assessment roll to show separate

values for land, improvements (including fixtures), and personal property. It is also significant because of the assessment differences between real property and personal property. Those differences include: (1) only real property receives special assessments, (2) personal property is appraised annually at market value, while fixtures are assessed at the lower of current market value or factored base year value, and (3) fixtures are a separate appraisal unit when measuring declines in value.

The assessor should make a concerted effort to prorate machinery and equipment costs reported on Schedule A of the BPS between personal property and fixtures, particularly when enrolling taxable property related to industries that are likely to mix fixtures and personal property in reported cost data. The assessor's current practice may lead to inaccurate allocations between fixtures and personal property in specific industry settings and cause incorrect assessments.

Issue supplemental assessments for structural improvements assessed on the unsecured roll.

We found that the assessor does not issue supplemental assessments for structural improvements assessed on the unsecured roll. According to the assessor, the computer system is not capable of generating supplemental assessments for properties on the unsecured roll.

Section 75.14 provides that all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessment. Section 75.11 provides that supplemental assessments shall be issued following a change in ownership or completed new construction. Structural improvements, which are real property, are subject to supplemental assessment, regardless of whether they are enrolled on the secured or unsecured roll.

The assessor's practice of not issuing supplemental assessments for structural improvements assessed on the unsecured roll is contrary to statute and results in the unequal treatment of taxpayers.

Manufactured Homes

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

Santa Barbara County had 7,784 manufactured homes enrolled for the 2012-13 roll year, with a total roll value of \$206,384,440. There are 72 mobilehome parks in Santa Barbara County, six of which are resident-owned parks. An appraiser is responsible for valuing all manufactured homes.

The assessor classifies manufactured homes as personal property and enrolls them on the secured roll. Flat rate special assessments and ad valorem bonds are properly excluded. Manufactured homes are identified on the roll by the assignment of a fictitious parcel number beginning with "5XX" or "6XX." If the home is situated on an approved permanent foundation system, it is

reclassified as real property and assigned to the appraiser responsible for all residential property in that geographic location.

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

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

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. Although not required to reappraise all properties each year, the assessor has developed a program to annually review the assessments of manufactured homes to ensure that declines in value are recognized accurately and consistently. When the assessor receives a taxpayer request for an informal review of a manufactured home for a possible decline in value, the assessor will not only review that taxpayer's manufactured home assessment, but will also review any other manufactured home assessments located in the same area. The current market value determined for each manufactured home is compared to its factored base year value, and the lower of the two values is enrolled.

We reviewed a number of manufactured home assessments. Our review included transfers in rental and resident-owned parks, supplemental assessments, voluntary conversions, accessories, record keeping, assessments related to manufactured homes on permanent foundations, and new installations of manufactured homes. We found that the assessor is correctly valuing manufactured homes using a recognized value guide and is properly issuing supplemental assessments when appropriate.

Overall, the assessor has an effective and well administered program for the discovery and assessment of manufactured homes. We have no recommendations for this program.

Aircraft

General Aircraft

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

In Santa Barbara County, the assessor had a total of 579 aircraft, with a total value of \$163,343,900 for the 2012-13 roll year. This total included 480 general aircraft.

The assessor discovers aircraft through airport operators' reports, Federal Aviation Administration (FAA) reports, and referrals from other counties. An assessment supervisor, an appraiser, and a department business specialist are responsible for all aircraft valuations in Santa Barbara County.

Each year, the assessor mails BOE-577, *Aircraft Property Statement*, to the known aircraft owners in the county requesting current information on all aircraft. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information, if applicable. The aircraft statement indicates a filing due date of April 1, and the assessor imposes a 10 percent penalty for failure to file and late-filings.

The assessor uses *Bluebook* as the primary guide to value general aircraft. *Bluebook* values are adjusted for condition, engine hours, added equipment, and sales tax. In accordance with Letter To Assessors (LTA) No. 97/03, the assessor adjusts the listed retail values downward by 10 percent to provide reasonable estimates of fair market value for aircraft in average condition on the lien date.

We reviewed several general aircraft records for proper use of BOE forms, valuation methodology, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found that the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines as set forth in Assessors' Handbook Section 577, *Assessment of General Aircraft (AH 577)*, and LTA No. 97/03. We have no recommendations for general aircraft.

Fractionally Owned Aircraft

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

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

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

For the 2012-13 roll year, the assessor enrolled 33 fractionally owned aircraft. Santa Barbara County is not a lead county for fractionally owned aircraft.

We reviewed several fractionally owned aircraft files and the assessor's procedures for the valuation of fractionally owned aircraft. We found that the allocated value was accurately calculated on the basis of arrivals and departures in the county in accordance with section 1161. We have no recommendations for fractionally owned aircraft.

Certificated Aircraft

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

For the 2012-13 roll year, the assessor had 20 certificated aircraft. Santa Barbara County is not a lead county for certificated aircraft.

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

Historical Aircraft

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

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

For the 2012-13 roll year, Santa Barbara County had 57 historical aircraft, with a total exempt value of \$2,177,421.

We reviewed several historical aircraft assessments and exemptions claims. We found that the assessor properly granted the exemption when legal requirements were met. The assessor properly obtained signed affidavits in Board-prescribed format and certification of attendance pursuant to section 220.5. We also confirmed that the assessor properly allowed only partial exemptions when merited in accordance with section 276.5. We have no recommendations for historical aircraft.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbor masters' reports, and field canvassing.

The assessor enrolled a total of 2,275 vessels for the 2012-13 roll year, with a total assessed value of \$90,244,835. In Santa Barbara County, the assessor's primary sources of discovery include DMV monthly transaction reports, marina reports, field canvassing, newspaper articles, owner notifications, and referrals from other counties.

Statements are initially reviewed by a department business specialist, who separates the statements for screening and processing by an appraiser. A certified appraiser is responsible for determining if additional information is required to properly process the reported cost. Newly enrolled vessels are valued primarily with the aid of National Automobile Dealers Association *Marine Appraisal Guide* (NADA) and *BUC Used Boat Price Guide* (BUC). If current or reliable information is not available in one of these published value guides, the assessor uses the values of similar vessels from website sources found on the Internet to obtain current, comparable sales data. If the reported purchase price of the vessel falls within the market value range indicated by the value guides, the purchase price is enrolled as the assessed value; otherwise, a value is estimated using the published value guides. For subsequent years, vessels are annually reviewed by a certified appraiser with the aid of the value guides. Santa Barbara County has a low-value property exemption ordinance, which includes exempting unsecured personal property with a full cash value of \$5,000 or less.

The assessor sends BOE-576-D, *Vessel Property Statement*, annually to the registered owners of vessels with a market value of \$100,000 or greater. *Vessel Property Statements* are also sent to owners of new vessels or when there is a change in ownership of a vessel. All vessel assessments with a value of \$100,000 or more are reviewed and approved by the assessment supervisor.

We reviewed several vessel assessments and found an area in need of improvement.

RECOMMENDATION 13: Improve the vessels program by adding sales tax as a component of market value.

We found several examples where the assessor failed to add sales tax as a component of market value when using NADA or BUC to determine the current market value of a vessel. These published value guides have national application and, as such, do not include California sales tax in the listed vessel values, which must be included in order to obtain the full market value of the vessel.

Generally, the addition of sales or use tax to a value estimate is required to approximate the market value to the consumer. Assessors' Handbook Section 576, *Assessment of Vessels* (AH 576), provides that the addition of taxes, freight, and transportation charges to the list price of a vessel is consistent with an appraisal approach that gives consideration to the consumer's total cost in arriving at market value. Furthermore, the court case of *Xerox Corp. v. Orange*

County (1977), 66 Cal.App.3d 746, established 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 elements of cost, the assessor's value estimates are understated, causing incorrect assessments.

Vessels Qualifying for the 96 Percent Exemption

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

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

APPENDIXES

A. County-Assessed Properties Division Survey Group

Santa Barbara County

Chief

Dean Kinnee

Survey Program Director:

Mike Harris

Manager, Property Taxes

Survey Team Supervisor:

David Dodson

Supervisor, Property Taxes

Survey Team Leader:

Jody Henning

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Michael Ash

Associate Property Appraiser

Jennifer Prince

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Ardeshir Noroozkhani

Associate Property Auditor-Appraiser

Hilary Si

Associate Property Auditor-Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

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.
- (4) Conducting audits in accordance with Revenue and Taxation Code section 469.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.

- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

The Santa Barbara County Assessor's response begins on the next page. The BOE has no comments on the response.

JOSEPH E. HOLLAND
County Clerk, Recorder and Assessor
Registrar of Voters

KEITH TAYLOR
Chief Deputy Assessor



105 E. Anapamu St, 2nd Floor
Santa Barbara, CA 93101
Mailing Address:
PO Box 159
Santa Barbara, CA 93102-0159

**COUNTY CLERK, RECORDER AND ASSESSOR
ASSESSOR DIVISION**

RECEIVED

MAY 22 2014

**County-Assessed Properties Division
State Board of Equalization**

May 6, 2014

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

Dear Mr. Kinnee:

In accordance with Government Code Section 15645, enclosed please find our response to the Santa Barbara County Assessment Practices Survey for 2012-13. Please incorporate this response in your final Assessment Practices Survey Report.

I would like to express my appreciation to the Board's Survey Team for the professional manner in which the survey was conducted. The State's survey function is an excellent tool that benefits the State, Counties and local Assessor's office throughout the State.

I would also like to express my sincere appreciation to our staff whose outstanding work and dedication proudly serve the citizens of Santa Barbara County.

Sincerely,


Joseph E. Holland
Santa Barbara County
Clerk, Recorder and Assessor

RECOMMENDATION 1:

Expand the written procedures for the assessment of staff-owned property.

Response: We concur and will expand on procedures for conflicts of interest.

RECOMMENDATION 2:

Do not apply late-filing provisions when claimant fails to timely file BOE-267SNT, *Religious Exemption Change in Eligibility or Termination Notice*.

Response: We concur with this recommendation. Starting in the 2012-13 roll year, we have not applied late-filing penalties.

RECOMMENDATION 3:

Improve the administration of the disabled veterans' exemption program by developing and implementing proper procedures to provide training and guidance for the staff when processing disabled veterans' exemption claims.

Response: We concur that we can develop more comprehensive procedures on the disabled veterans' exemption program.

RECOMMENDATION 4:

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

Response: We concur with this recommendation and will implement your recommendation as time and resources become available.

RECOMMENDATION 5:

Improve LEOP program by: (1) reassessing all properties owned by legal entities that have undergone a change in ownership, and (2) applying appropriate penalties as required by section 482(b).

Response: We concur and will work to improve our LEOP program and implementing the penalty process in accordance with Section 482(b).

RECOMMENDATION 6:

Include all properties exceeding the \$1 million exclusion provided in section 63.1.

Response: We concur and procedures for this recommendation have been implemented.

RECOMMENDATION 7:

Improve the new construction program by: (1) enrolling escape assessments for unpermitted new construction when appropriate, and (2) enrolling all assessable new construction.

Response: We concur with this recommendation and will implement your recommendation as time and resources become available.

RECOMMENDATION 8:

Improve the taxable possessory interests program by: (1) using Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*, (2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21

when valuing taxable possessory interests, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) reappraising taxable possessory interests in compliance with section 61 (b)(2), and (5) properly issuing supplemental assessments for taxable possessory interests.

Response: We concur with this recommendation and will implement your recommendation as time and resources become available.

RECOMMENDATION 9:

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

Response: We concur with this recommendation and have begun working on this process.

RECOMMENDATION 10:

Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

Response: We concur with this recommendation and will implement your recommendation as time and resources become available.

RECOMMENDATION 11:

Improve the business property statement (BPS) program by applying late-filing penalties to secured business property accounts pursuant to section 463.

Response: We concur with this recommendation and will implement your recommendation as time and resources become available.

RECOMMENDATION 12:

Improve the business equipment valuation program by: (1) correctly classifying machinery and equipment reported on business property statements (BPS), (2) properly valuing structural improvements reported on the BPS, (3) issuing supplemental assessments for structural improvements assessed on the unsecured roll, and (4) properly valuing and assessing landlord-owned personal property in apartments.

Response: We concur with this recommendation and will implement your recommendation as time and resources become available.

RECOMMENDATION 13:

Improve the vessels program by adding sales tax as a component of market value.

Response: We concur and have implemented this recommendation.