August 30, 2002

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 Gregory B. Hardcastle, 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 and the assessor's response constitute 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.

The BOE's County Property Tax Division performed fieldwork for this survey of the Tulare County Assessor's Office from March through August 2001. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Hardcastle and his staff for their cooperation and patience during this assessment practices survey.

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:jm
Enclosure
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ASSESSOR'S RESPONSE TO BOE'S FINDINGS
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 comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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 (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Tulare County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increase the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates 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, the Senate and Assembly, the Tulare County Grand Jury, and the 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 Gregory B. Hardcastle, Tulare County Assessor/Recorder-Clerk, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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. However, assessment practices survey reports also contain information required by law (see Scope of Assessment Practices Surveys) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

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1 This report covers only the assessment functions of his 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, Revenue and Taxation Code section 75.60² requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

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

This survey also included an assessment sample of the 2000-2001 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.
EXECUTIVE SUMMARY

This report presents several recommendations for improvement, but it also notes those program elements that are unique or particularly effective. It highlights areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

- In our 1995 Assessment Practices Survey of Tulare County, we made 16 recommendations addressing problems found in the assessor's policies and procedures. The assessor fully implemented six of the changes we recommended, partially implemented three, and did not implement five. Three of our previous recommendations not implemented by the assessor no longer apply. Most of the recommendations that were not implemented, or that were implemented only in part, are repeated in this report.

- Pipeline rights-of-way, computers, animals, leased equipment, apartment personal property, cable television property, exemptions, and service stations present many problems for an assessor’s office. We found that the Tulare County Assessor administers these programs effectively.

- The assessor has effective programs for processing changes in ownership, disaster relief claims, assessment appeals, and business property statements.

- We found that the assessor and his staff hold the appraiser’s certificates required by section 670.

- The assessor fails to submit the forms checklists and rearranged forms to the BOE in a timely manner. Additionally, he uses rearranged forms that have not been approved by the BOE.

- The disaster relief ordinance does not conform to current statutory provisions.

- The assessor's Notice of Proposed Escape Assessment does not provide the property owner with all the information required by statute.

- The assessor has not corrected the base year for transfers occurring between the lien date and June 30 in the late 1980's and early 1990's.

- The assessor does not obtain copies of building permits for wells from the county environmental health department. Additionally, when using the cost approach to value new construction, the assessor fails to document depreciation adjustments.

- The assessor does not correctly apply the supplemental assessment provisions for California Land Conservation Act (CLCA) and Timberland Production Zone (TPZ) properties.

- The assessor's notice informing an assesse of an increase in property value does not include the factored base year value as required by section 619(c).
• We found some taxable possessory interests were not adjusted by the inflation factor annually and were not revalued at the end of the anticipated terms of possession used by the assessor as required by section 61(b)(2).

• The assessor has not identified all taxable government-owned parcels located outside of the agencies' boundaries.

• We recommend the assessor make a number of revisions to the CLCA assessment program: (1) assess vineyard trellising as unrestricted improvements; (2) issue supplemental assessments; (3) assess restricted land improvements via the income approach; (4) use an appropriate risk component in the capitalization rate; (5) assess wind machines as personal property or fixtures; (6) allow for a return of investment in irrigation wells in the income approach; and (7) solicit compatible use income information on all parcels under CLCA contract.

• We recommend the assessor assess all water company properties and obtain annual CPUC reports on all regulated water companies.

• The assessor fails to identify and assess compatible uses on TPZ parcels, and he does not place the required notation on the roll for those parcels in a timberland production zone.

• Mining property assessments are not adequately documented.

• The mandatory audit program should be brought to a current status.

• The assessor should use the AH 581 as intended.

• We recommend the annual assessment of vessels at market value and the application of late penalties only when using BOE-prescribed forms.

• We found that aircraft are assessed properly.

• We recommend the assessor classify manufactured homes as personal property and use the correct edition of the manufactured home valuation guides.

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

• The Tulare County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2000 assessment roll indicated an average assessment ratio of 99.77 percent, and the sum of the absolute differences from the required assessment level was 1.95 percent. Accordingly, the BOE certifies that Tulare County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

Here is the list of formal recommendations contained in this report, arranged in the order that they appear in the text.
RECOMMENDATION 1: Submit BOE-prescribed form checklists timely.............................15

RECOMMENDATION 2: Use only approved rearranged BOE-prescribed forms..............15

RECOMMENDATION 3: Request that the board of supervisors update the disaster relief ordinance to conform to current law. .................................................................16

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RESULTS OF THE 1995 SURVEY

Change in Ownership

We recommended the assessor create and maintain a list of transfers for public use that meets the requirements of section 408.1. The assessor has implemented this recommendation. A listing of transfer information is now available at the assessor's public counter.

New Construction

Due to problems in processing building permits differently at four field offices, we recommended the assessor assign responsibility for review and sorting of building permits to an assessment clerk in the headquarters office. The assessor's staff is now located in one office in Visalia. Therefore, this recommendation is considered to have been implemented.

California Land Conservation Act Properties

We made one multi-part recommendation for improvement of the CLCA assessment program: (1) correctly calculate improvement charges; (2) use a capitalization premise appropriate to the shape of the income stream when valuing restricted vineyards and orchards; (3) properly value nonliving vineyard improvements; and (4) properly value land improvements. The assessor revised the CLCA assessment program and now uses a market-derived yield rate to allow for a return on and of improvements. He also now employs an appropriately shaped income stream for trees and vines. However, parts (3) and (4) were not implemented, and we repeat those recommended changes in this report.

We also recommended the assessor update animal unit carrying capacity estimates for grazing lands. The assessor implemented this recommendation and now uses current animal unit rents and carrying capacities to value grazing lands.

Taxable Possessory Interests

We recommended that the assessor revise the possessory interest assessment program by (1) assessing all taxable possessory interests, (2) using proper terms of possession, (3) capitalizing the market rent instead of the contract rent, (4) applying supplemental assessments when appropriate, and (5) citing correct statutory provisions. The assessor implemented this recommendation. We also recommended that he review the various uses at the fairgrounds for taxable possessory interests. Since it appears that the possessory interests would fall below the county’s low-value ordinance, we do not repeat this recommendation.

Manufactured Homes

We recommended that the assessor classify and enroll manufactured homes as personal property. We found that the assessor has not revised this practice, and we repeat that recommendation in this report.
Disaster Relief

We recommended the assessor reassess damaged or destroyed property only if the property is located in an area proclaimed a disaster by the Governor. During our research for this survey, we found that our prior recommendation was based on a misinterpretation of sections 1274 and 1274.2 of the Tulare County Code. In fact, the Tulare County Board of Supervisors has adopted two separate ordinances to address both situations. Ordinance 2097 (passed 6-7-77) covers those disasters declared as such by the Governor. Ordinance 2027 (passed 3-14-78) applies to any misfortune or calamity. Consequently, our prior recommendation no longer applies.

Taxable Government-Owned Property

We recommended the following changes to the assessment of taxable government-owned properties: (1) identify, appraise, and enroll properties owned by government agencies located outside their boundaries; (2) factor Section 11 improvement values for inflation; and (3) discontinue issuing supplemental assessments on Section 11 properties. The assessor has addressed two of these concerns. However, identifying government-owned lands located outside their boundaries remains an issue. For this reason, we repeat this portion of the recommendation.

Water Company Properties

We recommended the assessor make the following revisions to his water company property assessment program: (1) ensure that all Section 11 properties owned by water districts are assessed; (2) obtain a listing of wells inspected by the county environmental health office to discover assessable property; (3) obtain a copy of the CPUC report for all regulated water companies; and (4) obtain the articles of incorporation and other relevant property tax documents from all mutual water companies. These recommended changes were not implemented. We repeat them in this report. The portion addressing municipal water districts is repeated in the Taxable Government-Owned Property section of this report.

Audit Program

We recommended the assessor expand his nonmandatory audit program. We found the assessor has implemented our recommendation.

Property Statement Processing

We recommended the assessor audit or visit taxpayers who fail to file business property statements for four or more consecutive years. The assessor has implemented our recommendation.

Equipment Valuation

We recommended the assessor use the BOE's equipment index factors as instructed, particularly with respect to index factors for commercial, industrial, and construction equipment, and as they pertain to new and used agriculture and construction mobile equipment. While the assessor implemented the first part, we repeat the second part of the recommendation relating to certain new and used equipment.
We also recommended the assessor assess property in the tax-rate area where situated. The problem assessments were those of leased property. Due to the enactment of section 623, this recommendation no longer applies.

**Vessels**

We recommended the assessor appraise boats annually at market value and apply late filing penalties only when using BOE-prescribed forms. The assessor has not implemented our recommendations, and we repeat them in this report.
OVERVIEW OF TULARE COUNTY

Tulare County has a population of about 368,000 and encompasses 3,097,220 acres. Located in the San Joaquin Valley, the county stretches from the valley floor to the higher elevations of the Sierra Nevada Mountains. Inyo County is adjacent to the east, Kern County borders to the south, Kings County is adjacent to the west, and Fresno County lies immediately to the north. Tulare County has eight incorporated cities: Dinuba, Exeter, Farmersville, Lindsay, Porterville, Tulare, Woodlake, and the county seat of Visalia.

Tulare County is geographically the seventh largest county in the state. Originally part of Mariposa County, Tulare County was chartered in 1852. During 1856, a portion of Tulare County was split off to create Fresno County, and another portion was split off to create Kern County in 1866.

Tulare County is recognized as the number two agricultural county in the nation. Approximately 1.1 million acres, or about 36 percent of the county, is used for agricultural purposes. The largest crop is grapes, including wine grapes, table grapes, and raisins. Citrus fruits are also widespread throughout. Due to its central location, Tulare County has also been widely used as a distribution point by many major corporations. More than 200 major common carriers are located here, providing standard overnight delivery service to the San Francisco Bay Area, Southern California, and Sacramento regions, and to the States of Arizona, Nevada, and Utah.
ADMINISTRATION

This portion 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. We examined appraiser certification, computer systems, the State-County Property Tax Administration Loan Program, exemptions, low-value property exemptions, assessment forms, and disaster relief. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares and presents assessment appeals.

Staffing

The assessor’s staff remained at 59 from the 1998-1999 roll year through the 2000-2001 roll year. This count represents an increase of about 10 percent over that in the 1994-1995 roll year. For 2000-2001, in addition to the assessor and the assistant assessor, the assessor’s staff included 26 real property appraisers, 8 auditor-appraisers, 17 clerical, 5 cadastral mapping personnel, and 1 systems analyst.

Budget and Workload

The assessor’s budget increased by approximately 3.5 percent since the 1994-1995 roll year, up to $2,912,703 for 2000-2001. On this budget, the assessor prepared a local assessment roll of approximately $15.5 billion.

Annual assessments have steadily increased over the five-year period from the 1996-1997 to the 2000-2001 roll year. The total increase is 18.03 percent, and the annual average is 4.51 percent. The following table lists annual assessments per year.

<table>
<thead>
<tr>
<th>Roll Year</th>
<th>Secured Local Roll ($)</th>
<th>Unsecured Local Roll($)</th>
<th>Total Local Roll ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>13,971,580,538</td>
<td>778,548,255</td>
<td>14,750,128,793</td>
</tr>
<tr>
<td>1997-1998</td>
<td>13,023,695,020</td>
<td>709,653,799</td>
<td>13,733,348,819</td>
</tr>
<tr>
<td>1996-1997</td>
<td>12,512,761,331</td>
<td>653,531,779</td>
<td>13,166,293,110</td>
</tr>
</tbody>
</table>

Pertinent information on the 1999-2000 assessment roll, which is the most recent roll for which the property type breakdown was available, is illustrated by the table on the next page. Rural properties represent about 14 percent of the assessments in this agricultural county.
1999-2000 Tulare County Local Assessment Roll

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Number of Assessments</th>
<th>Enrolled Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential*</td>
<td>97,738</td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>5,352</td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>982</td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>20,953</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>3,931</td>
<td></td>
</tr>
<tr>
<td>Total Secured Roll</td>
<td>128,956</td>
<td>$13,971,580,538</td>
</tr>
<tr>
<td>Total Unsecured Roll</td>
<td>19,204</td>
<td>778,548,255</td>
</tr>
<tr>
<td>Total Roll</td>
<td>148,160</td>
<td>$14,750,128,793</td>
</tr>
</tbody>
</table>

* includes manufactured homes

**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours of annual training if an appraiser holds an advanced certificate.

There are 37 certified appraisers and auditor-appraisers in the assessor's office including the assessor. Based on information obtained from the BOE's Training and Certification Section, the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the academic requirements referenced in section 670(d). The assessor does not use contract appraisers.

The following table summarizes the certified appraisers in the assessor's office.

<table>
<thead>
<tr>
<th>Appraiser</th>
<th>Advanced</th>
<th>Permanent</th>
<th>Temporary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Property</td>
<td>17</td>
<td>8</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>Business Property</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Other*</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>11</td>
<td>2</td>
<td>37</td>
</tr>
</tbody>
</table>

*Includes the Assessor, Assistant Assessor, and Systems & Procedures Analyst

**Computer Systems**

The assessor's database, known as PIMS (Property Information Management System), is a derivation of the Megabyte system originally developed in Kings County. This assessment program integrates the needs of the county assessor, auditor, and tax collector into a comprehensive program that streamlines the assessment and billing process for property taxes. Each of the assessor's staff has a personal computer that is connected to a local area network and to PIMS.
Since the computers for the various county departments are connected, the county oversees their maintenance and security. For this purpose, Tulare County has hired a private company, Systems & Computer Technology Corporation (SCT), and has provided that company with offices in the basement of the county complex. Users access the local area network and PIMS via an online security system. Full backup of PIMS is conducted daily and the information is stored in a vault in Fresno. Computer hardware is located in a secure room in the basement of the county complex.

SCT has written a disaster recovery plan for the county, which covers all county computer systems including the assessor's, auditor's, and tax collector's systems.

**State-County Property Tax Administration Loan Program**

Section 95.31 provides for county participation in the State-County Property Tax Administration Loan Program (PTALP) which provides state-funded loans to eligible counties for the improvement of property tax administration.

If an eligible county elects to participate, that county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTALP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. As a provision of the contract, a county must agree to maintain a base funding and staffing level in the assessor's office, equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTALP funds to supplant existing funding.

Tulare County received the first installment of loan funds in May 1996, and it has participated in the loan program since then. The assessor has effectively used PTALP funds to meet the established repayment terms, to consolidate four field offices into one, to contract with expert witnesses in the defense of appeals, and to purchase furniture, vehicles, new information technology hardware, software, and related staff training. PTALP funds have also been used to improve the assessor's office interface with other county departments. All expenditures are designed to increase the long-term productivity of the assessor's office and other county offices that are part of the property tax system.

The county's most recent agreement is dated May 23, 2000 and covers loans for the 1999-2000 and 2000-2001 fiscal years. Performance goals include: (1) the defense of appeals, (2) collection and analysis of income and expense information for properties restricted by the California Land Conservation Act, (3) updating of the computer system's agricultural preserve value calculation module, (4) reduction of the non-mandatory audit backlog, (5) review of late-filed annual property declarations, and (6) review of agricultural property inventories.

The annual loan amount is $501,907, and the required base funding and staffing levels are $2,334,730 and 53 positions, respectively. For every year under contract, the Tulare County Auditor-Controller has certified to the State Department of Finance that the assessor met the contractual requirements for loan repayment. Additionally, the required base funding and staffing levels have been maintained.
Exemptions

The California Constitution and various provisions of the Revenue and Taxation Code provide certain types of exemptions from property taxes. The major exemption programs include welfare, homeowners', church, religious, and disabled veterans'.

Assessors administer the homeowners', church, religious, and disabled veterans' exemption programs locally.

The welfare exemption program is administrated jointly by the BOE and county assessors. The BOE also provides administrative assistance to assessors for the homeowners' exemption program. For the 2000-2001 roll year, the assessor enrolled 593 religious exemptions, 13 church exemptions, 409 welfare exemptions, and 52,564 taxpayers were granted homeowners' exemptions and 157 were granted disabled veterans' exemptions. We found no problems with the exemption program.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value and personal property with a full value so low that if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessment and collection. Section 155.2(b)(1) limits the county board of supervisors' authority to exempt property to only that property with a total base year value or full value of no more than $5,000, or no more than $50,000 in the case of certain possessory interests in publicly owned fairgrounds, fairground facilities, convention facilities, or cultural facilities. Any such exemption must be adopted by the board of supervisors before the lien date for the fiscal year to which it is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

On January 3, 1984 the Tulare County Board of Supervisors adopted Resolution No. 84-17 which implemented the provisions of section 155.20 commencing with the fiscal year 1984-1985. In its current form, this resolution allows for real and personal property with a full value of $1,000 or less to be exempt from taxation. The resolution provides that this exemption does not apply to property which is enforceably restricted, to timberland preserves, to property used exclusively for non-profit golf course purposes, and to property owned by local government which is located outside the agency’s boundaries.

For the 2000-2001 roll year, the assessor identified just under 3,900 properties (2,393 secured and 1,506 unsecured) that qualify for the low-value property exemption. Each property is exempted only until such time as its full value exceeds the exemption limit. We found no problems with the low-value exemption program.

Assessment Forms

Section 15606(d) of the Government Code authorizes the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation, including forms to be used to apply for reduction in assessment. The BOE annually publishes Assessors' Handbook Section 222, Standard Form List, that
provides a listing of BOE-prescribed forms, as well as forms recommended by the BOE's Policy, Planning, and Standards Division. Generally, the assessor has the option to change the size, color, etc. of the forms but cannot add to, change, or delete the specific language on a BOE prescribed form. The assessor may also rearrange a form, provided the assessor submits that rearranged form for BOE approval.

Form Checklists

Annually, the BOE mails three checklists of BOE-prescribed forms to all assessors. The three checklists include exemption claim forms, property statements, and miscellaneous forms. The assessors must mark the checklists to indicate which forms they will use, will not use, or will rearrange and send for approval, and return the checklists to the BOE by the designated date. Final prints of all forms used by assessors are to be submitted to the BOE by a subsequent statutory deadline.

We found that the checklists for BOE-prescribed forms were often submitted late by the assessor, or not submitted at all.

**RECOMMENDATION 1:** Submit BOE-prescribed form checklists timely.

We found that for the 2000-2001 roll year, the Checklist of Board-Prescribed Property Statement and In Lieu Tax Forms was submitted timely, the Checklist of Miscellaneous Board-Prescribed Property Tax Forms was submitted late, and the Checklist of Board-Prescribed Exemption Claim Forms was not submitted at all. For the 2001-2002 roll year, all three checklists were submitted, but two were late.

Pursuant to section 15606(d) of the Government Code, the BOE is authorized to enforce the use of all forms for the assessment of property for taxation. The BOE uses the form checklists to confirm what forms the assessor uses. Compliance with the form checklist deadlines permits the BOE to approve the assessor's forms in time for the next assessment year. Late submissions hinder that process.

We recommend the assessor submit the form checklists in a timely manner.

Rearranged Forms

**RECOMMENDATION 2:** Use only approved rearranged BOE-prescribed forms.

We found the assessor uses four rearranged BOE-prescribed forms that were not submitted for BOE approval. Section 452 provides that the BOE shall prescribe the content of property statements to be used by all assessors and shall notify the assessors of the specifications for the forms. Each assessor is required to submit the exact form he or she proposes to use to the BOE for approval prior to use. Rule 171 specifies the process for getting property statement or mineral production report forms approved. If the assessor uses forms that are not approved, any penalty for failing to file the statement may not be legally enforced.

We recommend the assessor use only those rearranged forms that have been approved by the BOE's Policy, Planning, and Standards Division.
Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed by a misfortune or calamity, through no fault of the owner. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to both. The Tulare County Board of Supervisors adopted two separate ordinances to address these situations. Ordinance 2097 covers those disasters declared as such by the Governor. Ordinance 2027 applies to any misfortune or calamity.

We found the assessor's disaster relief program complies with section 170 and the existing county disaster relief ordinances.

RECOMMENDATION 3: Request that the board of supervisors update the disaster relief ordinance to conform to current law.

The disaster relief ordinances refer to March 1 as the lien date. The lien date was changed to January 1 effective January 1, 1997. These ordinances also refer to section 155.13, which has been repealed and replaced by section 170.

We recommend that the assessor request that the board of supervisors update the disaster relief ordinances to conform to current law.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change the assessment roll unless authorized by statute or by the board of supervisors.

Assessment roll changes fall under two general categories: escape assessments and corrections.

An escape assessment is an assessment of property (1) that was not assessed on the July 1 roll, for any reason, or (2) that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any escape property upon discovery, and the taxpayer must be notified of the proposed escape at least 10 days prior to enrollment.

A correction is any type of authorized change to an existing assessment except for under-assessments caused by an error or omission of the assessee. Although corrections are normally initiated by the assessor's office, the concurrence of other county officers may be required depending on the nature of the correction.

All roll changes are based on specific statutes, and the assessment roll must contain appropriate statutory references.

The following table lists the number of roll changes over the preceding four years:
We found no issues of non-compliance with the actual changes to the roll, but we discovered the omission of required information on the taxpayer's notification.

**RECOMMENDATION 4:** Revise the *Notice of Proposed Escape Assessment* to include all the information required by section 531.8.

The *Notice of Proposed Escape Assessment* used by the real property appraisal section does not provide the taxpayer with the name and telephone number of an individual from the assessor's office who can address the taxpayer's questions or concerns regarding the proposed escape assessment.

Section 531.8 provides that the notice shall contain the name and telephone number of a person at the assessor's office who may be contacted with any questions about the proposed assessment. The omission of a contact name and telephone number makes it more difficult for the property owner to resolve any concerns upon receipt of the notice.

We recommend the assessor revise his *Notice of Proposed Escape Assessment* to include all of the information required by section 531.8.

**Assessment Appeals**

The assessment appeals function is prescribed by article XIII section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory references that guide county assessment appeal boards in the appeals function. Subdivision (c) of Government Code section 15606 directs the BOE to prescribe rules and regulations to govern local boards of equalization. The BOE has adopted rules 301 through 326 to regulate assessment appeals.

In February 1989, the Tulare County Board of Supervisors passed Ordinance No. 2870 that established an assessment appeals board. The appeals board consists of five members; the members sit on a rotating basis as a three-member panel. The term of each member is three years. Assessment appeals board hearings are held on the third Monday of each month.

Applications are received by the clerk of the assessment appeals board, reviewed and validated, and a copy is forwarded to the assessor. The assessor prepares draft responses, contacting the taxpayers that filed the appeals by telephone. If the taxpayers decide to withdraw their appeals or agree to stipulated values, letters are sent for their signatures. Upon receipt of a signed letter, the appeal is officially withdrawn or, in the case of a stipulation, the letter is forwarded to the assessment appeals board for approval. If no agreement can be reached, the appeal process continues and a hearing is scheduled.

The assessor maintains a comprehensive and effective spreadsheet to track the progress of assessment appeals. No appeal in the last five years has gone unresolved for more than two years, unless the
taxpayer agreed to an extension. On average, 410 appeals have been filed annually from 1996-1997 through 2000-2001.

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</thead>
<tbody>
<tr>
<td>Withdrawn</td>
<td>280</td>
<td>366</td>
<td>264</td>
<td>185</td>
<td>NA</td>
</tr>
<tr>
<td>Board Determined</td>
<td>36</td>
<td>47</td>
<td>56</td>
<td>10</td>
<td>NA</td>
</tr>
<tr>
<td>Denied</td>
<td>129</td>
<td>74</td>
<td>54</td>
<td>54</td>
<td>NA</td>
</tr>
<tr>
<td>Stipulation</td>
<td>93</td>
<td>26</td>
<td>19</td>
<td>16</td>
<td>NA</td>
</tr>
<tr>
<td>TOTAL</td>
<td>538</td>
<td>513</td>
<td>393</td>
<td>265</td>
<td>339</td>
</tr>
</tbody>
</table>

As is evidenced by the high percentage of withdrawn applications for reassessment, the assessor is diligent in his efforts to reconcile differences in opinions of value.

Over the most recent two-year period, about 35 percent of the appeals were filed for commercial properties, 20 percent were single-family residential properties, 18 percent were agricultural properties, about 5 percent were industrial properties, and the remaining 22 percent were a mixture of other property types.

Overall, the assessor's portion of the assessment appeal program is well administered. The staff handling appeals is experienced, well prepared, and works well with the assessment appeals board. We found no problems with the assessor's assessment appeals program.
ASSessment OF real property

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual revaluation of certain properties that are subject to special assessment procedures, such as land subject to California Land Conservation Act contracts and taxable government-owned land.
- Annual review of properties with assessments authorized by section 2(b) of article XIII A of the California Constitution. These are properties with market values less than their factored base year value.

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation, unless there is a change in ownership or new construction.

Change in Ownership

Section 50 requires the assessor to establish a new base year value for real property upon a 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 interest. Sections 61 through 69.5 further clarify what is considered a change in ownership for property tax purposes.

We reviewed the assessor’s change in ownership programs for partial interest transfers, direct enrollment, and improvement bonds. We found no problems in these programs.

Document Processing

The assessor’s primary means of discovering properties that have changed ownership is documents recorded at the county recorder’s office. Since the assessor is also the recorder, recent technological improvements to the recorder’s computer system now allow the assessor’s staff access to recorded documents. Another improvement since our last survey is that the county now requires the assessor’s parcel number on the first page of all transfer documents.

Preliminary Change of Ownership Reports (PCOR) are included in the documents received daily from the recorder. To the advantage of the assessor, an estimated 90 to 95 percent of transfer documents are accompanied by a PCOR. When no PCOR is submitted, the assessor mails a Change of Ownership Statement (COS). The rate of return for this form is about 70 to 80 percent, and the statutory penalties are appropriately applied for non-response.
All recorded documents must be reviewed to determine whether they have an impact on property tax assessments, including changes in ownership that require reappraisal.

The following table shows the change in ownership workload over the preceding three years:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of documents</td>
<td>97,801</td>
<td>96,875</td>
<td>53,345</td>
</tr>
<tr>
<td>received</td>
<td>16,540</td>
<td>17,106</td>
<td>11,050</td>
</tr>
<tr>
<td>Number of parcels</td>
<td>9,554</td>
<td>10,519</td>
<td>6,664</td>
</tr>
<tr>
<td>reappraised</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*This information is only for the first eight months of the year.

Legal Entity Ownership Transfers (LEOP)

Subdivision (c) of section 64 provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity, as of the date of change in control. Discovery of real property affected by a change in control can be difficult because ordinarily there are no recorded notices of changes in control of legal entities. While such notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records.

The BOE's Policy, Planning, and Standards Division (PPSD) learns of unrecorded changes in control through responses to questions appearing on corporate and partnership tax returns filed with the California Franchise Tax Board. PPSD confirms the change in control and forwards the pertinent information to county assessors in LEOP reports.

We reviewed a number of appraisal records of properties listed in recent LEOP reports. The assessor had reappraised all parcels shortly after notification by the LEOP unit. Appraisal records were properly documented for the reported changes in control.

Parent/Child and Base-Year Value Transfer Exclusions

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer, on or after November 6, 1986, of the principal residence and the first $1 million of other real property between parents and children, upon submission of a timely claim. Subsequently the voters modified the exclusion's definition to include qualifying purchases or transfers between grandparents and their grandchild or grandchildren.

Section 69.5 allows qualified homeowners 55 years of age or older, or qualified homeowners who are severely and permanently disabled, to transfer the base-year value of their principal residence to a replacement dwelling purchased or newly constructed within the same county, provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling.
Subsequently, section 69.5 was amended to allow counties to adopt ordinances to expand its benefits to include intercounty transfers. Tulare County has not adopted implementing ordinances. The following table exhibits the assessor's workload for parent/child and base-year transfer exclusion claims.

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Section 63.1 Claims</td>
<td>494</td>
<td>528</td>
</tr>
<tr>
<td>Section 69.5 Claims</td>
<td>50</td>
<td>16</td>
</tr>
</tbody>
</table>

We reviewed applications and other related documents for these two programs and found the claims are carefully reviewed. The claims that did not qualify were properly denied, and those that did qualify were processed in a timely and consistent manner.

**Inflation factor**

**RECOMMENDATION 5:** Retroactively adjust the new base year values by the inflation factor for reappraisable events occurring between the lien date and June 30.

We found a number of late 1980's and early 1990's changes in ownership occurring between the lien date and June 30 that were not adjusted by the inflation factor for the subsequent lien date.

Section 75.18 provides that when there is a change in ownership and/or completion of new construction between the lien date and June 30, the new base year value enrolled for those events on the subsequent lien date shall be adjusted by the section 51(a) inflation factor. For example, a reappraisable event that occurred in June 1988 should have been adjusted by the inflation factor on March 1, 1989, which was the following lien date. When the new base year value is not adjusted by the inflation factor on the subsequent lien date, the property is perpetually underassessed by the inflation factor until another reappraisable event occurs and a new base year value is established.

The assessor has corrected this procedure and is currently adjusting these events correctly. However, he has not corrected unadjusted base year values enrolled prior to the implementation of this new policy.

We recommend the assessor correct all the assessment errors that resulted from this prior incorrect practice.

**New Construction**

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from building permits. Other discovery methods include business property statements, aerial photographs, news reports, and field canvassing.
Building Permits

The assessor receives permits from the County of Tulare as well as the cities of Dinuba, Visalia, Tulare, Porterville, Lindsay, Farmersville, Exeter, and Woodlake. However, the Tulare County Environmental Health Department also issues building permits for water wells used for both agricultural and domestic purposes. With agriculture being a significant presence in the county, permits for water wells warrant tracking by the assessor. Water wells are assessable new construction and are properly classified as land.

RECOMMENDATION 6: Obtain permits for new construction from all issuing agencies.

Currently, the Tulare County Environmental Health Department does not forward well permits to the assessor, but it would do so upon request. A permit for a well can be issued independently of a structure permit, for example, when an owner plans to drill the well and build at a later date, or when an owner of a vacant parcel drills a well as an added enticement for selling the parcel. Additionally, agricultural wells are often drilled as insurance against reductions in water allocations from irrigation districts or due to drought.

To ensure that all qualifying new construction is assessed, the assessor must receive notification of every approved permit for new construction. Section 72(a) provides that any city, county, or city and county shall transmit a copy of any building permit to the county assessor as soon as possible after the date of issuance. Although well permits may be considered less important than permits for the construction of structures, they serve notice that some kind of construction activity is taking place. These permits may signal that other related construction activity is occurring or may begin soon.

We recommend the assessor obtain copies of all building permits from all issuing agencies in Tulare County.

New Construction Valuation

Section 71 provides that the assessor shall determine the new base year value for the portion of any taxable real property that has been newly constructed. Section 71 and rule 463(d) also provide that the new construction shall be reappraised at its full value. Section 110.1 and rule 2 define "full cash value" as the fair market value on the date the new construction is completed.

RECOMMENDATION 7: Document new construction assessments.

We found several properties with substantial new construction assessed between 50-80 percent of the appraiser's estimated value via the cost approach or the owner's reported cost. These adjustments lack documentation and justification. We found no explanation for the value conclusion. We also noted assessable new construction reported by property owners that was given no value, without explanation.

We recognize that the historical cost may not always represent market value for the new construction. However, rule 6(a) directs that the cost approach be used when there is a lack of reliable sales or income data. If historical cost or the cost approach form the basis of a valuation but the appraiser
enrolls a lesser value, it should be demonstrated that cost did not represent market value. By comparing historical costs to published cost manuals or using comparable sales information, the appraiser can support the assessed value.

Documentation supporting the value conclusion is a necessary element of any appraisal. We recommend the assessor ensure the appraisal records contain sufficient information to support the assessed values.

**Supplemental Assessments**

Sections 75 through 75.80 provide direction for processing supplemental assessments. When a new base year value is established due to a change in ownership or the completion of new construction, a supplemental assessment is required. The supplemental assessment is enrolled on the supplemental roll for the balance of the fiscal year in which the qualifying event occurs. If the event occurs on or after January 1 but on or before May 31, a supplemental assessment is also levied for the upcoming year.

**RECOMMENDATION 8:** Train staff to correctly calculate supplemental assessments.

Due to the constraints of the assessor's computer system, it is necessary for appraisers to manually calculate the amount of the supplemental assessment. We found numerous errors in the supplemental assessment calculations.

Section 75.11 provides that the supplemental assessment is the difference between the new base year value and the taxable value on the current roll. In the case where a reappraisable event occurs on or after January 1 but on or before May 31, a second supplemental assessment is made. This second supplemental assessment is the difference between the new base year value and the taxable value to be enrolled on the roll being prepared.

We found a number of problems in the calculation of the supplemental assessment for events between January 1 and May 31 for the unrestricted portions of restricted property. In some cases, the taxable value of the unrestricted portion on the roll being prepared was used rather than the taxable value on the current roll for the first supplemental assessment. In other cases, the assessor simply adjusted the second supplemental assessment by the inflation factor to determine the first supplemental assessment. These methods do not conform to the requirements of section 75.11.

We recommend the assessor train staff to correctly calculate supplemental assessment.

**Decline in Value**

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value, as defined in section 110. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If on a subsequent lien date a property's market value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.
For the 2000-2001 roll year, the assessor monitored approximately 1,500 parcels with decline-in-value assessments. This represents an increase of about 76 percent from the 850 properties under such a review for the 1997-1998 roll year.

The assessor relies on taxpayer inquiries and complaints as well as trend studies to discover properties that have experienced a decline in value. He has also issued press releases to inform taxpayers of the right to have their property values reviewed. Once a decline-in-value assessment is enrolled, the property is annually reviewed and the value is adjusted, if needed.

**RECOMMENDATION 9:** Revise the notice informing assessees of an increase in a property's full cash value to include the information required by section 619(c).

We found that the section 619 notice does not include all of the information required by statute. When the assessor discovers that the full cash value exceeds the factored base year value, he must enroll the factored base year value as the taxable value. In those situations, he sends notices to the assessees informing them of the increases.

Section 619(c) requires the notice to include the base year value of the property, compounded annually from the base year to the current year by the appropriate inflation factors. This information is not on the assessor's 619 notice. By omitting this information from the notice, the assessor fails to conform to statute and the taxpayer is not aware of all the information concerning the property's assessment.

We recommend the assessor include the factored base year value on the 619 notice.

**Taxable Possessory Interests**

A taxable possessory interest is a private interest in publicly owned real property. For property tax purposes, the term possessory interest includes either the possession, or the right to possession, of real property when a tax-exempt government agency holds the fee title of that property.

In Tulare County, the assessor enrolled approximately 1,000 taxable possessory interests for the 2000-2001 roll year. These assessments, assigned to a special three-member crew, totaled more than $78,000,000, about 0.5 percent of the total roll.

The assessor classifies possessory interest assessments into one of three categories:

- **The "860 Term" category** consists of those possessory interests with estimated terms of possession that are different than the actual agreement or contract terms (i.e., month to month and annual agreements). The assessor does not apply the inflation factor to these assessments each year and does not review the assessments until the estimated terms of possession expire or the possessory interests change ownership.

- **The "860 Yearly Review" category** consists of possessory interests that are reviewed annually using current capitalization rates and the remaining terms of the leases.
The "925" category is for possessory interest assessments where the taxpayers own the improvements but not the land. The assessor applies the inflation factor each year and does not review the assessments until there is new construction or changes in ownership.

RECOMMENDATION 10: Apply the annual inflation factor to all possessory interest values in conformance with section 51(a)(1).

We found that the assessor does not apply the annual inflation factor to possessory interests in the "860 Term" or the "860 Yearly Review" categories. Section 51 provides that for each lien date after the lien date in which the base year value is determined, the taxable value of real property shall be the lesser of its base year value compounded annually by an inflation factor or its full cash value. Without developing the factored base year value, there is no way the assessor can ensure that he is enrolling the lesser of the factored base year value or the full cash value. There is no legal authority for the assessor to refrain from applying the annual inflation factor.

We recommend the assessor apply the annual inflation factor in conformance with section 51(a)(1).

RECOMMENDATION 11: Revalue taxable possessory interests at the end of the anticipated terms of possession used by the assessor to value those interests.

We found that the assessor failed to reappraise those possessory interests in the "925" category at the end of the reasonably anticipated terms of possession as required by section 61(b)(2). Under section 61(b)(2), a renewal or extension during the reasonably anticipated term of possession used by the assessor does not cause a change in ownership until the end of that term. At that time, a new base year value, based on a new reasonably anticipated term of possession, shall be established. The assessor's practice is inconsistent with this statute.

We recommend the assessor revalue taxable possessory interests as required by section 61(b)(2).

**Taxable Government-Owned Property**

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

There are 138 Section 11 properties on the 2000-2001 assessment roll. They total almost $10 million and represent about 0.06 percent of the total roll value.

In our 1995 assessment practices survey report we found a number of government-owned parcels that were located outside of agencies' boundaries. We made the recommendation that the assessor research,
appraise, and enroll those properties owned by government agencies and located outside their boundaries.

**RECOMMENDATION 12:** Review all properties owned by government agencies that are located outside those agencies' boundaries to determine whether they are taxable.

In our current survey, we found a number of parcels owned by government agencies that were located outside those agencies' boundaries. These properties may be escaping assessment, as Section 11 properties. If the assessor confirms that these government-owned properties are located outside those agencies' boundaries and the properties were taxable when acquired, they must be assessed in conformance with section 11(a).

We recommend that the assessor review all government owned properties located outside those agencies' boundaries to determine whether they are taxable.

**California Land Conservation Act Property**

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their lands. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts.

According to the California Department of Conservation, as of December 31, 1998, about 15.9 million acres of land were enrolled under CLCA contracts statewide. This means that over half of California's total farmland and ranchland, and nearly one-third of all privately held land in the state, has been designated to protect agricultural and open-space lands from urban development.

Approximately 5.7 million acres, or one-third of the total contracted acreage, is prime agricultural land. This represents about half of the state's prime farmland. Most acreage withdrawn from the program occurs following non-renewal expirations. In 1998, 337,597 acres were in the non-renewal process, representing about 2.1 percent of the total land under contract.

Tulare County ranks third in the state, behind Kern and Fresno Counties, in the number of acres enrolled in the program. About 7 percent of the state's total contracted acreage is within Tulare County.

For the 2000-2001 roll, approximately 1,113,000 acres, representing more than one third of the land in Tulare County, was under CLCA contract. This acreage encompassed almost 13,000 parcels and included approximately 3,500 acres in non-renewal status. The total assessed value of open-space properties for 2000-2001 was $2,463,706,744 (about 16 percent of the total roll).
For the 1999-2000 roll there were approximately 1,120,000 acres under contract. The slight decline in acreage for the 2000-2001 roll was due to non-renewal expirations. In Tulare County, the acreage in non-renewal status versus the total acreage under contract is well below the state's ratio of 2.1 percent.

The CLCA assessment programs are now computerized. The values are reviewed annually and there is a comparison of restricted value, factored base year value, and current market value. However, we found some instances where the assessor is not in compliance with applicable statutes.

Nonliving Improvements

**RECOMMENDATION 13:** Assess vineyard trellising on lands under CLCA contract as unrestricted improvements.

The assessor values trellises as unrestricted improvements during the period when the vines are exempt, then deletes them from the assessment roll when the vines become taxable. Thereafter, he considers them as a part of the vines' assessment, and no charge for return on or of the trellis investment is removed from the income stream. This results in the value attributable to the trellises being included in the restricted portion of the property value.

Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides that the appraiser should deduct a charge for a return on and of the value of improvements from the income stream prior to capitalizing the income into the value of the restricted property. This step is necessary because the income to be capitalized in open-space valuation is only the net income attributable to the land and restricted living improvements. 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, deleting the trellises from the assessment roll when the vines become taxable results in the omission of supplemental assessments when there is a change in ownership.

We recommend the assessor assess improvements such as trellising as unrestricted improvements.

Supplemental Assessment

**RECOMMENDATION 14:** Issue supplemental assessments at the completion of the construction of nonliving improvements on open-space properties as required by section 75.14.

We found the assessor does not issue supplemental assessments when the construction of trellising is completed.

Section 75.14 provides that property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessments. Nonliving improvements on restricted land, such as trellising, are subject to the assessment limitations of article XIII A. Therefore, at the completion of the construction of the trellising the new construction is subject to supplemental assessment.
We recommend that the assessor issue supplemental assessments at the completion of new construction of nonliving improvements.

**RECOMMENDATION 15:** Issue supplemental assessments on the completion of new construction on open-space properties only as required by section 75.14.

We found that the assessor inappropriately issues supplemental assessments for mounding at dairies when the construction is completed.

Section 75.14 provides that property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessments. Land subject to the restrictions of a CLCA contract is not subject to the assessment limitations of article XIII A. In addition, land improvements, such as mounding, are classified as land – not as unrestricted improvements – and, as such, are also not subject to supplemental assessment. The assessor has no authority to issue supplemental assessments for land improvements.

We recommend that the assessor issue supplemental assessment on open-space properties only as required by section 75.14.

**RECOMMENDATION 16:** Assess restricted land improvements on open-space properties in accordance with section 423.

When estimating the total restricted land value, the assessor incorrectly adds the factored base year value of the mounding to the restricted land value. We recommended that he correct this problem in our prior survey. Section 423 requires that enforceably restricted open-space land be valued by the capitalization of income. Since mounding is included in the restricted land classification, economic rent attributable to the mounding should be estimated and included in the income capitalized to arrive at a restricted land value conclusion.

Further research disclosed that other land improvements are mistakenly omitted from the restricted land value as well. We found examples where the value of wells, ripping, and leveling has also been excluded.

We recommend the assessor use the correct valuation procedure in assessing restricted lands, including land improvements.

**Risk Component**

**RECOMMENDATION 17:** Develop appropriate risk components for CLCA properties.

The assessor uses a risk component of 1 percent in the valuation of all properties under CLCA contract, regardless of location, property characteristics, or crop. We found no support for the rate selection. Typically, farmers recognize a varying degree or level of risk among different types of agricultural properties.
AH 521 recommends a basic risk component of 1 percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. Additionally, AH 521 notes that the risk component will vary according to the risks associated with the development of the income to be capitalized. Factors such as price stability, production costs, availability of water, and damage due to wind and flood might increase or decrease the risk for a particular property. In addition, because the location and characteristics of land varies throughout the county, it is reasonable to expect variations in the risk rate used by the assessor.

We recommend that the assessor follow the guidelines in AH 521 and develop appropriate risk rates for CLCA lands.

Wind Machines

**RECOMMENDATION 18:** Classify wind machines as personal property or fixtures.

We found that the assessor classifies wind machines as structures. Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* and Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, provide that a fixture is an item (other than personal property) whose use or purpose directly applies to or augments the process or function of a trade, industry, or profession, whereas the use and purpose of a structure is for housing or accommodating personnel, personal property, or fixtures. Rule 461 provides that fixtures constitute a separate appraisal unit for the purposes of decline in value determinations. By definition, wind machines are fixtures because they augment the production of crops.

By classifying wind machines as structures, the total property value must be considered for declines in value. This nearly always results in the overassessment of wind machines because wind machines decline in value while the total property is likely to be stable or increase in value.

We recommend the assessor properly classify wind machines as either personal property or fixtures.

Wells

**RECOMMENDATION 19:** Allow for a return of investment in irrigation wells.

We found that the assessor does not allow for a recapture of the investment in irrigation wells in the income approach. Section 423 provides that improvement expenses are to be included when deriving a net income for capitalization into a restricted land value. Since the value of the well should be included in the restricted land value, it is appropriate to deduct expenses that allow for a return of the investment in the well.

The assessor's incorrect policy could result in the overassessment of restricted lands.

We recommend the assessor comply with section 423 by allowing for a return of investment in irrigation wells.
Compatible Use

RECOMMENDATION 20: Solicit compatible use income information on all CLCA parcels.

In reviewing the questionnaires used by Tulare County to obtain price, production, and rental information from CLCA landowners, we found the vine and citrus questionnaires do not solicit information regarding compatible use income. However, this information is requested on the grazing/dry farming, tree, and vacant land questionnaires. Section 423(a)(1) provides that the estimated revenue shall include uses permitted within the leases.

Failing to request compatible use income could result in escape assessments or underassessments. We recommend the assessor solicit this information from all CLCA landowners.

Water Company Property

Water company property assessed on the local tax roll may be property of municipal district water systems, private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water companies. Each type presents different assessment problems.

In Tulare County, the total assessed 2000-2001 roll value for water companies was $24,469,415. To monitor the assessment of the enrolled water companies, the assessor mails annual property statements to the companies. For the 2000-2001 roll, the assessor mailed 48 property statements.

Discovery

RECOMMENDATION 21: Review lists of water systems from regulating agencies to discover assessable water company properties.

We reviewed CPUC and Tulare County Environmental Health Department lists of water systems operating in Tulare County and found a number of water companies not listed on the assessment roll. The current CPUC listing shows 21 regulated water companies reporting business in Tulare County. We were unable to locate nine of those companies on the assessment roll. Upon review of 16 of the companies on the county health department's list, we found six water systems not listed on the assessment roll.

We recommend the assessor investigate the status of the water companies listed in both the CPUC and county health department's reports to ensure that all water companies are being appropriately assessed.

Regulated Water Companies

RECOMMENDATION 22: Obtain annual CPUC reports from all regulated water companies.

We found the assessor receives a CPUC report from only one of the 21 water companies reporting to the CPUC. These reports contain the data necessary for developing an income approach and a
historical cost less depreciation (HCLD) indicator of value. In our prior survey, we recommended the assessor require regulated water companies to submit a copy of their annual CPUC reports.

The HCLD approach is a generally accepted method for valuing rate-base regulated utilities. This approach utilizes accounting information as prescribed by the agency regulating that utility to compute a value indicator. When regulation effectively limits the income of a company to that derived from the rates it charges for water, HCLD tends to approximate market value. The assessor must consider the HCLD approach as an indicator of value pursuant to rule 3(d) "if the income from the property is regulated by law and the regulatory agency uses historical cost or historical costs less depreciation as a rate base."

We recommend the assessor obtain CPUC reports from all regulated water companies.

Mutual Water Companies

RECOMMENDATION 23:  Obtain the articles of incorporation and other relevant property tax documents from each mutual water company.

Except for one mutual water company's appraisal file, we found no documents in the appraisal file of mutual water companies detailing the incorporation and assets of the companies. In order to assess the real and personal property of mutual water companies correctly, the assessor must review the articles of incorporation and asset lists. Without this data, the assessor cannot ensure that all the assets of the mutual water companies are correctly assessed or appropriately reflected in the value of the properties served.

We recommend that the assessor obtain the relevant property tax documents from each mutual water company.

Timber Production Zone Property

Land zoned as a Timberland Production Zone is subject to specific assessment procedures that exclude the value of the standing timber. As of January 1, 2000, there were 1,935 acres zoned TPZ in Tulare County, with a total assessed value of $413,122. Tulare County produced a timber harvest of 5,445,000 board feet of lumber in 2000 for a harvested value of $1,529,738.

Compatible Use

RECOMMENDATION 24:  Request compatible use information on TPZ parcels from taxpayers.

We found the assessor does not request information on compatible uses of TPZ parcels. Section 435(a) requires, in part, that the taxable value of timberland shall consist of the appropriate site class value pursuant to Section 434.5, plus any value attributable to existing, compatible, nonexclusive uses of the land. The value of compatible uses is to be annually determined and added to the site class values. Such uses typically include grazing, hunting, and recreational uses of timberland. Since compatible use information is not requested, this could result in escaped taxable property.
We recommend that the assessor send questionnaires to taxpayers to request compatible use information on TPZ properties.

Roll Notation

**RECOMMENDATION 25:** Identify TPZ parcels on the assessment roll as required by section 433.

We found that the assessor does not include the notation required by section 433 on the assessment roll. Section 433 provides that when land is zoned as timberland production, a notation of such zoning shall be made on the assessment roll by the words "Timberland Production Zone" or the initials "TPZ." Since a TPZ property is restricted in use, this information should be available to the public upon review of the secured tax roll.

We recommend that the assessor include the notation required by section 433.

**Pipeline Rights-of-Way**

Intercounty pipeline rights-of-way were assessed by the BOE from 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. In *Southern Pacific Pipe Lines, Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42, the court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way over which they run must be assessed locally by county assessors. Consequently, assessors have assumed assessment responsibilities for the intercounty pipeline rights-of-way. Tulare County has only one pipeline right-of-way. We found the assessment of the right-of-way to be consistent with statutory requirements.

**Mining and Petroleum Property**

Tulare County has 39 mining properties and 14 oil and gas producing properties. Prior to 1999, the assessor contracted the assessment of mining and petroleum properties to the Kern County Assessor's Office. Currently these assessments are done in-house. While the assessor is appraising mining properties and oil and gas producing properties in accordance with rules 469 and 468 respectively, we found a documentation issue with mining properties.

**RECOMMENDATION 26:** Adequately document mining property appraisal records.

We found assessed values for mining properties on the computer database but could not find any physical record of the information used in arriving at the assessed values. We found a number of Form BOE-560-A, *Aggregates Production Report*, that did not contain information such as production data, reserve estimates, and cost information necessary for adequate appraisals of mining interests. We also found two mining properties that changed ownership, but there was little documentation in the files concerning the sales.

Article XIII section 1(a) requires that real property be valued at its fair market value. The fair market value of producing mineral rights is determined by valuing the estimated quantities of proved reserves.
that can reasonably be expected to be produced during the time period the rights are exercisable. The valuation of proved reserves is based on such information as reserve estimates, product prices, operating expenses, capitalization rates, etc. Without this information, the base year value determined may not reflect fair market value.

Section 441(d) requires every person to make available to the assessor, for examination, information or records regarding his or her property or any other personal property located on the premises he or she owns or controls. This information includes details of property acquisition transactions, construction and development costs, rental income, and other data relevant to the determination of an estimate of value considered as information essential to the proper discharge of the assessor's duties.

Section 470(a) requires taxpayers to also make available to the assessor true copies of business records relevant to the amount, cost, and value of the property he or she owns or controls. Section 462(a) provides that a person is guilty of a misdemeanor for refusal to make available to the assessor any information that is required by section 441(d).

The assessor should utilize the authority provided by sections 441(d), 470(a), and 462(a) to obtain the information he needs to do his job. Without this information the assessor cannot properly assess mining properties, discover escape assessments or errors in any assessment, or adequately defend an assessment on appeal.

We recommend the assessor ensure that mining property appraisal records contain adequate supporting documentation for the assessment.
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Annually, the assessor’s staff processes approximately 22,900 annual property statements, completes about 550 mandatory audits, and assesses 438 aircraft, 5,954 vessels, and almost 5,000 manufactured homes.

Business Property Statement Program

Section 441 requires each person owning taxable personal property that cost $100,000 or more to file an annual business property statement with the assessor. Annual property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including businesses, agriculture, boats, and aircraft.

We reviewed the assessor's property statement processing and found he follows generally accepted procedures. Additionally, annual statement processing is completed in a timely manner. Property statements are screened for authorized signatures and completeness. Unsigned or incomplete statements are photocopied and the originals returned to the taxpayer for completion and/or authorized signatures. In summary, we found the assessor processes business property statements in an acceptable manner.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that depends on information supplied by taxpayers. Audit programs discourage deliberate underreporting and help educate those property owners who unintentionally misreport.

We found that the assessor obtains signed waivers of the statute of limitations for all mandatory audits that would not be completed within the allowed time and correctly submits audit results to the auditor-controller without offsets from one year to another so that potential refunds can be properly offset against any proposed tax liabilities.

Overall, the assessor follows correct procedures in the manner in which audits are conducted, as well as proper taxpayer notification.

Mandatory Audits

Pursuant to section 469 and rule 192, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at a specified amount or more for four consecutive years. In Tulare County, about 540 accounts met this criterion for the January 1, 2000 lien date.

RECOMMENDATION 27: Bring the mandatory audit program to current status.

The assessor is not completing his mandatory audits timely. The mandatory audit workload equates to approximately 135 audits, on average, per year in a four-year cycle. Of the 264 mandatory audits
scheduled for 1999, 126 were completed, while 33 were statutorily waived, leaving 105 audits incomplete and carried over into the 2000-2001 fiscal year. In addition, of the 264 audits scheduled for 1999, 163 were carried over from prior years. The carryovers are a large burden.

The assessor should formulate a plan to bring mandatory audits to a current status and enact a program to perform all audits timely as required by law. If an audit is not performed timely, it is more difficult to obtain the necessary records for audit purposes.

We recommend the assessor perform all mandatory audits each year timely.

**Machinery and Equipment Valuation**

The BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), to help assessors in the valuation of business property and trade fixtures. The price index factors measure the trended value of goods (normally upward trends) over their service lives. The percent good factors are intended to reflect the average loss in value that commercial or industrial equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of annual value changes for the majority of business machinery and equipment.

The valuation factor is the product of the price index factor and the percent good factor. The proper choice and application of valuation factors to audited historical cost produces an estimate of taxable value.

The equipment valuation factors that the assessor uses are integrated into the computer system. We tested all of the assessor's valuation table factors. The results were accurate with the exceptions represented in the following recommendations.

**Minimum Valuation Factors**

**RECOMMENDATION 28:** Use the AH 581 as intended when valuing older machinery and equipment.

The assessor inappropriately uses minimum valuation factors in the valuation of machinery and equipment. This results in overassessment of older machinery and equipment.

According to the AH 581, the best approach in valuing equipment that has survived beyond the recommended average service life is to compute the recommended life at 125 percent and to then apply the price index factor of that extended life to audited historical cost. Additionally, the AH 581 indicates that the appraiser should apply a percent good factor based on the actual age of the appraisal unit.

Correct valuation procedures are necessary to arrive at a reasonable assessed value for the roll. Percent good factors should be based on the actual age of the appraisal unit and should decrease over time to the AH 581 recommended minimum levels.

We recommend the assessor use the AH 581 as intended.
Computer Valuation

The valuation of computers and computer equipment is somewhat different from the valuation of other machinery and equipment. Computers and related equipment have shorter useful service lives, principally due to rapid changes in technology and user needs. The BOE has recognized these differences and has developed valuation factors that reflect those shorter lives.

The tables promote uniformity in appraisal practices and assessed values as mandated by section 401.5. There are three tables: personal computers (costing $25,000 or less), mid-range computers (with a component cost range of $25,001 to $500,000), and mainframe computers (with component costs of more than $500,000).

We found that the assessor values computers using the BOE-recommended factors.

**Aircraft**

Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, Aircraft Valuation Data. The BOE no longer publishes this handbook section. On January 8, 1997, the BOE approved the Aircraft Bluebook-Price Digest as the primary guide for valuing aircraft, with Vref Aircraft Value Reference as an alternate for planes not listed in the Aircraft Bluebook-Price Digest. As stated in Letter to Assessors No. 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate fair value for the local market.

For the 2000-2001 assessment roll, the business property section assessed 438 aircraft with a total assessed value of $48,619,000. The assessor uses the Aircraft Bluebook-Price Digest valuation guide for appraising general aircraft. The value is calculated by reducing the list price by 10 percent, and making appropriate adjustments. Adjustments are made for engine hours, extra equipment, and general aircraft condition. We found no problems with the aircraft assessment program.

**Vessels**

Assessors in California are required to annually appraise vessels at market value and to assess all vessels with an assessed value above $400, unless the county has a low-value property exemption. Tulare County has a low value property ordinance for property valued at $1,000 or less.

For the 2000-2001 assessment roll, the assessor enrolled 5,954 vessels with a total assessed value of $30,451,000. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves. Valuation techniques used include reported purchase prices and the N.A.D.A. Marine Appraisal Guide.
Valuation

**RECOMMENDATION 29:** Annually assess vessels at market value.

We found that the assessor does not annually reappraise vessels. At the time of this survey, the vessel assessment policy was being revised to provide for annually depreciating the prior year's assessed value by 5 percent after enrolling the initial assessment.

Sections 401 and 401.3 require the assessor to annually assess vessels at market value unless exempt. Neither the assessor's current policy nor the proposed policy complies with that requirement. It is possible that neither policy reflects current market trends.

When using a fixed depreciation rate for all vessels, an assessed value will approximate market value only if, by coincidence, the resale of a vessel follows this specific pattern. While this valuation procedure is efficient, a fixed depreciation rate applied to all vessels each year seldom reflects actual vessel values in the county. Additionally, leaving value level for two or more years, without review for possible value changes, is most likely not consistent with market conditions.

We recommend the assessor annually appraise all vessels at market value.

**BOE Prescribed Forms**

**RECOMMENDATION 30:** Apply a penalty for late-filed vessel reports only when using BOE-prescribed forms.

We found that the assessor applies the section 463 penalty when an assessee fails to timely file the assessor's in-house vessel form. If a form other than a BOE-prescribed property statement is used, the penalty cannot be legally applied.

We recommend the assessor apply penalties only in conjunction with the use of BOE-prescribed forms.

**Animals**

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution or, in the case of personal property, by act of the Legislature. The Revenue and Taxation Code exempts most animals from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219 and rule 133. Racehorses are exempt from property tax but are subject to the in-lieu tax specified in section 5701 et seq.

Show horses are one of the few types of animals subject to property taxation. Show horses (and other horses that are not exempt) are assessed as personal property in the same manner as other items of personal property.

The assessor annually sends the *Registered and Show Horse Statement* (BOE-571-F2) to approximately 100 owners of taxable show horses. Completed statements indicate there are well over
100 show horses in Tulare County. We reviewed the procedures for assessing taxable show horses and found that the program is being administered correctly.

**Apartment Personalty**

Landlord-owned personal property in apartment projects is assessable and reportable on the *Apartment House Property Statement* (BOE-571-R). Such personal property includes, but is not limited to, refrigerators, freestanding electric stoves, gym equipment, pool equipment, laundry equipment, maintenance equipment, and office furniture.

There are over 200 apartment complexes in Tulare County, ranging in size from three units to more than 100 units. The assessor sends form BOE-571-R annually to owners of apartment complexes. A total of 208 were mailed for the 2000-2001 roll year.

We reviewed the procedures for assessing taxable personal property located within apartment complexes and found that the program is being administered adequately.

**Leased Equipment**

One of the responsibilities of the business property section is the discovery and assessment of taxable leased equipment. Taxpayers are required to report all leased equipment, i.e. taxable property in their possession but belonging to others, on the annual business property statement. On the statement, the assessor requests the name and address of the owner, the month and year of property acquisition, the acquisition cost, the location, and other relevant information.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, the lessee may keep the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

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

We investigated the procedures for assessing leased equipment. We found that the leased equipment program is well managed with staff doing an excellent job in the discovery, processing, tracking, assessing, and associated inter-office communications pertaining to leased equipment and related issues.

**Manufactured Homes**

Manufactured homes subject to local property taxation are assessed according to sections 5800 through 5842. These sections of law apply many of the principles of article XIII A of the California Constitution to the assessment of manufactured homes. Briefly, manufactured homes subject to this law: (1) are assessed on the secured roll, but not as real property; (2) receive a tax bill payable in two installments; (3) are subject to supplemental assessments (except in the case of voluntary conversion
from vehicle fees to local property tax; (4) have a base year value; (5) are eligible for declines-in-value and disaster relief; (6) may receive the homeowners' exemption; and (7) qualify as original property for the purposes of base-year value transfers.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, the *Kelley Blue Book Manufactured Housing Used Value Guide* (Blue Book) and the N.A.D.A. *Manufactured Housing Appraisal Guide* (N.A.D.A.).

There are fewer than 5,000 manufactured homes in Tulare County. A little over half (2,766) are located in 99 manufactured home parks.

**Classification**

**RECOMMENDATION 31:** Classify manufactured homes as personal property.

In our prior survey, we noted that the assessor classifies and enrolls manufactured homes as real property. Currently, we found that both manufactured homes in rental parks and those on lands owned by the owners of the homes are still being enrolled as real property.

Section 5801(b)(2) specifically provides that manufactured homes are not to be classified as real property for purposes of property taxation. Improper classification of manufactured homes can affect the amount of taxes levied because of special assessments. Special assessments are levies upon real property in a district for the purpose of paying for improvements. The amount of the levy is based upon the benefits accruing to the property as a result of the improvements. Special assessments are not imposed on items of personal property.

We recommend the assessor classify manufactured homes as personal property.

**Valuation Guides**

**RECOMMENDATION 32:** Use the correct edition of the manufactured home valuation guides when appraising manufactured homes.

We found that whenever appraisals are made, the most recent edition of the N.A.D.A. guide is used instead of the edition that corresponds to the date of valuation.

Section 5802(a) specifically provides that base year value means the full cash value of a manufactured home on the date it is purchased or changes ownership. Value guides reflect the typical depreciation or other value changes exhibited by manufactured homes. By using a later guide, the manufactured home is likely to be assessed at an incorrect value.

We recommend the assessor use the correct edition of the value guide.
APPENDICES

A. County Property Tax Division Survey Group

Tulare County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Gene Palmer Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong Supervising Property Appraiser

Survey Team Leader:

Sally Boeck Senior Specialist Property Appraiser

Survey Team:

James McCarthy Senior Petroleum and Mining Appraisal Engineer
Simeon Okoroike Senior Petroleum and Mining Appraisal Engineer
Zella Cunningham Associate Property Appraiser
Glenn Danley Associate Property Appraiser
Bob Donay Associate Property Appraiser
Bob Rossi Associate Property Appraiser
Ancil Aydelott Associate Property Auditor Appraiser
Pam Bowens Associate Property Auditor Appraiser
David Barbeiro Associate Property Auditor Appraiser
Kim Trotto Junior Property Appraiser
Marilyn Jones Tax Technician II
B. Assessment Sampling Program

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

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

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

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

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

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

4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:

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

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

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

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

d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.

e) **Unsecured properties.** Those properties that are on the unsecured roll.

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

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

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

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

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

e) **Unsecured properties**—for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

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

8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

Government Code

15640. Survey by board of county assessment procedures.

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

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

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

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

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

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. **Research by board employees.**

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

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

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

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

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

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

15644. **Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.
15645. Survey report; final survey report; assessor's report.

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

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

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

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

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

Rule 370. Random selection of counties for representative sampling.

(a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

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

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

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

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

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

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

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

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

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

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

1. Uniformity of treatment for all classes of property.

2. Discovering and assessing newly constructed property.

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


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

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

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

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

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

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

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

The Tulare County Assessor's response begins on the next page. The CPTD staff has no comments on the response.
May 23, 2002

State Board of Equalization
County Property Tax Division
Post Office Box 942879
Sacramento, California 94279-0062

Attention: Mr. Charles Knudsen, Chief

RE: Assessor’s Response – Assessment Practices Survey Report

Dear Mr. Knudsen:

Pursuant to Government Code Section 15645, Tulare County wishes to respond to the recommendations of the aforementioned report.

We wish to express our thanks and appreciation to the survey crew who conducted themselves professionally during the survey. They are all great representatives of government.

Also, we desire to thank our employees for the quality level of work they perform for the citizens of our County. Times are very difficult for the counties in California and we are all very fortunate to have employees who are truly dedicated to produce a quality work product with extremely limited financial resources.

Respectfully submitted,

[Signature]
Gregory B. Hardcastle
Assessor/Clerk-Recorder
County of Tulare

RECEIVED
MAY 28 2000

County Property Tax Division
State Board of Equalization
Recommendation Responses

1. We will submit future check-lists timely.
2. For the most part, any minor changes we have made to Board-approved forms were made to clarify questions asked of taxpayers, to simplify their completion or to reduce inefficiency in processing the forms. They did not alter our ability to gather all necessary information needed to render a fair and accurate assessment. We feel the Board staff is too rigid in their determination of what language they will or will not approve. However, it is our intention to use the more cumbersome Board-approved forms in the future.
3. Tulare County has complied with the spirit of the ordinances in question. We will prepare a draft ordinance to update the changes in the lien date and the Code section cited in the recommendation.
4. The Assessor has amended the Notice to include different phone numbers for specific questions. We do not have a staff person dedicated to handling questions on a full time basis, but rather have someone available at all times to direct calls to rotating staff personnel for resolution. We did not, therefore, include a name of a contact person on the Notice.
5. The Assessor's former computerized property system did not have the capability to automatically factor "window period" transfers and new construction. We also did not have adequate staff to manually return to the parcel and have the base year changed (*nor do we today). It would be an onerous task to attempt to locate and change the assessments that were given a later base year, and we do not feel that it would be cost-effective. We obtained a new property system in 1993, and have subsequently changed our procedures to comply.
6. We will start a procedure to receive copies of permits for new well construction.
7. Lack of documentation can be a problem in an Assessor's office. We will reinforce the need for more thorough documentation to our appraisal staff.
8. We will provide additional training to those staff members who have difficulty in correctly determining supplemental assessment values.
9. We are intending to begin more thorough notification of Prop 8 assessments for the next Assessment Year. We currently do not have the capability to track base year value electronically, so it will have to be a manual, time consuming and tedious task, for very little beneficial purpose, other than to more closely follow with the Code.
10. We have revised our procedures for valuing possessory interests, and will conform with this recommendation.

11. We will conform with this recommendation.

12. Some of the assessments discovered by the Board staff consisted of abandoned waterways in the City of Tulare. We have addressed those and other properties. We believe we now account for all properties fitting the definition of Section 11.

13. The Assessor disagrees with the SBE methodology regarding trellising. We assess these 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 feel that trellising is an integral component of the vines value, are removed when vines are removed and the income of the vines is dependant on, and not independent of the trellising. We have held this position since the inception of the Williamson Act.

14. SBE staff is apparently not aware that trellising construction takes place over the course of the first several years of the vines life. Trellising is generally in a partially complete condition on each lien date and not subject to supplemental assessments. By the time all components of the trellising are finally installed, the vines are assessable. Because Tulare County includes the contributing value of the trellising in the growing improvement value at that point (see 13), there is no supplemental assessment made.

15. We no longer supplementally assess dairy grading as new construction.

16. The Assessor’s methodology in the valuation of dairy grading resulted from a total lack of reliable dairy rental information. However, we will attempt to discover economic rent information for these properties and apply it appropriately in the future.

17. It is the Assessor’s opinion that “risk” is reflected in the cash rents that are charged for different types of crops or land uses, and it would be inappropriate to add an additional risk component to the capitalization rate. Farmers are well aware of the risks involved in growing crops and will not pay an inflated rental amount if it did not cover the risk liability.

18. We beg to differ with SBE’s classification of wind machines as fixtures. We believe they are a integral component of the appraisal unit, are permanently affixed to the land, and can , by definition be classified as structures. However, with the recent adoption of Board Rule 122.5, we will comply with the classification of wind machines as Fixtures for future assessment Rolls.
19. We will include that component in future Ag Preserve value calculations.
20. We will revise our questionnaires to ask for this information.
21. We did solicit a list of regulated water companies from the California PUC Water Division this year. We have reviewed the list and made appropriate assessments for the 2001/02 Roll. We will continue the practice of updating water company information in future years.
22. We will attempt to secure these annual reports.
23. This has proved to be a difficult task in past attempts, but we will make an effort to secure these documents as well.
24. Tulare County has very few IPZ’s but we will initiate a mailout program requesting information on compatible uses.
25. This has been done.
26. Staff has been instructed to comply with this recommendation.
27. We are trying to bring this program to a current status. High turn-over and staff shortages have made it difficult.
28. Tulare County uses the California Assessor’s Association guidelines for valuing older machinery and equipment. We feel that is a more realistic model for the valuation of these types of personal property.
29. We have started a program to apply depreciation to these vessels assessed valuations on an annual basis, just as DMV does with vehicles. Because we do not have the resources to annually review the market value of each of the 6000-7000 boats in our jurisdiction, we feel this is the most reasonable approach to this issue.
30. We will no longer apply a penalty to vessel assessments unless an SBE “approved” form is utilized.
31. The Assessor does not have the capability to expand the valuation fields in our computer property tax system (PIMS). Without that ability, it is very difficult to classify these as personal property on the assessment roll. We do treat mobile homes as personal property when it comes to declines in value. Also, we know of no instance where a mobile home was unfairly levied a “special assessment” by virtue of being classified under structures on our tax roll.
32. Staff has been instructed to be sure to use the proper edition of the guides when valuing mobile homes.