January 15, 2013

TO COUNTY ASSESSORS:

TULARE COUNTY
ASSESSMENT PRACTICES SURVEY

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

Fieldwork for this survey was performed by the BOE’s County-Assessed Properties Division from January through February 2011. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG: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 Tulare County Assessor/Clerk-Recorder's Office.¹

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

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

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

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

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

Our survey of the Tulare County Assessor/Clerk-Recorder'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 Tulare 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.\(^3\)

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

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\(^2\) Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

\(^3\) All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.
EXECUTIVE SUMMARY

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

The assessor has improved the overall operation of the office through the increased use of computer technology. The following are a few examples of the improvements the assessor has made in Tulare County since the last survey:

- The assessor has updated his website to include property tax forms, parcel maps, and various reports, including the published roll from 1988 to the present.
- The assessor has converted all agricultural and some commercial and industrial property records from hard-copy format to an electronic spreadsheet that may be accessed from any computer in the assessor's office.
- The assessor has developed an in-house program to automatically review residential properties for decline-in-value eligibility.

Many of our recommendations concern portions of programs that 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 our review of the assessor's administration programs, we noted the assessor is satisfactorily handling staffing and the assessment appeals programs. However, we did note that the workload, appraiser certification, staff property and activities, and exemptions programs are in need of improvement.

In the area of real property assessment, the assessor has effective programs for change in ownership, new construction, and declines in value. However, we did note that the assessor's programs for California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property are in need of improvement.

In the area of personal property and fixtures assessment, the assessor has effective programs for conducting audits and processing business property statements, as well as assessing business equipment and manufactured homes. We found improvement is needed in the assessment of aircraft and vessels.

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 Tulare 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, Tulare 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 they appear in the text.

**RECOMMENDATION 1:** Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407. ...........................................9

**RECOMMENDATION 2:** Improve the appraiser certification program by: (1) notifying the BOE of changes to certified appraisers' employment status, and (2) ensuring appraisers meet the annual training requirements in accordance with section 671.................................10

**RECOMMENDATION 3:** Develop written procedures for the assessment of staff-owned property.................................................................11

**RECOMMENDATION 4:** Improve the administration of the church and religious exemption by: (1) granting the church exemption only if the claimant files a claim each year, (2) granting the church exemption only for property exclusively used for qualifying purposes, (3) granting the religious exemption only for property used exclusively for qualifying purposes, and (4) conducting field inspections to ensure property is used exclusively for exempt purposes and to ensure the appropriate exemption is claimed based upon a property's use. ..............................................................................................14

**RECOMMENDATION 5:** Improve the administration of the welfare exemption by: (1) requiring a valid OCC prior to granting the welfare exemption, and (2) allowing an exemption on vacant parcels for properties held by Habitat for Humanity in accordance with section 214.15........................................17

**RECOMMENDATION 6:** Improve the exemptions program by properly applying the provisions of sections 270 and 271 for exemption claims that are not timely filed.................................................................18

**RECOMMENDATION 7:** Improve the administration of the disabled veterans' exemption by: (1) properly applying the provisions of section 276 for disabled veterans' exemption claims that are not timely filed, and (2) granting the disabled veterans' exemption on a prorated basis for the initial qualification year in accordance with sections 276.1 and 276.2.................................................................20

**RECOMMENDATION 8:** Improve the CLCA program by: (1) assessing vineyard trellising on lands under CLCA contract as unrestricted improvements, and (2) assessing restricted land improvements on CLCA properties pursuant to section 423.................................................................32
RECOMMENDATION 9: Remove incorrect language from the *Tax Exempt Agency Cover Letter To Possessory Interest Data Sheets* used by the assessor to obtain possessory interest data from public agencies. ..........................................................................................34

RECOMMENDATION 10: Improve the mineral property assessment program by: (1) matching reserves to the current market value estimate, (2) escalating the value per production unit by the annual BOE inflation factor, and (3) appraising mineral properties as a single appraisal unit. .................................................................................36

RECOMMENDATION 11: Properly apply a 10 percent adjustment to the *Bluebook* average retail value in accordance with the guidelines set forth in Assessors’ Handbook Section 577, *Assessment of General Aircraft* (AH 577). ..................................................................................42

RECOMMENDATION 12: Grant the historical aircraft exemption only when all conditions have been met pursuant to section 220.5. .................44

RECOMMENDATION 13: Improve the vessel assessment program by: (1) using Board-prescribed assessment form BOE-576-D, *Vessel Property Statement*, and (2) mailing BOE-576-D, *Vessel Property Statement*, annually to all owners of vessels costing $100,000 or more in accordance with section 441. .................................................................................................................46
OVERVIEW OF TULARE COUNTY

Tulare County lies in the heart of California's San Joaquin Valley, about 40 miles south of Fresno. The county encompasses approximately 4,800 square miles. Tulare County is bordered by Fresno County to the north, Kings County to the west, Inyo County to the east, and Kern County to the south. Tulare was originally chartered in 1852 as a much larger county. Over the next 40 years, sections of land were annexed to form portions of Fresno, Mono, and Inyo Counties and the entirety of Kern and Kings Counties. The current county boundaries were set in 1893.

Tulare County is one of the largest producers of agricultural commodities in the nation and currently ranks second in agricultural production in the state. The county is home to Sequoia National Park, as well as portions of several other national parks due to its location on the western side of the Sierra Nevada mountain range. The city of Visalia is the county seat and is known as the Gateway to the Sequoias. Tulare County has a population of approximately 416,000 and eight incorporated cities: Dinuba, Exeter, Farmersville, Lindsay, Porterville, Tulare, Visalia, and Woodlake.
The following table displays information pertinent to the 2010-11 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Secured Roll</strong></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$7,598,921,218</td>
</tr>
<tr>
<td>Improvements</td>
<td>$18,387,781,283</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$524,723,886</td>
</tr>
<tr>
<td><strong>Total Secured</strong></td>
<td>$26,511,426,387</td>
</tr>
<tr>
<td><strong>Unsecured Roll</strong></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$3,201,167</td>
</tr>
<tr>
<td>Improvements</td>
<td>$521,075,237</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$1,031,591,273</td>
</tr>
<tr>
<td><strong>Total Unsecured</strong></td>
<td>$1,555,867,677</td>
</tr>
<tr>
<td><strong>Exemptions</strong></td>
<td>($667,422,088)</td>
</tr>
<tr>
<td><strong>Total Assessment Roll</strong></td>
<td>$27,399,871,976</td>
</tr>
</tbody>
</table>

The next table sets forth the changes in assessed values over recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$27,399,872,000</td>
<td>0.2%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2009-10</td>
<td>$27,343,736,000</td>
<td>-0.9%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>2008-09</td>
<td>$27,595,666,000</td>
<td>5.5%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>$26,152,443,000</td>
<td>12.6%</td>
<td>9.6%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$23,225,922,000</td>
<td>14.0%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

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

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

Budget and Staffing

The following table sets forth the assessor's gross budget and staff over recent years.

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$6,259,344</td>
<td>1.8%</td>
<td>65</td>
</tr>
<tr>
<td>2009-10</td>
<td>$6,146,722</td>
<td>-1.1%</td>
<td>67</td>
</tr>
<tr>
<td>2008-09</td>
<td>$6,217,126</td>
<td>3.8%</td>
<td>66</td>
</tr>
<tr>
<td>2007-08</td>
<td>$5,988,078</td>
<td>15.3%</td>
<td>63</td>
</tr>
<tr>
<td>2006-07</td>
<td>$5,194,496</td>
<td>N/A</td>
<td>64</td>
</tr>
</tbody>
</table>

At the time of our survey, the assessor's staff consisted of 65 permanent positions, which included the assessor, assistant assessor, chief assessment clerk, chief appraiser, chief auditor-appraiser, systems analyst, staff services analyst, 26 real property appraisers, 8 auditor-appraisers, 6 cadastral mapping technicians, and 18 title and administrative technicians.

Workload

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

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

According to the prior two tables, both the total assessment roll value and the gross budget have been increasing over recent years, with the exception of the 2009-10 roll year where both experienced slight decreases. The assessor's workload, however, has been fluctuating over recent years.
years. The number of reappraisable transfers due to changes in ownership has increased two of the last three years, with the most recent year showing a decrease. The number of permits resulting in assessable new construction has decreased each of the last three years.

These trends are shown in the following table:

<table>
<thead>
<tr>
<th>WORKLOAD DESCRIPTION</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in Ownership</td>
<td>11,611</td>
<td>13,577</td>
<td>12,560</td>
<td>10,653</td>
</tr>
<tr>
<td>New Construction</td>
<td>3,243</td>
<td>3,724</td>
<td>5,354</td>
<td>8,371</td>
</tr>
</tbody>
</table>

The decrease in the assessor's workload was offset by the dramatic increase in the number of decline-in-value assessments over the last three years, as shown in the following table:

<table>
<thead>
<tr>
<th>WORKLOAD DESCRIPTION</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declines In Value</td>
<td>38,473</td>
<td>32,194</td>
<td>10,477</td>
<td>303</td>
</tr>
</tbody>
</table>

During our review of the workload program, we found one area in need of improvement.

**RECOMMENDATION 1:** Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407.

During the survey, we requested statistics from the assessor for various topics, since the assessor had not reported requested statistics to the BOE for the annual *A Report on Budgets, Workloads, and Assessment Appeals Activities* for years 2009-10 and 2010-11. In addition, when the assessor reported exemption statistics to the BOE on BOE-802, *Report on Exemptions*, he did not report the statistics by type as required on the form.

Section 407 provides that the assessor shall transmit a statistical statement to the BOE annually, on the second Monday in July, supplying any statistical information which the BOE may require, and shall supply from time to time any other information required by the BOE.

By not reporting statistics and other information to the BOE as required, the assessor is not in compliance with current statute.

**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are 40 certified appraisers on staff, including the assessor; 22 hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

The assistant assessor oversees the training and certification program for appraisers. During our review of the program, we found some areas in need of improvement.
RECOMMENDATION 2: Improve the appraiser certification program by: (1) notifying the BOE of changes to certified appraisers' employment status, and (2) ensuring appraisers meet the annual training requirements in accordance with section 671.

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

We found that four of the appraisers listed on the BOE's training and certification records were no longer employed by the assessor. However, the assessor did not file BOE-743-A, *Report of Property Appraisers' Change in Employment Status*, notifying the BOE of the change in employment status of these appraisers. The BOE's training unit provides each assessor with an annual report, summarizing each appraiser's training and certification status. The assessor should review the report to ensure its accuracy.

Rule 283(c) provides that a permanent certificate is suspended when the person to whom it was issued terminates employment with a county assessor, a city or county assessor, or an appraisal commission, but it is automatically reinstated when the person is again employed to perform the duties of an appraiser for property tax purposes. In guidelines transmitted by way of Letter To Assessors No. 2011/013, the BOE advises that assessors should notify the BOE when a certified appraiser changes employment status. Failure to notify the BOE when a certified appraiser is no longer employed by the assessor could result in inaccurate training records in the county and with the BOE.

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

In our review of the appraiser certification program, we noted 18 appraisers delinquent in continuing education hours. Section 671(a) provides that in order to retain a valid appraiser's certificate, an appraiser must complete 24 hours of training conducted or approved by the BOE each year. Section 671(b) provides that appraisers with an advanced appraiser's certificate must complete 12 hours of training each year.

The BOE's training unit provides each assessor with an annual report, summarizing each appraiser's training and certification status. The assessor should ensure that all appraisers are current in their continuing education requirements. Pursuant to section 671(a) and (b), failure to receive such training is grounds for revocation of an appraiser's certificate or advanced certificate.

Staff Property and Activities

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

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

As required by section 672, all certified staff must annually file disclosures of their financial interests. The assessor provides, collects, files, and maintains Form 700 for all certified staff. Tulare County currently does not have contract appraisers subject to the filing.

Assessor's staff members, including the assessor and assistant assessor, are not allowed to appraise their own property. A supervising appraiser (Appraiser/Auditor-Appraiser IV) or chief reviews all assessable activity related to property owned by assessor's staff. While the assessor does not have a formal written policy, staff members are aware of the informal policy and that the consequences of noncompliance shall be grounds for dismissal. We reviewed a significant number of assessments for property owned by the assessor's staff and found no problems.

When staff members are hired by the assessor's office, they are informed of the assessor's conflict of interest policy. The assessor has a written code of conduct policy that gives examples of the type of activity that is considered unacceptable. If staff members accept work outside of the assessor's office, they must submit a *Request for Outside Employment* and the request must be approved. The employee's supervisor, department head, and human resources director all must sign the request before approval may be granted. Staff members are made aware that violations of the policy can lead to disciplinary action, including dismissal. The assessor's office does not have additional procedures for tracking the outside activity of staff, and relies on the business licensing and sales permit systems to provide methods for discovering the activity.

We reviewed the assessment records for staff-owned property in Tulare County and, while we found no problems with any assessments, we do have a recommendation for improvement in the staff property and activities program.

**RECOMMENDATION 3:** Develop written procedures for the assessment of staff-owned property.

We found that the assessor does not have written procedures in place to address the assessment of real and personal property in which staff in the assessor's office holds an interest.

One of the fundamental duties of an assessor is to establish the fair market value of property; at times, this will involve the assessment of property in which county staff has an interest. Letter To Assessors No. 2008/058 was issued as a guide to assist assessors in establishing procedures relative to the assessment of staff-owned property. Written procedures addressing the assessment of not only staff-owned property, but also property owned by a spouse, a family member, or a dependent child, is considered sound management and is recommended.

The procedures for the assessment of staff-owned property need not be lengthy or complicated, but should be adhered to at all times. 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.

Development of procedures for staff-owned property that includes the above bulleted practices is recommended. Development of and adherence to written procedures promotes an acceptable level of oversight regarding the assessment of staff-owned property and would help avoid any appearance of impropriety.

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.

Tulare County Ordinance No. 2870 provides for the creation of the county's assessment appeals board (AAB). The AAB consists of five members appointed by the board of supervisors; however, members are randomly selected by the clerk to act as a three-member panel for assessment appeals hearings pursuant to section 1622.1. The county does not have hearing officers. Current AAB members have documentation of qualifying experience on file with the clerk as required by section 1624(b) and have successfully completed the training required by section 1624.02, with the exception of one newly appointed member, who has one year from the date of appointment to complete the training.

Assessment appeals applications are filed with the clerk. The filing period for assessment appeals in Tulare County is July 2 to November 30. When the clerk receives an application, it is reviewed for completeness and timeliness, and then it is stamped with the date and time. The application is scanned, pertinent data is logged into the computer system, and copies of the application are forwarded to the assessor's office. The assessor is currently experiencing a transition from an old, stand-alone tracking system to a new integrated system. Applications are transitioning from being logged and tracked in an electronic spreadsheet to being assigned and tracked through a new assessment appeals tracking system.
Applications appealing real property assessments are reviewed by the chief appraiser in the Real Property Division and subsequently assigned to the appraisers within the Special Projects crew. Applications appealing personal property assessments are reviewed by the supervising auditor-appraiser in the Audit Division and subsequently assigned to an auditor-appraiser. Once the appeal applications and values are reviewed, the appraiser assigned to the appeal will contact the applicant if additional information is needed before making a value determination.

If the appraiser determines that no value change is warranted and the applicant agrees, a letter and a Request to Withdraw form is mailed to the applicant to complete and return to the clerk. If the appraiser determines that a value change is warranted and the applicant agrees with the appraiser's opinion of value, a letter is mailed to the applicant stating that the assessor will process a roll correction for the agreed upon value. Included with the letter is a Request to Withdraw for the applicant to complete and return to the clerk. If the appraiser determines a value change is warranted, but it was due to an assessor error, a stipulation will be offered to the applicant with no further information required. A letter and stipulation are mailed to the applicant for their review and signature. However, if there is a difference in opinion of value between the appraiser and the applicant, and it is not due to an assessor error, the applicant will be asked to supply further information to support their opinion of value. If the assessor finds that the information supplied by the applicant is compelling and, as a result, they agree to a value, a stipulation will be entered into and a letter will be mailed to the applicant for their review and signature. If an agreement cannot be reached between the assessor and the applicant, an appraisal report is prepared and the appeal proceeds to hearing. The clerk requires that the applicant return a confirmation notice to the AAB stating their intent to be present at the hearing, request a postponement, or withdraw the application.

Tulare County typically conducts assessment appeals hearings once a month. During our survey, we were unable to attend an AAB hearing. We reviewed a sampling of appeal packets prepared by the assessor's office and found them to be reasonably organized. Over the last five years, all appeals were resolved within the two-year time period. We have no recommendations for this program.

**Exemptions**

We reviewed a sampling of church, religious, welfare, and disabled veterans' exemptions. The exemptions program in Tulare County is administered by two assessor's staff members: the supervising title and administration technician and one support staff.

The assessor has developed an excellent training tool and reference manual for the office's most common exemptions: church, religious, welfare, lessor's, and disabled veterans'. Assessor's staff has recently compiled a binder for each of these exemptions, which includes the background of the exemption, guidelines, forms used, checklists, and detailed step-by-step processing procedures on applying the exemption to their property data system. Thus, an employee unfamiliar with exemptions would be able to learn the basics of processing these 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 sets forth religious and church exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>RELIGIOUS EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
<th>CHURCH EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>620</td>
<td>$241,898,511</td>
<td>40</td>
<td>$19,070,018</td>
</tr>
<tr>
<td>2009-10</td>
<td>567</td>
<td>$233,395,534</td>
<td>37</td>
<td>$15,890,519</td>
</tr>
<tr>
<td>2008-09</td>
<td>582</td>
<td>$221,834,597</td>
<td>15</td>
<td>$3,550,763</td>
</tr>
<tr>
<td>2007-08</td>
<td>572</td>
<td>$214,767,426</td>
<td>18</td>
<td>$3,869,691</td>
</tr>
<tr>
<td>2006-07</td>
<td>577</td>
<td>$202,462,581</td>
<td>12</td>
<td>$3,164,797</td>
</tr>
</tbody>
</table>

We reviewed a number of church and religious exemption claims and discovered several areas where improvement is needed.

**RECOMMENDATION 4:** Improve the administration of the church and religious exemption by: (1) granting the church exemption only if the claimant files a claim each year, (2) granting the church exemption only for property exclusively used for qualifying purposes, (3) granting the religious exemption only for property used exclusively for qualifying purposes, and (4) conducting field inspections to ensure property is used exclusively for exempt purposes and to ensure the appropriate exemption is claimed based upon a property's use.
Grant the church exemption only if the claimant files a claim each year.

We found that the assessor continually granted a church exemption, even though the claimant failed to file a claim. The assessor monitors annual filings of church exemptions with a comprehensive list of parcels that have been granted the church exemption. For the properties reviewed, the list did not indicate current 2010 filings, and the claim forms were not found in the property records files.

Section 255 requires an annual affidavit for the church exemption to be filed between January 1 and 5 p.m. on February 15, with late-filing provisions if filed after that time. Section 260 states that if a person fails to follow the required filing procedures, the exemption is waived. Granting the church exemption without an annual filing by the claimant is contrary to statutes and does not provide the assessor with information on current usage of the property to determine continuing eligibility for the exemption.

Grant the church exemption only for property exclusively used for qualifying purposes.

We found that the assessor is granting the church exemption on property for uses other than religious worship and church parking. For example, the church exemption was granted on vacant parcels owned by the religious organization when the property was not used for religious worship. Additionally, a structure in the back of one of the properties was not reported in the claim filings and its use is unknown.

Sections 206 and 206.1 provide that the church exemption is available to property owned or leased by a church organization used exclusively for religious worship, or those under construction intended to be used exclusively for religious worship, and as much land as necessary for the convenient use of the buildings. The vacant land that is in excess of what is reasonably necessary for the church's purposes and the other structure on the property that has an unknown use have been granted the church exemption. This is outside the scope of the statute.

Grant the religious exemption only for property used exclusively for qualifying purposes.

We found that the assessor is granting the religious exemption on property for uses other than religious worship and operation of its schools. For example, one claim indicated that the religious exemption was granted not only to the religious worship buildings, but also to a number of other improvements on the parcel used for purposes other than religious worship. A field inspection report (FIR) stated a commercial coach located at the front of the property was not currently in use, but had previously been a thrift store and would eventually be a place where the church will provide clothing for the neighborhood. The FIR also stated a small office is rented to Community Services and Employment Training, a nonprofit organization with an OCC. The claim form submitted indicated Tulare County Office of Education leases a portion of the property, as well.

Section 207 provides the religious exemption only for property owned and operated by a church for its worship purposes and operation of its schools, which only requires a one-time claim filing provision with an annual change in eligibility response card notice. Alternatively, section 3(f) of the California Constitution exempts property used exclusively for religious worship and does not require ownership of the property. In the case of leased property, the church or religious
organization leasing the property (lessee) may file a church exemption claim, or the owner (lessor) may file a Lessor’s Exemption Claim and have the lessee complete the affidavit stating that the lessee uses the property only for religious worship.\(^6\)

Another claim indicated that a church was leasing the property; although, it did not state whether or not the owner was also using the property. A call to the church that owns the property confirmed that the entire property is leased out and the owner does not use the property.

The county is granting the religious exemption on properties outside the scope of the statute. When the property is used by a different nonprofit organization, the welfare exemption is appropriate. When the property is being used by another church, the filing of a church exemption or lessor's exemption is appropriate. The exemptions require annual filing that assists the assessor in keeping abreast of the leased properties use(s).

**Conduct field inspections to ensure property is used exclusively for exempt purposes and to ensure the appropriate exemption is claimed based upon a property’s use.**

We found that the assessor does not consistently conduct field inspections on church and religious exemption claims to verify property usage. Section 256(a)(1) provides that the affidavit for church exemption shall show that the building and equipment are used solely for religious worship. In addition, section 257 provides that any person claiming the religious exemption shall submit to the assessor an affidavit giving specific information relating to property tax exemption. The affidavit shall show that the building, equipment, and land are used exclusively for religious purposes.

To verify the use of property reported by claimants on church or religious claims, the assessor should conduct a field inspection on which an exemption is claimed after construction has been completed on the property, as well as conduct a field inspection for new claims. A field inspection is essential to ensure that the property use meets exemption requirements and to determine what portion of the property is eligible for an exemption. The assessor's failure to conduct field inspections on the claim reviewed may result in the granting of a church or religious exemption in error because its use may extend beyond exempt purposes, including vacant, unused land.

**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 sets forth welfare exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>WELFARE EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>436</td>
<td>$345,502,295</td>
</tr>
<tr>
<td>2009-10</td>
<td>422</td>
<td>$304,561,487</td>
</tr>
<tr>
<td>2008-09</td>
<td>395</td>
<td>$277,488,502</td>
</tr>
<tr>
<td>2007-08</td>
<td>369</td>
<td>$209,238,136</td>
</tr>
<tr>
<td>2006-07</td>
<td>357</td>
<td>$187,182,500</td>
</tr>
</tbody>
</table>

The assessor maintains exemption claims in alphabetical order by the claimant's name. Each file includes the claim forms for all locations in the county that the claimant is seeking exemption, as well as the notes providing evidence of physical inspection (if physical inspection was conducted), a roll correction initiation sheet, and other county staff notes.

We reviewed a number of welfare exemption claims and discovered areas where improvement is needed.

**RECOMMENDATION 5:** Improve the administration of the welfare exemption by:
1. requiring a valid OCC prior to granting the welfare exemption,
2. allowing an exemption on vacant parcels for properties held by Habitat for Humanity in accordance with section 214.15.

**Require a valid OCC prior to granting the welfare exemption.**

The assessor granted the welfare exemption to a religious organization for a parsonage when the organization does not have a valid OCC. The claimant submitted a blank OCC with handwritten information (not Board-issued) and the organization's corporate ID number was stated as the "BOE Ex. No." on the form.

Section 254.5 states that the assessor may not approve a claim until the BOE has issued a valid OCC. The assessor should cross check with the BOE's list of eligible organizations holding an OCC to determine its validity.
Granting the exemption when the organization does not hold a valid OCC is contrary to statute and allows for an exemption on property that does not qualify to receive the exemption.

**Allow an exemption on vacant parcels for properties held by Habitat for Humanity in accordance with section 214.15.**

We found that exemption claims on property owned by a low-income housing builder, as defined in section 214.15, were denied the exemption on vacant parcels for two years, but were granted the exemption upon the start of construction. Section 214.15 provides the welfare exemption to property owned and operated by a nonprofit corporation that is organized and operated for the specific and primary purpose of building and rehabilitating single or multifamily residences for sale at cost to low-income families, with financing in the form of a zero interest rate loan. Property held by such corporations for future construction of single or multifamily residences for prompt sale to low-income residents is considered exclusively used for charitable purposes and is afforded the exemption. Denial of the exemption on property that consists of vacant land held for future development of a residence to be sold to a low-income family is contrary to statute.

**Late-Filing Provisions – Church, Religious, and Welfare Exemptions**

Section 255(a) provides that a claim for exemption must be filed with the county assessor where the property is located between the lien date (January 1) and 5 p.m. on February 15.7 Where a timely claim is not filed on or before February 15, section 270(a) provides that: (1) 90 percent of any tax, penalty, or interest shall be canceled or refunded if the claim is filed on or before January 1 of the next calendar year, or (2) 85 percent of any tax, penalty, or interest shall be canceled or refunded if the claim is filed after January 1 of the next calendar year. For property acquired after the lien date, section 271(a) provides that a claim for exemption must be filed within 90 days from the first day of the month following the month in which the property was acquired or by February 15 of the following calendar year, whichever is earlier. Where a timely claim is not filed, sections 271(b) and (c) provide that 85 percent of any tax, penalty, or interest shall be canceled or refunded if the claim is filed after the time required. If a claim is not filed timely, the combined tax, penalty, and/or interest may not exceed $250. As previously stated, the religious exemption requires a one-time filing; this exemption does not require an annual claim.

We reviewed several late-filed claims to verify appropriate application of the late-filing provisions and found areas where improvement is needed.

**RECOMMENDATION 6:** Improve the exemptions program by properly applying the provisions of sections 270 and 271 for exemption claims that are not timely filed.

We found that in some instances the assessor granted 100 percent of the eligible exemption amount on property, even though the exemption claims were filed outside the deadline for a timely filed claim. For example, we discovered annual claims that were date stamped after February 15, but the assessor granted the full amount of the exemption. Additionally, we discovered property where the full amount of the exemption was granted, even though the claimants did not file any annual claim(s) for a year or more, but subsequently filed for the prior

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7 If February 15 falls on a Saturday, Sunday, or legal holiday, the claims are due at 5 p.m. on the next business day.
year(s). We also found that the assessor granted the full amount of the exemption on property acquired after the lien date, even though the first-time filing claims were not filed by the deadline as set forth in statute.

Section 270 provides late-filing provisions for exemption on property when annual claims are filed outside the deadline for a timely filed claim. In addition, section 271 provides late-filing provisions for exemptions on property acquired after the lien date. The assessor's failure to correctly apply the late-filing provisions according to statutes results in the granting of property tax exemptions greater than allowed by statute.

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 veterans, $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 sets forth disabled veterans' exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DISABLED VETERANS' EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>407</td>
<td>$37,946,337</td>
</tr>
<tr>
<td>2009-10</td>
<td>383</td>
<td>$35,348,578</td>
</tr>
<tr>
<td>2008-09</td>
<td>372</td>
<td>$34,458,162</td>
</tr>
<tr>
<td>2007-08</td>
<td>373</td>
<td>$33,082,535</td>
</tr>
<tr>
<td>2006-07</td>
<td>341</td>
<td>$27,484,319</td>
</tr>
</tbody>
</table>

We reviewed a number of disabled veterans' exemptions claims, which were primarily new claims filed in 2008, 2009, and 2010. In our review, we found that the assessor utilized a "Household Income Worksheet" to aid claimants in identifying the sources of income that must be included for the purpose of qualifying for the low-income disabled veterans' exemption. For instance, one claimant reported on page two of the claim form that his household income was in an amount that would qualify him for the low-income exemption and was documented by a copy of his 2009 Form 1040, U.S. Individual Tax Return. Household income, as provided for in sections 205.5 and 20504, must also include the veterans' benefit income. Since the assessor's household income worksheet provides a line item specifically for reporting the veterans' benefit income, the assessor was able to correctly determine that the claimant qualified only for the basic exemption in this case and not the low-income exemption as the claimant had indicated.
Staff's responses to our questions regarding the provisions of the disabled veterans' exemption displayed a basic understanding and knowledge of the statute. Any responses that were not readily known were available in their guidelines and procedures binders. However, we found areas where improvement is needed.

**RECOMMENDATION 7:** Improve the administration of the disabled veterans' exemption by: (1) properly applying the provisions of section 276 for disabled veterans' exemption claims that are not timely filed, and (2) granting the disabled veterans' exemption on a prorated basis for the initial qualification year in accordance with sections 276.1 and 276.2.

**Properly apply the provisions of section 276 for disabled veterans' exemption claims that are not timely filed.**

We found that in some cases the assessor granted first-time filers 100 percent of the eligible exemption amount on their property, even though they had filed outside the deadline for a timely filed claim. For a timely filed claim, section 276.2(a) provides that if property becomes eligible after the lien date, and an appropriate application for that exemption is filed on or before the lien date in the calendar year next following the calendar year in which the property became eligible, there shall be canceled or refunded the amount of any taxes levied on that portion of the assessed value of the property that would have been exempt under a timely and appropriate application. Accordingly, section 276 requires the assessor to grant a partial exemption of 85 percent of the eligible amount when an exemption for a prior tax year is claimed. Additionally, when a first-time claim is filed retroactively for prior years, the exemption for the year in which the claim is filed may be reduced to 90 percent if the claim is filed after February 15, but on or before December 10. Numerous claims reviewed indicated late-filings with no corresponding reduction in the amount of the exemption as required by statute, resulting in the granting of property tax exemptions greater than allowed by statute.

**Grant the disabled veterans' exemption on a prorated basis for the initial qualification year in accordance with sections 276.1 and 276.2.**

We found that in some cases the assessor has based the effective date of the exemption on the next lien date following the year of qualification, in which case the exemption would not be reflected until the ensuing fiscal year. We also found that in other cases the full amount of the exemption was granted on the supplemental and current assessment roll when it should have been prorated for the number of days eligible for that fiscal year.

Section 276.1(b) provides that subject to the provisions regarding cancellations and the limitations periods on refunds, the disabled veterans' exemption applies beginning on the effective date, as determined by the USDVA, of a disability rating that qualifies the claimant for the exemption. Additionally, section 276.2(b) provides that the entire amount of the exemption applies to any property tax assessment, including a supplemental and escape assessment, that was made and that served as a lien against the property. The exemption amount shall be appropriately prorated from the date the property became eligible for the exemption.
The denial of the full exemption as of the date of qualification deprives claimants of the full amount of exemption and any refunds to which they are entitled, while granting the exemption for the entire fiscal year when the claimant only qualifies for a portion of the year allows the claimant a benefit for which they do not qualify.
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 and Document Processing

The assessor's primary means of discovering properties that have changed ownership is by reviewing deeds and other documents recorded at the county recorder's office. Each day the assessor receives a fee sheet from the recorder's office, which is a list of all documents that recorded the prior day, along with any original Preliminary Change of Ownership Reports (PCOR), BOE-502-A, that correspond with that day's recordings. The recorder's office requires that a PCOR be submitted for documents recorded that transfer ownership of real property. If a transfer document is received without a PCOR, the recorder's office will apply a $20 charge to the recording fee. The county has a resolution requiring the assessor's parcel number to be noted on all recorded transfer documents.

The assessor receives copies of all recorded documents electronically from the recorder's office. A technician reviews all of the recorded documents and determines which documents will be processed. The technician then verifies the current ownership and the legal description for each document being processed. Next, the technician must determine if a change in ownership has taken place, what percentage of ownership has transferred, and what percentage of ownership is reappraisable. If it appears an exclusion from reassessment may apply, additional correspondence is mailed out to the property owner.
The following table sets forth the total number of recorded documents and the total number that resulted in reappraisable transfers in Tulare County in recent years:

<table>
<thead>
<tr>
<th>CALENDAR YEAR</th>
<th>RECORDED DOCUMENTS</th>
<th>REAPPRAISABLE TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>83,726</td>
<td>11,611</td>
</tr>
<tr>
<td>2009</td>
<td>84,346</td>
<td>13,577</td>
</tr>
<tr>
<td>2008</td>
<td>80,092</td>
<td>12,560</td>
</tr>
<tr>
<td>2007</td>
<td>111,604</td>
<td>10,653</td>
</tr>
</tbody>
</table>

Penalties

When a transfer document is received without a PCOR, the technician mails BOE-502-AH, Change in Ownership Statement (COS), to the property owner and allows them 45 days to return the completed COS. When the time of our survey, section 482(a) allowed property owners 45 days to return a completed COS when requested by the assessor before penalties were applicable. Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

The technician maintains an electronic log to monitor the 45-day deadline. If the property owner does not return the completed COS within 45 days, a penalty is applied.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The public is able to access information from a computer located in the lobby of the assessor's office. As required by section 408.1(b), the transfer list is divided into geographical areas and it is revised quarterly. Pursuant to section 408.1(c), the transfer list contains the transferor, transferee, APN, address of the property, date of recording, recording reference number, and documentary transfer tax. The assessor observes the confidentiality provisions of section 481, which precludes the disclosure of information on a PCOR or COS.

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 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 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

The assessor reviews the monthly LEOP reports from the BOE to confirm if any of the legal entities own property in Tulare County. When he discovers a change in control or ownership, he ensures that all of an entity's real property is identified and reassessed by performing a name search in the database and identifying all properties with the same ownership.

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.

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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.
The following table sets forth approved section 63.1 claims in recent years:

<table>
<thead>
<tr>
<th>CALENDAR YEAR</th>
<th>APPROVED SECTION 63.1 CLAIMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,409</td>
</tr>
<tr>
<td>2009</td>
<td>1,446</td>
</tr>
<tr>
<td>2008</td>
<td>1,200</td>
</tr>
<tr>
<td>2007</td>
<td>825</td>
</tr>
</tbody>
</table>

If a PCOR indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, a claim form and cover letter are sent to the property owner advising them of a possible exclusion from reassessment. The technician reviews all section 63.1 applications and determines if the exclusion will be accepted or denied. For the more difficult claims, the supervising title and administrative technician makes those determinations. The property owner is notified by letter if their claim is 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 exceeding the limit is located within Tulare County. If transfers exceed the limit, the assessor contacts the claimant and other counties, if applicable, to clarify information and determine which property to exclude and which to reappraise.

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

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.

Tulare County does not have an ordinance in place to accept base year value transfers from other counties. Section 69.5 claims involving base year value transfers within the county are reviewed and tracked on a spreadsheet. The chief appraiser reviews all section 69.5 claims and determines
if the claim will be accepted or denied. The property owner is notified by letter if the claim is
denied.

The following table sets forth approved section 69.5 claims in recent years.

<table>
<thead>
<tr>
<th>CALENDAR YEAR</th>
<th>APPROVED SECTION 69.5 CLAIMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>8</td>
</tr>
<tr>
<td>2009</td>
<td>5</td>
</tr>
<tr>
<td>2008</td>
<td>50</td>
</tr>
<tr>
<td>2007</td>
<td>50</td>
</tr>
</tbody>
</table>

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. To avoid duplicate filings of a section 69.5 claim, the assessor reviews the Duplicate SSN Report from the BOE to determine if any claims made in Tulare County duplicate any claims made previously in another county.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a secure area not accessible to the public.

We found the assessor processes sections 63.1 and 69.5 claims effectively.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. The time to complete the valuation process varies depending on the complexity of the transfer. Reappraisable transfers are reviewed to confirm that the reported sale price accurately reflects market value. Residential properties undergoing a change in ownership are valued using the comparative sales approach; whereas, the comparative sales, cost, and income approaches are all considered when valuing commercial properties. Value conclusions are documented on the appraisal record and any supporting documentation is attached to the file. To assist with valuations, appraisers maintain residential and commercial sales databases that are updated continuously. The assessor properly values and documents conclusions for most changes in ownership and correctly processes supplemental assessments.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraisal involvement. In Tulare County, the assessor uses a non-automated, direct enrollment program for enrolling transfers of single-family residences meeting certain criteria. The residential property must be newly constructed or have had a change in ownership within the last three years, must be transferring a 100 percent interest in the property, and must have a documentary transfer tax indicated on the deed that was computed on the full value of the property conveyed or have a confirmed sale price on the PCOR or COS. If these criteria are met, the appraisal staff analyzes the property based on sale price and property
location, and determines if the sale price fits within market parameters. Reappraisable transfers meeting the criteria for direct enrollment and falling within a predetermined range of value are directly enrolled. This program allows for efficient processing of simple transfers of single-family residences.

**Improvement Bonds**

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

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration paid for a property exclusive of the lien amount. The assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in that consideration. We found that there is one active bond assessment district in Tulare County. There are approximately 250 parcels encumbered by improvement bonds. It is the assessor's policy not to add any amount for improvement bonds unless market evidence indicates otherwise. This is consistent with the requirements of section 110(b).

**New Construction**

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


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

The assessor's primary means of discovering assessable new construction is through building permits. Currently, the assessor receives building permits from eight permit-issuing agencies: the Tulare County Building Department, the City of Tulare Building Department, the City of Visalia Community Development Department, the City of Lindsay Public Works (Buildings)
Department, the City of Porterville Public Works Building Division, the City of Woodlake Planning and Building Department, the City of Dinuba Development Services Department, and the California Department of Housing and Community Development (HCD). The Tulare County Building Department issues permits for wells and septic systems. HCD issues manufactured home installation and accessory permits. Other methods used to discover new construction include business property statements, reports from taxpayers, and field canvassing.

** Permit Processing **

The assessor receives permits electronically from the Tulare County Building Department and the City of Visalia Building Department. These agencies do not transmit building plans. The assessor receives hard copies of permits and plans from all other agencies in the county.

Title and administration technicians (TAT) are responsible for inputting permit data into the computer system and creating a worksheet for each permit. These worksheets serve as input documents for new roll and supplemental values. Once the worksheet is created, it is paired with the corresponding parcel file. The TAT forwards all commercial, industrial, and agricultural permits and files to the assigned appraiser or crew. Residential permits are reviewed, and any permits for encroachments or school fees are culled. The remaining residential permits are sorted into "discard" and "keep" groups. Permits that appear to be of no assessable value are placed in the discard group and all other permits are placed in the keep group. Both groups of permits are forwarded to the supervising appraiser in charge of the applicable geographical area for final review. If the supervisor agrees that a permit in the discard group is of no assessable value, the permit information is logged onto the building record and the permit is discarded. All other permits are forwarded to appraisers based on their geographic assignments.

The following table sets forth the declining number of new construction assessments in recent years:

<table>
<thead>
<tr>
<th>CALENDAR YEAR</th>
<th>NEW CONSTRUCTION ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3,243</td>
</tr>
<tr>
<td>2009</td>
<td>3,724</td>
</tr>
<tr>
<td>2008</td>
<td>5,354</td>
</tr>
<tr>
<td>2007</td>
<td>8,371</td>
</tr>
</tbody>
</table>

** Self-Reporting **

The assessor uses several questionnaires to obtain additional information about new construction. Each appraiser is responsible for customizing the questionnaire and mailing it to taxpayers. Customization includes the ability to include a plot of the improvements from a computer sketch program on the questionnaire. Appraisers are not required to send a questionnaire. Regardless of the information received on the questionnaire, each permit is still field reviewed by the appraiser. Although the assessor does not track the number of questionnaires sent or returned, the assessor believes the return rate is high.
Valuation

The assessor values new construction by estimating the market value of the improvements as of the lien date for construction in progress (CIP) and as of the date of completion for completed new construction. Appraisers determine the completion status of new construction from field visits, direct contact with the building department, the recorded date of occupancy, or from the taxpayer. The assessor has online access to the permitting systems of both Tulare County Building Department and the City of Visalia Building Department.

The assessor relies primarily on the cost approach to value new construction; however, the comparative sales and income approaches may also be used when appropriate. The assessor uses a variety of sources to develop a cost indicator of value for new construction. These sources include Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Assessors' Handbook Section 534, *Rural Building Costs* (AH 534), the owner's reported costs, and *Marshall Valuation Service*.

The assessor also uses historical costs to value new construction whenever possible. If a contractor completed the project and the historical costs provided seem reasonable in comparison to the cost manuals, the appraiser enrolls the historical costs. If an owner builder or a combination of a contractor and an owner builder completed the project, then the appraiser will use one of the cost manuals to value the new construction.

We reviewed several files containing new construction activity. The assessor's files were well documented with drawings updated, cost sources identified, and notes explaining the appraiser's valuation decision for new construction.

Of particular note is the assessor's development of an electronic building record. The electronic building record is a spreadsheet that allows the appraisers to input information, such as size and cost per unit, and have the cost calculated automatically. The electronic building records also allow multiple appraisers to view the building record at the same time without pulling the file. The assessor initially developed the electronic building record for agricultural properties, but it has since been adapted for use with some commercial and industrial properties. The assessor has taken pains to ensure the appearance of the electronic building record is identical to the original building records used by the office.

Overall, we found the assessor's new construction program to be well run and efficient. We have no recommendations for this program.

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.
Due to unfavorable economic conditions, property values in many areas of California have either declined or become stagnant. As a result, many assessors have reduced taxable values below the property's FBYV and Tulare County is no exception.

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

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>38,473</td>
</tr>
<tr>
<td>2009-10</td>
<td>32,194</td>
</tr>
<tr>
<td>2008-09</td>
<td>10,477</td>
</tr>
<tr>
<td>2007-08</td>
<td>303</td>
</tr>
</tbody>
</table>

Discovery of declines in value for commercial, industrial, residential, and agricultural properties is accomplished through several means. The assessor relies on overall market conditions, along with the appraisers' familiarity with their assigned geographic areas and specialties, to discover declines in value. Taxpayer requests for review and assessment appeals also trigger reviews for declines in value for properties surrounding the subject property.

Since the prior survey, the assessor has developed a new automated program to proactively review and value all residential type properties in a decline-in-value status, with the exception of manufactured homes. This exception is discussed in the manufactured homes section of the survey. Commercial, agricultural, rural, and multifamily properties are reviewed manually.

The automated system was developed in-house with the help of the county's information technology department. Utilizing computer automation and housing market data, the system generates a list of comparable sales for a given subject property and determines which sales are most like the subject. Comparable properties are determined by a coding system based on geographical area, use code, size of the lot, improvement characteristics, and date of sale. Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor to the prior year's taxable value and to assure the record will be analyzed in the coming year.

A value notice is sent to the property owner when the assessed value has been temporarily reduced due to a decline in value, when a reduced value remains on the roll for the current assessment year, or when the FBYV has been fully or partially restored. The value notice includes a statement of the assessment appeals filing period and an explanation of the stipulation procedure. The value notice also shows the proposed decline-in-value assessment, as well as the FBYV of the property. This meets the requirements of section 619.

The assessor properly reviews and adjusts parcels receiving decline-in-value assessments pursuant to section 51. We found that the residential and commercial property records with decline-in-value assessments have comparable sales listings included in their folders and that the appraisals are well documented, complete, and reasonable.
Overall, the assessor's declines in value program is effective and well administered.

**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.

Tulare County had about 1,132,000 acres under CLCA contract for the 2010-11 roll year, with approximately 42,000 acres in nonrenewal status. The total assessed value for land and improvements was $1,508,612,836, which was about 5.5 percent of the 2010-11 assessment roll value.

The following table shows a five-year history of properties under CLCA contract and the number of those properties in nonrenewal status:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL CLCA PARCELS</th>
<th>TOTAL CLCA ACRES</th>
<th>TOTAL PARCELS IN NONRENEWAL</th>
<th>TOTAL ACRES IN NONRENEWAL</th>
<th>TOTAL TAXABLE VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>14,237</td>
<td>1,131,847</td>
<td>653</td>
<td>42,003</td>
<td>$1,508,612,836</td>
</tr>
<tr>
<td>2009-10</td>
<td>14,174</td>
<td>1,133,116</td>
<td>567</td>
<td>40,647</td>
<td>$1,410,583,590</td>
</tr>
<tr>
<td>2008-09</td>
<td>14,108</td>
<td>1,133,540</td>
<td>534</td>
<td>40,143</td>
<td>$1,361,118,977</td>
</tr>
<tr>
<td>2007-08</td>
<td>14,066</td>
<td>1,132,274</td>
<td>445</td>
<td>20,446</td>
<td>$1,364,470,666</td>
</tr>
<tr>
<td>2006-07</td>
<td>14,082</td>
<td>1,117,498</td>
<td>364</td>
<td>7,308</td>
<td>$1,339,941,109</td>
</tr>
</tbody>
</table>

As the table shows, the number of acres in nonrenewal has increased dramatically over the last five years. This trend is due partially to changing economic conditions and partially to the county's decision not to renew contracts for nonconforming parcels.

The agricultural crew is responsible for the valuation of CLCA properties and consists of five appraisers and one supervising appraiser. CLCA questionnaires are mailed out to all CLCA landowners on a five-year cycle.
Using a computer program, each year the assessor calculates the restricted values of the land in accordance with section 423.3. Pursuant to section 423.3, Tulare County adopted Resolution No. 98-0125, which provides for the comparison of the restricted value to 90 percent of the factored base year value. For each property, the assessor compares the restricted value to 90 percent of the factored base year value and the current market value, enrolling the lowest of the three values. Nonrenewal values are calculated according to section 426.

The assessor derives income and expenses from a market analysis that utilizes data from the Tulare County Annual Crop and Livestock Report, agricultural property sales, questionnaires, cost reports, information from property owners, and other agricultural resources. This data is compiled yearly to create the Tulare County Assessor Ag Preserve Workbook. This workbook provides the agricultural crew with complete income and expense information averaged over the last six years for each agricultural commodity within the county. It also includes detailed information on irrigation rates, production averages, and nonrenewal calculations. We commend the assessor and his staff for developing and maintaining this useful resource.

In developing the capitalization rate used in the valuation process for CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE, and includes a risk component and a property tax component.

During our review of the assessor's CLCA program, we found areas in need of improvement.

RECOMMENDATION 8: Improve the CLCA program by: (1) assessing vineyard trellising on lands under CLCA contract as unrestricted improvements, and (2) assessing restricted land improvements on CLCA properties pursuant to section 423.

Assess vineyard trellising on lands under CLCA contract as unrestricted improvements.

The assessor assesses trellises as unrestricted improvements during the period when the vines are exempt. When the vines become taxable, he includes their value as a part of the vine value. He does not deduct from the income stream a charge for a return on or of the trellis investment. This results in the value of the trellises being improperly included in the restricted living improvements portion of the property value.

Pursuant to AH 521, the assessor should deduct a charge for a return on and of the value of trellis improvements from the income stream before capitalizing the residual income into the value of the restricted property. This step is necessary because the income to be capitalized in open-space valuation is the net income attributable only to the land and restricted living improvements. Although section 423(c) provides that CLCA contracts may allow nonliving improvements to be valued as restricted property, Tulare County does not have such a provision in its contracts. As nonliving improvements, trellises are not restricted and should not be valued by the restricted valuation method.

The assessor's practice leads to underassessments because the improvements are valued as if restricted rather than unrestricted. Additionally, removing the trellises from the assessment roll
when the vines become taxable results in the omission and miscalculation of supplemental assessments when there is a change in ownership.

Assess restricted land improvements on CLCA properties pursuant to section 423.

When estimating the total restricted land value, the assessor incorrectly adds the factored base year value of mounding to the restricted land value. Section 423 requires that restricted CLCA land be valued by the capitalization of income. Since mounding is included in the restricted land classification, the mounding should be valued as part of the restricted land value and not at its factored base year value. The assessor's failure to follow the requirements in section 423 results in the improper determination of the restricted land value.

Taxable Possessory Interests

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

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

The Tulare County Assessor's program for discovering taxable possessory interests includes annual polling of approximately 182 public agencies by letter to request current information on new or changed tenancies and rents. There are 1,157 taxable possessory interests currently enrolled for the 2010-11 roll year, with a total assessed value of approximately $73.8 million.

Valuation and monitoring of the taxable possessory interests is the primary responsibility of one appraiser. A supervising appraiser reviews the valuation findings of all taxable possessory interests.

We reviewed the assessor's written taxable possessory interest procedures and a number of taxable possessory interest records. All of the appraisal records we examined contained a copy of the lease for the taxable possessory interest being assessed. Our examination also revealed that the assessor deducts operating expenses from the gross income before converting the income stream into a value, takes into consideration any reductions in value due to damage, depreciation, change in rent, reduction in the remaining stated term of possession, or any other factors causing a decline in value, and enrolls taxable possessory interests at the lower of the factored base year value or the current fair market value.

We reviewed several taxable possessory interests under month-to-month tenancies. In determining the reasonably anticipated term of possession for these types of properties, the assessor documents the history, customs, and practices of the private possessor and the public owners, including the actions of the parties and the histories of their relationships. The accumulated data is then compared to similar private possessors. We looked at properties with
anticipated terms of one, five, and seven years. Our examination indicates that the assessor is properly assessing these properties as required by section 61(b)(2).

Tulare County has not adopted section 155.20 to exempt property with a full value of $10,000 or less or, in the case of a taxable possessory interest for a temporary and transitory use in a publicly owned fairground, $50,000 or less. Our review of taxable possessory interests at the Tulare County fairgrounds confirms the assessor is properly assessing uses at the fairgrounds, including the smaller, low-value taxable possessory interests.

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 assessments. However, section 75.5 excludes newly created taxable possessory interests established by month-to-month agreements having a full cash value of $50,000 or less. We examined taxable possessory assessments where there was a change in ownership or new construction and found that supplemental assessments are properly issued.

Overall, we found no problems with the assessor's program for tracking and valuing taxable possessory interests. However, we did note a problem with the cover letter the assessor sends to public agencies when obtaining possessory interest data.

**RECOMMENDATION 9:** Remove incorrect language from the *Tax Exempt Agency Cover Letter To Possessory Interest Data Sheets* used by the assessor to obtain possessory interest data from public agencies.

In an effort to obtain possessory interest data, the assessor sends a *Tax Exempt Agency Cover Letter To Possessory Interest Data Sheets* to the various public agencies. This cover letter and data sheet are a revised version of the Board-prescribed and approved form BOE-502-P, *Possessory Interests Annual Usage Report (Usage Report)*. We found that the cover letter contains the following incorrect statements, "This report is not a public document. The information contained herein will be held secret by the Assessor (Section 451 of the Revenue & Taxation Code); it can only be disclosed to the District Attorney, Grand Jury, and other agencies specified in Section 408 of the Revenue & Taxation Code."

Letter To Assessors (LTA) No. 2011/019 revised BOE-502-P to remove language indicating that the form was not a public document and the information contained therein would be held secret. After an extensive interested parties process initiated by the BOE, it was determined that *Usage Reports* are public records that are open to public inspection, and that the information that a state or local government entity is required to report to the assessor on the *Usage Report* is public information and may not be held in confidence by the county assessor. In addition, the California Public Records Act (CPRA) provides that state and local agencies' public records are open to public inspection, unless expressly exempt by federal or state law. LTA No. 2012/016 states that while all information on a *Usage Report* is generally public information, the provisions of Government Code sections 6254.3 and 6254.21 preclude the release of information relative to certain specified individuals and that county assessors should advise public agencies to mark their reports/listings in a manner to identify the portion of the report that is confidential and cite the appropriate code section barring release of the information.
Government Code section 15606(d) requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. If an assessor revises a Board-prescribed form, pursuant to LTA No. 2004/049, copies of all such forms must be submitted to and approved by the BOE property tax forms coordinator. While the assessor has submitted this revised Board-prescribed form for approval, the BOE's forms coordinator has not approved it. Because the assessor's use of this revised Board-prescribed form contains incorrect language, it leads to incorrect information being conveyed to public agencies.

**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.

Tulare County has petroleum and mining properties. There are no assessable high temperature geothermal properties located in the county. The value of the mineral assessments for the 2010-11 roll year in Tulare County was $6.2 million.

**Petroleum Property**

There are several petroleum properties located in Tulare County. Production from the county represents 0.02 percent of the state's total production. The value of the petroleum properties in the county represents 0.024 percent of the 2010-11 assessment roll value. The petroleum properties are assessed under the direction of a supervising appraiser. There are no recommendations for the assessment of petroleum properties.

**Mining Property**

Tulare County's extracted minerals are mostly sand and gravel deposits used for local construction.

The assessor appraises mining properties using the royalty method. This method estimates the value of the mineral rights by estimating annual production and multiplying by the royalty rate per unit of production. This value is then capitalized into a value estimate using discounted cash flow analysis.

When there is a change in ownership, this value can be combined with the value of the fixtures and equipment and entrepreneurial value (determined by residual analysis) to equate to the sale price. This sale price is then enrolled as the base year value. A base year reserve estimate should also be made and noted for future adjustments.
RECOMMENDATION 10: Improve the mineral property assessment program by:
(1) matching reserves to the current market value estimate,
(2) escalating the value per production unit by the annual BOE inflation factor, and (3) appraising mineral properties as a single appraisal unit.

Match reserves to the current market value estimate.

Each year the assessor makes an estimate of the current market value of a mining property for comparison to its adjusted base year value. However, the reserve estimate when estimating current market value does not always match the adjusted base year reserve estimate. When there is a difference between the current market value estimate of reserves and the adjusted base year value estimate of reserves, the adjusted base year value estimate needs to be further adjusted to reflect the current market value estimate. When the current market value estimate is greater, this results in new reserves added to the base year value. When the current market value estimate is lower, an additional downward adjustment beyond depletion must be made.

Failure to adjust base year reserves to reflect the current market reserve estimate may result in adjusted base year value errors. This error could lead to incorrect measurement of the decline in the appraisal unit value.

Escalate the value per production unit by the annual BOE inflation factor.

The assessor's worksheet for adjusting the base year values of mineral rights uses a depletion value that is calculated based on a historic value per unit of production ($/ton). Rule 469(e)(2)(A)(4) indicates that the value depletion should be based upon the prior year's adjusted base year value – a value adjusted annually by the BOE inflation factor. The assessor's current practice results in underestimating the adjustment to the base year value.

Appraise mineral properties as a single appraisal unit.

The assessor separately values mineral rights and the fixtures and equipment associated with the property. The assessor does not combine these values when determining whether to enroll the factored base year value or the current market value. This is contrary to Rule 469(e)(2)(C), which states that declines in value shall be recognized when the market value of an appraisal unit that comprises land, improvements (including fixtures), and reserves falls below the adjusted base year value of this same unit. When the proper appraisal unit is not considered in the determination of the taxable value, it is possible, for example, that the adjusted base year value of the mineral rights might be enrolled together with the current market value of the fixtures, which is not the intent of Rule 469.
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.

As of January 2011, the assessor's staff assigned to the business property program consisted of 9 positions: 1 chief auditor-appraiser, 1 supervising auditor-appraiser (Auditor-Appraiser IV), and 7 auditor-appraisers.

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

Audit Program

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

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

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL AUDITS COMPLETED</th>
<th>LARGE AUDITS</th>
<th>OTHER AUDITS</th>
<th>NET VALUE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>117</td>
<td>57</td>
<td>60</td>
<td>$193,730,417</td>
</tr>
<tr>
<td>2008-09</td>
<td>150</td>
<td>150</td>
<td>0</td>
<td>$124,405,302</td>
</tr>
<tr>
<td>2007-08</td>
<td>197</td>
<td>189</td>
<td>8</td>
<td>$68,495,115</td>
</tr>
<tr>
<td>2006-07</td>
<td>159</td>
<td>141</td>
<td>18</td>
<td>$52,286,945</td>
</tr>
</tbody>
</table>

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 98 audits per year hereafter. During the 2009-10 roll year, the assessor completed 117 audits and projects the completion of 158 audits for the 2010-11 roll year, for which 59 audits have already been completed. Given recent and current audit production levels, it appears the assessor will meet the minimum number of audits required as defined by section 469.

Statute of Limitations

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

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 and the assessor's policy and procedures for enforcement of sections 532 and 532.1, and we 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 found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, properly classifies equipment,
performs field inspections, and performs assessment roll changes to reflect audit findings. We sampled several recently completed audits and found in all cases audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. Accordingly, we have no recommendations for the assessor's audit program.

**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.

The following table sets forth the assessor's secured and unsecured BPS processing workload for the 2010-11 roll year:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>TOTAL</th>
<th>SECURED VALUE</th>
<th>UNSECURED VALUE</th>
<th>TOTAL ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>16,091</td>
<td>$1,737,313,471</td>
<td>$1,013,889,671</td>
<td>$2,751,203,142</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6,700</td>
<td>$378,323,897</td>
<td>$239,728,244</td>
<td>$618,052,141</td>
</tr>
<tr>
<td>Apartments</td>
<td>300</td>
<td>$6,938,057</td>
<td>$191,193</td>
<td>$7,129,250</td>
</tr>
</tbody>
</table>

**General Statement Processing**

Auditor-appraisers review BPSs for completion and the inclusion of a legally acceptable signature. During the preliminary screening, all BPSs with current cost data on Schedule B in columns 1, 3, and 4 are routinely forwarded to the real property section to review. BPSs are date stamped to reflect the timely submission and related process of valuation for each BPS.

**Discovery**

The assessor has an efficient discovery program, which includes reviewing business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories, landlord reports of tenants, referrals from other counties, BOE notifications, BOE-600-Bs, *Schedule Of Leased Equipment Which Is To Be Reported By Lessor To Local Assessor For Assessment*, and the Internet. We found that the assessor employs effective methods for discovering business personal property.

**Summary**

Overall, we found the assessor's program for processing BPSs to be effectively administered. The procedures in place are well structured and compliant with existing law. We have no recommendations regarding this topic.

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10 The total number of property statements processed annually for agriculture and apartment categories were estimated by Ron Medlock, Chief Auditor-Appraiser, and are not exact numbers.
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).

We reviewed a sampling of commercial, industrial, and agricultural businesses and verified that the tables were properly applied. We confirmed that supplies were estimated and valued when not reported, factor tables were applied consistently within industries, and moveable agricultural equipment was valued based on whether it was reported as new, used, or, if unknown, the appropriate percent good factor was applied. In addition, Tulare County uses only certified staff to value their business property accounts. We found the business equipment valuation program to be effectively managed and we have no recommendations for this program.

Manufactured Homes

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

There are 3,236 manufactured homes located in 76 mobilehome parks in Tulare County, with a total assessed value of $57,251,010 for the 2010-11 roll year.

Once a manufactured home is permanently affixed to an approved foundation, the home is reclassified as real property. The assessor verifies that each home is affixed to an approved foundation in accordance with section 18551 of the Health and Safety Code and requires proof that the notice of affixation, HCD Form 433A, *Notice of Manufactured Home (Mobilehome) or Commercial Coach, Installation on a Foundation System*, has been recorded.

Manufactured homes in Tulare County are shown on the property tax bill as improvements, but are classified as personal property for assessment purposes and are assessed on the secured roll. The assessor and the auditor-controller created a system whereby all manufactured homes are identified by using a fictitious parcel number that begins with 911, 912, 913, or 914. Flat rate special assessments and ad valorem bonds are properly excluded.

The assessor discovers assessable manufactured homes by receiving information from the California Department of Housing and Community Development (HCD), dealer reports of sale, tax collector tax clearance certificates, and building permits.
In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sale prices listed in recognized value guides for manufactured homes, such as the National Automobile Dealers Association, *Manufactured Housing Appraisal Guide* (NADA). Tulare County subscribes to the CD-ROM version of NADA. We found that the assessor consistently uses the edition of NADA that corresponds to the date of valuation when establishing new base year values. The assessor also includes the value of accessories, such as awnings, porches, and skirting, as well as the general overall condition of the manufactured home, when estimating the NADA value.

Each real property appraiser in the office is responsible for valuing manufactured homes located within their assigned work area. After a real property appraiser establishes the base year value for a manufactured home, a depreciated value is enrolled for subsequent lien dates based on a schedule developed by the assessor's office. The factors used are derived from samples selected from NADA. The depreciated values are automatically updated and enrolled each year until a reappraisal is triggered by a change in ownership.

We reviewed a number of manufactured home assessments, including transfers, supplemental assessments, accessories, new construction, new installations, voluntary conversions, and assessments related to manufactured homes on permanent foundations. Overall, the assessor has an effective 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*.

For the 2010-11 roll year, the assessor enrolled 514 general aircraft with a total assessed value of approximately $47 million.
The following table sets forth the assessed values for aircraft over recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>AIRCRAFT</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>514</td>
<td>$47,100,528</td>
</tr>
<tr>
<td>2009-10</td>
<td>521</td>
<td>$56,885,095</td>
</tr>
<tr>
<td>2008-09</td>
<td>519</td>
<td>$53,119,231</td>
</tr>
<tr>
<td>2007-08</td>
<td>510</td>
<td>$63,828,695</td>
</tr>
<tr>
<td>2006-07</td>
<td>528</td>
<td>$59,334,607</td>
</tr>
</tbody>
</table>

The assessor discovers taxable aircraft through airport operators' reports, referrals from other counties, and the Federal Aviation Administration website.

The assessor annually mails BOE-577, Aircraft Property Statement, to all aircraft owners in the county. This form requests information about the aircraft, such as the purchase price, airframe hours, damage history, avionics, condition, engine horsepower, and engine hours since major overhaul.

We reviewed a sampling of the general aircraft and found that the statements were date stamped when received and signed. The Bluebook value was adjusted for overall condition, added equipment, airframe hours, hours since last major engine overhaul, total engine hours, and sales tax. Non-filed statements were valued and included a 10 percent penalty. We did, however, find one area in need of improvement when valuing aircraft.

**RECOMMENDATION 11:** Properly apply a 10 percent adjustment to the Bluebook average retail value in accordance with the guidelines set forth in Assessors’ Handbook Section 577, Assessment of General Aircraft (AH 577).

According to AH 577, a 10 percent adjustment should be applied to the Bluebook average retail value. However, the assessor applies the 10 percent adjustment at the end of the calculation, after applying adjustments for the individual aircraft airframe, engine hours, added equipment, and sales tax. By incorrectly applying the 10 percent adjustment, the assessor may be enrolling incorrect assessments.

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 2010-11 roll year, Tulare County had four fractionally owned aircraft with a total assessed value of approximately $400,000. Tulare County is not a lead county for fractionally owned aircraft.

We reviewed a sampling of fractionally owned aircraft records and found that allocated values were accurately calculated based on 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 2010-11 roll year, there were three certificated aircraft serving Tulare County with a total assessed value of approximately $1.4 million. Tulare County is not a lead county for certificated aircraft.

These aircraft were valued using the Board-approved formula of flight and ground time, arrivals and departures, and aircraft taxable value. This information is communicated from the lead counties and is used by the county to assess certificated aircraft. We reviewed the certificated aircraft appraisal procedures and verified that these aircraft were correctly valued. 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.

In Tulare County, historical aircraft owners are provided two forms to complete annually – BOE-577, Aircraft Property Statement, which is mailed and processed by the assessor's office, and BOE-260-B, Claim for Exemption From Property Taxes of Aircraft of Historical Significance, which is mailed and processed by the exemption department. Values for late or non-filed Aircraft Property Statements were processed and properly received a late-filing penalty.

We found an area in need of improvement when processing historical aircraft exemptions.

**RECOMMENDATION 12:** Grant the historical aircraft exemption only when all conditions have been met pursuant to section 220.5.

We reviewed a sampling of historical aircraft and found instances where the assessor granted the exemption, even though not all conditions had been met as required in section 220.5. In one instance, the assessor granted the full exemption for the 2009-10 roll year when the claimant did not own the aircraft as an individual at the time of filing in January 2009. The assessor also granted the full exemption on this aircraft for the 2010-11 roll year, even though the claimant did not file for the exemption as an individual until August 4, 2010. In another instance, the assessor granted full exemptions for three aircraft that were being displayed for an event at the same airport. Two of the aircraft being displayed were owned by the owner of the airport. This owner was also the event coordinator and signed the display schedule for this event that did not appear to be sufficiently advertised to the general public.

Section 220.5(b) provides that an aircraft of historical significance shall be exempt from taxation only if all of the following conditions are satisfied:

- The assessee is an individual owner who does not hold the aircraft primarily for purposes of sale.
- The assessee does not use the aircraft for commercial purposes or general transportation.
- The aircraft is 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. When applying for an exemption pursuant to this section, the claimant shall attach to that application a certificate of attendance from the event coordinator of the event at which the aircraft was displayed.

Section 220.5(c) provides that when claiming a historical aircraft exemption, the claimant shall provide all information required and answer all questions contained in an affidavit furnished by the assessor. The claimant shall sign the affidavit under penalty of perjury. The assessor may require additional proof of the information or answers provided in the affidavit before allowing the exemption.

Further, Letter To Assessors (LTA) No. 2002/090 states that the term "available for display to the public" means actual display or documented willingness to display at either (a) an organized airshow, (b) a museum, or (c) a special designated area set aside for historical aircraft open to the public. To qualify as available for display to the public under any other situation, an individual
must document that an aircraft is displayed in such a manner that the general public is aware that public viewing is clearly invited, and there are reasonable accommodations to allow public viewing of the aircraft. To qualify as available for display under any situation also means that there must be a reasonable effort to make the general public aware of the display and there must be reasonable viewing hours.

In addition, section 255(a) provides that the historical aircraft exemption claim must be submitted no later than 5 p.m. on February 15 each year. Section 276.5 provides for a partial exemption of 80 percent on historical aircraft exemption claims filed after February 15, but on or before August 1.

Before allowing the historical aircraft exemption, the assessor should verify that all conditions have been met, and when there is a discrepancy, the assessor should follow up with a field inspection and/or request that the claimant provide further documentation to support the claim. When the assessor allows historical aircraft exemptions without following the provisions of section 220.5, taxpayers are not treated uniformly and there is a potential loss of revenue by allowing full or partial exemptions that the owner may not be entitled to receive.

**Vessels**

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

Assessors must annually appraise all vessels at market value. For the 2010-11 roll year, the assessor valued 7,712 vessels with a total assessed value of approximately $31.8 million. Tulare County has no documented vessels.

The following table details the number of vessel assessments processed by the assessor and their assessed values for Tulare County for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>VESSELS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>7,712</td>
<td>$31,861,924</td>
</tr>
<tr>
<td>2009-10</td>
<td>7,634</td>
<td>$39,324,143</td>
</tr>
<tr>
<td>2008-09</td>
<td>7,566</td>
<td>$41,864,719</td>
</tr>
<tr>
<td>2007-08</td>
<td>7,231</td>
<td>$38,806,463</td>
</tr>
<tr>
<td>2006-07</td>
<td>6,911</td>
<td>$37,071,523</td>
</tr>
</tbody>
</table>

The assessor sends a vessel questionnaire to the taxpayer the first year the vessel is brought into the county. When the questionnaire is returned, the vessel is valued using the National Automobile Dealers Association, *Marine Appraisal Guide* (NADA), with the information provided by both the taxpayer and DMV. This NADA-derived value is then adjusted for sales or use tax and freight. If the questionnaire is not returned or is returned late, the assessor values the
vessel using the NADA guide, but does not apply penalties, as this is not a Board-prescribed form.

For subsequent vessel assessments, the assessor sets the vessels up on a direct billing system and uses the Board-approved depreciation schedules to value these vessels. The assessor uses a county-developed form, *Boat Notice of Pending Assessment*, to communicate the value to the taxpayer. This notice provides not only the proposed value for the current lien date, but also gives the taxpayer an opportunity to inform the assessor if the boat has been sold, damaged, or moved out of the county.

When a vessel requires repair or restoration, the assessor codes the vessel in the computer system, so that the vessel will be reviewed annually.

The assessor has an effective program for assessing vessels; however, we found an area in need of improvement.

**RECOMMENDATION 13:** Improve the vessel assessment program by: (1) using Board-prescribed assessment form BOE-576-D, *Vessel Property Statement*, and (2) mailing BOE-576-D, *Vessel Property Statement*, annually to all owners of vessels costing $100,000 or more in accordance with section 441.

**Use Board-prescribed assessment form BOE-576-D, *Vessel Property Statement*.**


Pursuant to Letter To Assessor No. 2004/049, a county may develop a form for use in their county for a specific use. However, a county may not use its own form if there is a Board-prescribed form available. In other words, if a Board-prescribed form is available, that form must be used. Using county-developed forms in lieu of Board-prescribed forms could mislead property owners and create confusion about current procedures and filing requirements.

**Mail BOE-576-D, *Vessel Property Statement*, annually to all owners of vessels costing $100,000 or more in accordance with section 441.**

We found that the assessor did not mail an annual *Vessel Property Statement* to two taxpayers that had a vessel with a cost of $100,000 or more. Section 441(a) states that any person owning taxable personal property, other than a manufactured home, with a cost of $100,000 or more must file an annual property statement. Additionally, Rule 171(f) provides that the assessor shall furnish property statement forms and instructions to every person required by law or requested by the assessor to file a property statement.

The information provided by the taxpayer in the property statement provides the assessor with current and accurate information regarding replacement engines and new accessories when making vessel appraisals. Failure to send property statements to owners of such vessels increases the risk of inaccurate assessments based on insufficient information.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Tulare County

Chief
Dean Kinnee

Survey Program Director:
Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:
David Dodson Supervising Property Appraiser

Survey Team Leader:
Paula Eagleman Senior Specialist Property Appraiser

Survey Team:
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Margie Wing Senior Specialist Property Appraiser
Michael Ash Associate Property Appraiser
Jennifer Prince Associate Property Appraiser
Julie Warren Associate Property Appraiser
Catherine Houlihan Associate Property Auditor-Appraiser
Ardeshir Noroozkhani 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.


(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 Tulare County Assessor's response begins on the next page.

Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our comments follow the assessor's response.
November 7, 2012

State Board of Equalization
Property and Special Taxes Department
ATTN: Mr. Dean Kinnee
450 N Street
P.O. Box 942879
Sacramento, CA 94279-0064

RE: Tulare County Assessment Practices Survey

Dear Mr. Kinnee:

Please find enclosed a hard copy of our survey responses that we wish to have included in the final printed report of our assessment practices survey report.

We thank you for your team’s thorough and professional work done on this survey and we appreciate the opportunity to meet, confer and respond to the report.

We look forward to working with BOE staff on future surveys and other assessment issues that may arise.

Sincerely,

Roland P. Hill
Assessor/Clerk-Recorder
County of Tulare
SBE Survey Responses

Recommendation 1
Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407.

Assessor's Response
The BOE alleges that we are not in compliance with current statute and implies that this is so due to our failure to report statistics and other information to the BOE as required. We wish to make it expressly clear that we have never failed to file the Section 407 required 801 and 802 forms every year. There are certain data lines on Form 802 that we are not able to track in our system that prevents us from providing a detailed breakdown on lines 2, 3 and 5. All other data on Form 802 has been annually provided, as required by statute.

The BOE also alleges that we are out of compliance by not filing the annual BOE Report on Budgets, Workloads and Assessment Appeals. It is our understanding that this budget report is not a mandatory report and is submitted at the option of the Assessor. This Assessor feels that this workload report is of no particular use and benefit to our office and only provides the BOE with data to produce a report of questionable utility thus making the report a waste of valuable time and resources.

We expect and demand the BOE to retract the allegation that we are not in compliance with current statute as regarding this issue of compliance to section 407.

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

Assessor's Response
1) Procedures are in place to timely notify BOE of certified appraiser employment status.

2) Acknowledge that there were appraisers and auditor-appraisers deficient in training hours at time of survey. By close of fiscal year 2011/2012, twenty-five employees were current or had positive balances, four employees were deficient by less than three hours, and one employee was deficient by five hours. Procedures are in place to ensure that appraisal staff will stay in compliance with section 671.

Recommendation 3
Develop written procedures for the assessment of staff-owned property.
Assessor’s Response
The Assessor will develop a comprehensive policy for the assessment of staff-owned properties.

**Recommendation 4**
Improve the administration of the church and religious exemption by: (1) granting the church exemption only if the claimant files a claim each year, (2) granting the church exemption only for property exclusively used for qualifying purposes, (3) granting the religious exemption only for property used exclusively for qualifying purposes, and (4) conducting field inspections to ensure property is used exclusively for exempt purposes and to ensure the appropriate exemption is claimed based upon a property's use.

Assessor’s Response
The Assessor will adopt the SBE’s recommendations.

**Recommendation 5**
Improve the administration of the welfare exemption by: (1) requiring a valid OCC prior to granting the welfare exemption, and (2) allowing exemption on vacant parcels for properties held by Habitat for Humanity in accordance with section 214.15.

Assessor's Response
The Assessor will adopt the SBE’s recommendations.

**Recommendation 6**
Improve the exemptions program by properly applying the provision of sections 270 and 271 for exemption claims that are not timely filed.

Assessor’s Response
The Assessor will adopt the SBE’s recommendations.

**Recommendation 7**
Improve the administration of the disabled veterans' exemption by: (1) properly applying the provisions of section 276 for disabled veterans' exemption claims that are not timely filed, and (2) granting the exemption on a prorated basis for the initial qualification year in accordance with sections 276.1 and 276.2.

Assessor’s Response
The Assessor will adopt the SBE’s recommendations.
Recommendation 8
Improve the CLCA program by: (1) assessing vineyard trellising on lands under CLCA contract as unrestricted improvements, and (2) assessing restricted land improvements on CLCA properties pursuant to section 423.

Assessor’s Response
1) The Assessor disagrees with the BOE recommendation regarding the assessment of trellising. We assess those items separately until the vines themselves come out of the exempt period and then include them in the value assigned to the growing improvements. We believe trellising is an integral component of the growing improvement value, and the income of the vines is dependant on, not independent of the trellising. We have held this position since the inception of the CLCA.

2) The Assessor’s method of dairy grading valuation stems from a lack of reliable dairy rental information. The Assessor will attempt to discover economic rent information for these properties and apply it appropriately in the future.

Recommendation 9
Remove incorrect language from the Tax Exempt Agency Cover Letter To Possessory Interest Data Sheets used by the assessor to obtain possessory interest data from public agencies.

Assessor’s Response
The Assessor will adopt the SBE’s recommendations.

Recommendation 10
Improve the mineral property assessment program by: (1) matching reserves to the current market value estimate, (2) escalating the value per production unit by the annual BOE inflation factor, and (3) appraising mineral properties as a single appraisal unit.

Assessor’s Response
The Assessor will adopt the SBE’s recommendations.

Recommendation 11
Properly apply a 10 percent adjustment to the Bluebook average retail value in accordance with the guidelines set forth in Assessors' Handbook Section 577, Assessment of General Aircraft (AH 577).

Assessor’s Response
In prior years, the assessor has been applying the 10% reduction to the total value of the aircraft, including condition adjustments, engine time, sales tax, etc. Depending on the adjustments, this may have lead to an over assessment or underassessment. Steps have been taken to resolve this issue for the future.
Recommendation 12
Grant the historical aircraft exemption only when all conditions have been met pursuant to section 220.5

Assessor’s Response
The Assessor will adopt the SBE's recommendations.

Recommendation 13
Improve the vessel assessment program by: (1) using Board-prescribed assessment form BOE-576-D, Vessel Property Statement, and (2) mailing BOE-576-D, Vessel Property Statement, annually to all owners of vessels costing $100,000 or more in accordance with section 441.

Assessor’s Response
The Assessor will use the Board-prescribed form beginning with the 2013/2014 fiscal year and will ensure that owners of vessels costing $100,000 or more will annually receive a Vessel Property Statement.
BOE COMMENTS TO ASSESSOR'S RESPONSE

RECOMMENDATION 1: Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407.

BOE Comments to Assessor's Response:

Section 407 not only requires that assessors file an annual statistical statement with the Board, but also provides the Board with broad authority to require any other information to be supplied by assessors. Requiring assessors to file statistical information on budgets and workloads is within the Board's statutory authority.