VENTURA COUNTY
ASSESSMENT PRACTICES SURVEY

JULY 2012

CALIFORNIA STATE BOARD OF EQUALIZATION

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KRISTINE CAZADD, EXECUTIVE DIRECTOR
July 31, 2012

TO COUNTY ASSESSORS:

VENTURA COUNTY
ASSESSMENT PRACTICES SURVEY

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from July through September 2010. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ Louie Feletto for

David J. Gau
Deputy Director
Property and Special Taxes Department

Enclosure
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INTRODUCTION

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Ventura County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Dan Goodwin, MAI, Ventura County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

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

In addition, pursuant to Revenue and Taxation Code\(^1\) section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.\(^2\)

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

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

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

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

The assessor has improved the overall operation of the office by embracing new technology. The following are examples of the improvements the assessor has made since the last survey:

- The assessor has revised their website to include commonly used property tax forms and property characteristics information;
- The assessor acquired an oblique aerial imagery program, which aids in appraisals of properties that are difficult to access and facilitates the discovery of changes to property; and
- The assessor has converted all single-family residential property records to digital images, which may be accessed from any computer in the assessor's office. At the time of our survey, the assessor was in the process of implementing this technology for all commercial and industrial properties, as well.

In addition to these advancements, we noted the effort and manpower the assessor has dedicated to the valuation and documentation of water companies since our last survey. We commend the assessor for his efforts in improving this program. We also commend the assessor's efforts in his administration of the cemetery exemptions program, setting the standard for other California counties to follow, and administration of the staff property and activities program, with strong policies and procedures in place to prevent conflicts of interest.

The assessor is effectively managing the administration programs for staffing, workload, staff property and activities, appraiser certification, and assessment appeals programs. However, we did note the disaster relief and exemptions programs are in need of improvement.

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

In the area of personal property and fixture assessment, the assessor has effective programs for conducting audits, processing business property statements, valuing business equipment, and the discovery and valuation of aircraft and vessels. However, we found improvement is needed in the manufactured homes assessment program.
Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

We found no significant assessment problems as defined in Rule 371. Since Ventura County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Ventura County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Improve the disaster relief program by revising outdated procedures and form letters.................................14

RECOMMENDATION 2: Improve the church and religious exemption programs by: (1) granting the church exemption only to property used for worship, and (2) not imposing annual late-filing penalties to religious exemption claimants. ........................................15

RECOMMENDATION 3: Review, revise, and implement changes to the disabled veterans' exemption program........................................18

RECOMMENDATION 4: Do not include unauthorized penalty language on a county-developed form used to obtain leasing information for change in ownership purposes. ........................................21

RECOMMENDATION 5: Correctly implement the penalty process in accordance with section 482(a). ......................................................22

RECOMMENDATION 6: Improve the petroleum property program by: (1) measuring production decline on a per well basis, and (2) considering real growth and inflation in well expenses. ...............................35

RECOMMENDATION 7: Measure declines in value using adjusted base year values for fixtures..............................................................37

RECOMMENDATION 8: Value residents' interests in resident-owned mobilehome parks using the residual approach........................................43
OVERVIEW OF VENTURA COUNTY

Ventura County lies on the coast of Southern California, about 65 miles northwest of downtown Los Angeles and 30 miles southeast of Santa Barbara. The county has a total area of 1,873 square miles, including 43 miles of coastline. The Los Padres National Forest accounts for 860 square miles of the northern portion of the county. Formed from a portion of Santa Barbara County in 1873, Ventura County is bordered by the counties of Los Angeles to the southeast, Kern to the north, Santa Barbara to the west, and the Pacific Ocean to the southwest. The county was chartered on January 1, 1873, and the county seat is the city of Ventura.

Ventura County is known for its agricultural production and is home to the high-tech industry, including several biotech corporations. The United States Navy has had a presence in Ventura County since the 1940's, operating the Naval Base Ventura County, the largest employer in the region. As of 2009, Ventura County had a population of 802,983. There are ten incorporated cities: Camarillo, Fillmore, Moorpark, Ojai, Oxnard, Port Hueneme, Santa Paula, Simi Valley, Thousand Oaks, and the city of Ventura.
The following table displays information pertinent to the 2010-11 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Secured Roll</strong></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$46,987,584,754</td>
</tr>
<tr>
<td>Mineral Rights</td>
<td>$1,372,398,012</td>
</tr>
<tr>
<td>Improvements</td>
<td>$51,845,427,918</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$756,567,633</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$912,892,837</td>
</tr>
<tr>
<td><strong>Total Secured</strong></td>
<td>$101,874,871,154</td>
</tr>
<tr>
<td><strong>Unsecured Roll</strong></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$322,412,061</td>
</tr>
<tr>
<td>Improvements</td>
<td>$598,495,894</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$997,498,162</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$2,549,572,605</td>
</tr>
<tr>
<td><strong>Total Unsecured</strong></td>
<td>$4,467,978,722</td>
</tr>
<tr>
<td><strong>Exemptions</strong></td>
<td>($2,322,856,940)</td>
</tr>
<tr>
<td><strong>Total Assessment Roll</strong></td>
<td>$104,019,992,936</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$104,019,993,000</td>
<td>-0.3%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2009-10</td>
<td>$104,348,356,000</td>
<td>-2.3%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>2008-09</td>
<td>$106,847,986,000</td>
<td>3.2%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>$103,558,764,000</td>
<td>8.1%</td>
<td>9.6%</td>
</tr>
<tr>
<td>2006-07</td>
<td>$95,809,546,000</td>
<td>11.8%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

3 The value of the Homeowners' Exemption is excluded from the exemptions total.
4 State Board of Equalization Annual Report, Table 7, 2007-08 total roll value presented is based on revised data provided by the Ventura County Assessor.
ADMINISTRATION

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

Budget and Staffing

The following table shows the change in budget levels over recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$13,668,200</td>
<td>2.7%</td>
<td>137</td>
</tr>
<tr>
<td>2009-10</td>
<td>$13,493,595</td>
<td>-2.6%</td>
<td>137</td>
</tr>
<tr>
<td>2008-09</td>
<td>$13,846,572</td>
<td>2.6%</td>
<td>137</td>
</tr>
<tr>
<td>2007-08</td>
<td>$13,489,982</td>
<td>3.3%</td>
<td>135</td>
</tr>
<tr>
<td>2006-07</td>
<td>$13,057,452</td>
<td>N/A</td>
<td>132</td>
</tr>
</tbody>
</table>

At the time this survey was conducted, the number of approved permanent positions totaled 137. The staff included 68 real property appraisers (including the assessor), 15 auditor-appraisers, 21 technical staff, and 33 clerical staff.

Workload

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

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

The assessor's workload has fluctuated over recent years, reflecting volatile market conditions. The number of assessable changes in ownership has decreased three out of the last four years, most recently showing a decrease, while the number of building permits issued resulting in reassessment has decreased each of the last four years. These decreases have been replaced by
significant workload increases in the areas of decline-in-value assessments and assessment appeals filed. These trends are shown in the following table:

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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in Ownership</td>
<td>14,391</td>
<td>15,481</td>
<td>12,994</td>
<td>15,968</td>
<td>20,457</td>
</tr>
<tr>
<td>New Construction</td>
<td>9,684</td>
<td>10,919</td>
<td>12,274</td>
<td>17,813</td>
<td>18,249</td>
</tr>
<tr>
<td>Declines In Value</td>
<td>63,226</td>
<td>63,256</td>
<td>40,559</td>
<td>13,805</td>
<td>4,976</td>
</tr>
<tr>
<td>Assessment Appeals</td>
<td>5,593</td>
<td>5,641</td>
<td>1,978</td>
<td>1,025</td>
<td>752</td>
</tr>
</tbody>
</table>

**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 appraiser's certificate issued by the BOE. There are a total of 83 certified appraisers on staff, including the assessor; 51 hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d).

In Ventura County, the assessor's management assistant oversees the training and certification program for appraisers. The management assistant continuously tracks individual appraisal education, along with reviewing the BOE annual training reports. Appraisers are encouraged to take the necessary courses to obtain their advanced certificates as soon as possible. The assessor does not provide any financial incentive to obtain an advanced certificate; however, possession of an advanced certificate often results in increased promotional opportunities for employees.

The assessor's office uses the services of three contract appraisers. The contract appraisers perform appraisals for residential properties and appeals. The contract appraisers each possess the necessary certification and are current with their training requirements.

We found all appraisers possess the required certification. We have no recommendations in this area.

**Staff Property and Activities**

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

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

In the Ventura County Assessor's Office, employees are required to report property ownership and activity using the following assessor-developed forms: Employee Property Activity Report and Declaration of Taxable Property Owned by Employee. In addition, employees are required to report within 30 days after the event date of any change in ownership interest, new construction or alteration to property, filing of an application for reassessment exclusion or an exemption, a request for decline-in-value reassessment, an application for changed assessment, or any other employee-initiated event of their property that may result in a change to an assessment or property record.

The assessor's policy is that no employee shall perform work that will result in changing assessment roll data, such as, but not limited to, ownership, values, exemptions, comparable benchmarking, and property characteristics for properties owned by the employee, their spouse, parents, or children. When an appraisal, for either a change in ownership or completed new construction, is required on a staff-owned property or business, the quality assurance manager routes the assignment to a principal appraiser who assigns it to an appraiser. The quality assurance manager and the principal appraiser review the appraisal and ensure that it is completed by someone other than the property owner. The quality assurance manager coordinates mutual aid through another assessor's office to appraise or evaluate all activity on property owned by the assessor or deputy assessors. The assessor's policy states that violation of the employee-owned assessment policy will result in discipline, up to and including termination of employment.

The assessor's policy and procedures in place to prevent conflicts of interest. Among other activities, employees are not allowed to engage in non-assessor office appraisal or appraisal related activities within Ventura County. Employees are required to obtain approval from their supervisor for all outside employment by way of filing assessor-developed form Outside Employment Approval Request. Employees engaged in outside employment must complete county-developed form PAOF-824. Lastly, all employees are required to complete assessor-developed form Statement of Outside Activities. The assessor's policy clearly states that violation of the assessor's policy regarding conflict of interest shall be grounds for dismissal.

We reviewed the assessor's staff-owned property and activities policies and procedures, and reviewed a number of staff-owned properties. We found the assessor's program to have strong policies and procedures in place, and we found no problems with the valuation of staff-owned properties. We commend the assessor's efforts in implementing such a well administered staff property and activities program.

**Assessment Appeals**

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.
Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

Ventura County Ordinance No. 3700, effective July 31, 1984, provides for the establishment and defines the duties of the county's assessment appeals board. In addition, the county adopted Ordinance No. 4030, which established and defined the duties of the hearing officer. The appeals board in Ventura County consists of one board, with three members and five alternates. There is one hearing officer and one alternate hearing officer. All of the assessment appeals board members have completed the mandatory training as required by section 1624.01. Full board hearings are held every Monday; hearing officers hear cases on Tuesday.

Prior to 2010, the filing period for appeals in Ventura County was July 2 through November 30; however, in 2010, the assessor began sending notices of assessed value to taxpayers pursuant to section 1603. As a result, the filing period in Ventura County is now July 2 through September 15. In the last five years, the majority of the appeals have been resolved within two years as required by section 1604(c). Waivers were obtained for all appeals that were not resolved within the two-year time frame.
The following table sets forth the appeal workload over recent years:

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeals Filed</td>
<td>5,593</td>
<td>5,641</td>
<td>1,978</td>
<td>1,025</td>
<td>752</td>
</tr>
<tr>
<td>Appeals Carried Over From Prior Year</td>
<td>4,479</td>
<td>1,764</td>
<td>912</td>
<td>966</td>
<td>1,190</td>
</tr>
<tr>
<td><strong>Total Appeals Workload</strong></td>
<td><strong>10,072</strong></td>
<td><strong>7,405</strong></td>
<td><strong>2,890</strong></td>
<td><strong>1,991</strong></td>
<td><strong>1,942</strong></td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawn</td>
<td>3,254</td>
<td>1,502</td>
<td>540</td>
<td>558</td>
<td>672</td>
</tr>
<tr>
<td>Stipulation</td>
<td>1,880</td>
<td>1,065</td>
<td>358</td>
<td>220</td>
<td>185</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>81</td>
<td>24</td>
<td>40</td>
<td>65</td>
<td>25</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>117</td>
<td>124</td>
<td>43</td>
<td>50</td>
<td>12</td>
</tr>
<tr>
<td>Appeals Increased</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Other Determination*</td>
<td>982</td>
<td>211</td>
<td>144</td>
<td>185</td>
<td>82</td>
</tr>
<tr>
<td><strong>Total Resolved</strong></td>
<td><strong>6,315</strong></td>
<td><strong>2,926</strong></td>
<td><strong>1,126</strong></td>
<td><strong>1,079</strong></td>
<td><strong>976</strong></td>
</tr>
<tr>
<td>To Be Carried Over**</td>
<td>3,757</td>
<td>4,479</td>
<td>1,764</td>
<td>912</td>
<td>966</td>
</tr>
</tbody>
</table>

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

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

The majority of appeals in Ventura County involve residential properties. The decrease in property values in recent years is reflected in the increase in the number of appeals filed. Property owners are given an opportunity to request an informal review for a decline in market value of the property. If the property owner still disagrees with the assessment after the informal review, the property owner can begin the formal appeal process.

Applications for changed assessment can be obtained at the board of supervisors' office. In addition, there is an online application available on the clerk's website. Appeals are filed with the clerk, who checks the application for completeness and timely filing, and stamps the application with the date received. The clerk forwards a hard copy of all appeal applications to the assessor's office. Once received by the assessor, the appeals are divided into real and personal property appeals. The Appeals Division is responsible for handling real property appeals. Personal property appeals are forwarded to the Business Property section, where they are processed by auditors. The Business Property section does not have a specialized appeals division.

The assessor uses the Status of Tax Appeal Resolution (STAR) database to track and assign appeals. STAR is able to draw information from the clerk's computer system and automatically populate the workload with appeals data. Information not contained in the clerk's database, but necessary for the assessor, is entered manually by assessor's staff once hardcopies of the appeals are received. Appeals are assigned to appraisers based on the geographic location and type of property under appeal.
The assigned appraiser attempts to contact each applicant prior to the scheduled hearing to explain the assessment and resolve any concerns before going through a formal appeal hearing. If an applicant is satisfied with the explanation of the assessment, a withdrawal letter is mailed to the applicant to sign and return to the clerk. Once the withdrawal letter is received, it is reviewed and placed on the agenda for the next scheduled hearing. If the applicant and the appraiser both agree to a new assessment, a stipulation and cover letter are prepared outlining the details of the assessment changes. Once the stipulation is reviewed and approved, a copy is mailed to the applicant and the stipulation is placed on the agenda to be approved by the appeals board. If an agreement cannot be reached, the appeal process continues and the scheduled hearing takes place.

The supervising appraiser for the Appeals Division represents the assessor before the appeals board for most real property cases. In cases of special properties, the principal appraiser may act as the assessor's representative. The supervising auditor-appraiser represents the assessor for all business property cases. The appraiser responsible for preparing the appeal acts as the expert witness in the case. The assessor or a deputy assessor attends the majority of the assessment appeals hearings. For those hearings where the assessor or deputy assessor is unable to attend, they can watch a live internet stream of the hearings viewed from the clerk's website.

During our survey, we were able to attend one appeals hearing. The hearing was well organized. The assessor's representative and expert witnesses were very well prepared, and presented their cases professionally. The appeals board appeared knowledgeable and provided the public with helpful information regarding the appeals process. Overall, the assessor's appeals program is well administered and we have no recommendations.

**Disaster Relief**

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

To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity, then the assessor must either provide the last known assessees with an application for reassessment or revalue the property on the lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by $10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Ventura County Board of Supervisors adopted a continuous disaster relief ordinance pursuant to section 170, which allows the assessor to give tax relief to taxpayers whose properties have been damaged or destroyed by misfortune or calamity. The ordinance grants the
assessor the authority to initiate reassessment without an application where the assessor has
determined that within the preceding 12 months taxable property within Ventura County has
been damaged or destroyed. The assessor has general written policies and procedures regarding
disaster relief.

The assessor discovers calamities through building permits, fire reports, taxpayer notification,
field investigations, newspaper articles, and other media resources. The assessor automatically
receives daily reports concerning fires and other misfortunes or calamities in electronic format
from the Ventura County Fire Department. This report covers all cities and unincorporated areas
in Ventura County, with the exception of Oxnard.

The following table presents the number of properties affected by misfortune or calamity in
recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DISASTER RELIEF PROPERTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>52</td>
</tr>
<tr>
<td>2008-09</td>
<td>41</td>
</tr>
<tr>
<td>2007-08</td>
<td>121</td>
</tr>
<tr>
<td>2006-07</td>
<td>254</td>
</tr>
<tr>
<td>2005-06</td>
<td>246</td>
</tr>
</tbody>
</table>

Ventura County experienced a major calamity in December 2006, due to wild fires in the
Moorpark area. There were 13,600 acres damaged. Subsequently, Ventura County experienced a
major calamity in January 2007, due to a brutal freeze, which withered more than $280 million in
strawberry, avocado, and citrus crops. The assessor's staff coordinated inspections,
identifications, and listings of damaged properties as soon as conditions allowed.

We reviewed records of properties that had suffered a calamity. We found that returned
applications are logged in, date-stamped upon receipt, reviewed, and assigned for processing to
an appraiser assigned to the area or a senior appraiser. The appraiser verified the damage had
occurred, noted the damage amount on the records, and reduced the assessment when
appropriate. We found that the calculations were accurate and complied with current statutory
provisions. The assessor maintains calamity logs. The computer system tracks all of the disaster
relief applications and generates weekly tracking reports showing details for all parcels in a
designated calamity status. We further verified proper notification is sent to the owners advising
them of the reduced value and their appeal rights. The assessor handled each case properly and
gave relief to property owners as of the first day of the month in which the disaster or calamity
occurred. Overall, the assessor's disaster relief program is well administered. However, we found
one area in need of improvement.
RECOMMENDATION 1: Improve the disaster relief program by revising outdated procedures and form letters.

The assessor's Operations Manual section on disaster relief was originally created in 1982 and has not been revised since 1997. Since that time, the board of supervisors has amended the disaster relief ordinance to comply with the revisions of section 170. Section 170 was amended as of January 1, 2002 and includes several significant changes that are not reflected in the county's disaster relief procedures. The assessor's Operations Manual section on disaster relief contains outdated and incorrect information the assessor should not use. In addition, while the assessor's disaster relief form letters requesting more information from the applicant contain the updated revisions of section 170, they also make reference to the prior ordinance, which contains outdated and incorrect information.

While the assessor is properly administering the disaster relief in compliance with the new provisions of section 170, the assessor should revise the disaster relief procedures in their assessor's Operations Manual to comply with current statutory requirements, and correct their disaster relief form letters to refer to the most current ordinance in effect. While we found no incorrect assessments, by using outdated material and making reference to the prior ordinance, which contains outdated and incorrect information, taxpayers and employees may be confused about proper procedures and filing requirements.

Exemptions

Church and Religious Exemptions

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

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>RELIGIOUS EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
<th>CHURCH EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>483</td>
<td>$328,603,382</td>
<td>170</td>
<td>$112,344,041</td>
</tr>
<tr>
<td>2009-10</td>
<td>512</td>
<td>$335,264,105</td>
<td>172</td>
<td>$108,252,849</td>
</tr>
<tr>
<td>2008-09</td>
<td>472</td>
<td>$321,590,672</td>
<td>187</td>
<td>$104,947,883</td>
</tr>
<tr>
<td>2007-08</td>
<td>500</td>
<td>$300,726,590</td>
<td>164</td>
<td>$98,931,211</td>
</tr>
<tr>
<td>2006-07</td>
<td>462</td>
<td>$292,664,531</td>
<td>144</td>
<td>$94,340,409</td>
</tr>
</tbody>
</table>

The extensive notes, careful attention to files, reviews of property, and establishment of policy and procedures speak to the assessor's focus on a studied, fair approach to the exemptions program. It is evident that the assessor is diligent in the overall administration of the institutional exemptions program.

An example of the assessor's attention to detail is his requirement of a copy of the lease when a claim for leased real property is filed by an eligible organization. Staff is thorough in reviewing the lease to ensure the benefit of the property tax exemption inures to the eligible organization either via a rent reduction or a direct refund as required by section 206.2. However, there are two areas the assessor could improve in the church and religious exemption programs.

**RECOMMENDATION 2:** Improve the church and religious exemption programs by:
(1) granting the church exemption only to property used for worship, and (2) not imposing annual late-filing penalties to religious exemption claimants.

**Grant the church exemption only to property used for worship.**

In 2005, the county was notified by a claimant that property formerly used for worship, and for which a church exemption claim had been filed, would now be used as a religious college. The religious college's parent organization uses a single church exemption form to claim exemption for this leased property, as well as adjacent and non-adjacent property it owns.

The church exemption provides the narrowest of the three exemptions available to religious organizations. California Constitution, article XIII, section 3(f) provides that buildings, land on which they are situated, and equipment used exclusively for religious worship are exempt from property taxation. In addition, court cases have defined the church exemption as applying solely and exclusively to buildings used for religious worship.5 Thus, the church exemption would not apply to an institution of higher learning. The religious exemption requires ownership of the real property; worship must be a key activity and use of the property solely for schools of collegiate grade is excluded. The welfare exemption does not require worship as a key activity, but the exemption only applies to real and personal property owned by the claimant. In this instance, because the real property is leased, the religious college does not qualify for the church exemption because of its use nor does it qualify for the religious exemption because of its

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5 *Serra Retreat v. County of Los Angeles*, 35 Cal.2d 755-Fri, 08/18/1950.
ownership and use. The organization is only eligible for exemption of its personal property via the welfare exemption. Additionally, the assessor should conduct a site visit to review the use of all parcels on the claim, ensuring that their use is consistent with the church exemption. It should also be noted that when a claim includes properties from different assessor's map books, the assessor should ensure that all properties are part of the same economic unit in order to qualify for the exemption.

By allowing the exemption of leased real property for a religious college, the assessor is extending an exemption for a non-qualifying use.

**Do not impose annual late-filing penalties to religious exemption claimants.**

The assessor has recently instituted a policy of imposing late-filing penalties to organizations that return BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, after February 15. While the assessor can request that organizations annually complete and return the BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, the imposition of a late-filing penalty is not appropriate.

There is no requirement for annual filing for the religious exemption; section 270 only refers to penalties for the initial filing. The legislative intent for the religious exemption was to provide a streamlined filing process for religious organizations that formerly were required to file both church and welfare exemption claims. Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267), provides that the religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption. The annual change in eligibility or termination notice is used to inform the assessor that the property is no longer eligible for exemption. The notice itself states that failure to return the card does not of itself constitute a waiver of exemption, but may result in an onsite inspection. It does not reference penalties for failure to return the notice to the assessor by February 15.

While the assessor can request that organizations annually complete and return the BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, the imposition of penalties is not supported by statute and unfairly burdens otherwise exempt organizations.

**Welfare Exemption**

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

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

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

The following table presents welfare exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>WELFARE EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>776</td>
<td>$1,616,406,636</td>
</tr>
<tr>
<td>2009-10</td>
<td>756</td>
<td>$1,679,022,627</td>
</tr>
<tr>
<td>2008-09</td>
<td>729</td>
<td>$1,484,456,304</td>
</tr>
<tr>
<td>2007-08</td>
<td>687</td>
<td>$1,298,037,154</td>
</tr>
<tr>
<td>2006-07</td>
<td>615</td>
<td>$1,226,714,387</td>
</tr>
</tbody>
</table>

In addition to requiring a copy of an OCC for the first filing of the welfare or veterans' organization exemption, the assessor cyclically reviews all OCCs on the BOE website to ensure their continued validity. We found no problems in our review of the assessor's administration of the welfare exemption program. The assessor recently completed audits of all 72 low-income housing properties, comprising 4,802 units.

Disabled Veterans' Exemption

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

The disabled veterans' exemption at the $100,000 basis requires a one-time filing, while the low-income exemption at the $150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.
The following table presents disabled veterans' exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DISABLED VETERANS' EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>638</td>
<td>$67,530,381</td>
</tr>
<tr>
<td>2009-10</td>
<td>643</td>
<td>$67,299,414</td>
</tr>
<tr>
<td>2008-09</td>
<td>612</td>
<td>$62,470,522</td>
</tr>
<tr>
<td>2007-08</td>
<td>586</td>
<td>$58,033,616</td>
</tr>
<tr>
<td>2006-07</td>
<td>571</td>
<td>$53,906,684</td>
</tr>
</tbody>
</table>

**RECOMMENDATION 3:** Review, revise, and implement changes to the disabled veterans' exemption program.

Our survey of the assessor's disabled veterans' exemption program revealed several issues needing to be addressed. These issues include: granting the exemption for periods the claimant was not eligible, denying the exemption for periods the claimant was eligible, giving late-filing penalties for timely filed claims, and not applying late-filing penalties for the low-income provision.

In the case of a new acquisition of property, the assessor's staff stated that they grant the exemption for the entire year. This would indicate that an ineligible seller of the property would receive a refund for the portion of the year they owned the home.

The disabled veterans' exemption is one of the more complicated exemptions an assessor must administer. The prudent administration of this exemption would greatly assist both the county and the claimants in the form of correct refunds and prevent exemptions from being allowed when the claimant does not qualify.

**Cemetery Exemptions**

Among the many property tax exemptions available to qualified organizations, none is more complex than the cemetery exemption. One set of rules exist for non-profit cemeteries and another set for for-profit cemeteries. The California Constitution provides for property tax exemption of cemeteries meeting specific requirements as explained in Assessors' Handbook Section 265, *Cemetery Exemption* (AH 265). The assessor must be aware of developed land, land held passively for future expansion, and excess land. The assessor must note sold plots, indoor and outdoor crypts in mausoleums, niches in columbariums, walkways and garden areas, administrative areas, flower shops, ceremony rooms, and equipment used in the course of business.

Because cemeteries typically add value in the form of mausoleums and columbariums, various base year values come into play. A cemetery may have parcels with several different base year values and improvements with additional base year values. The exemption is then applied to these several base year values according to sold plots, niches, and crypts, and whether the cemetery is for-profit or not for profit.
The Ventura assessor reviewed all cemeteries in the county and, using historical data, arrived at base year values for each structure. The assessor reviews all annual cemetery claims and applies the increased exemption accordingly to the affected land and improvements using a spreadsheet for each property. We believe the assessor's exemplary efforts in this area set the standard for the administration of the cemetery exemption in California.
ASSessment of Real Property

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

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

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

Change in Ownership

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

Document Processing

The assessor's primary method of discovering properties having changed ownership is by reviewing deeds and other documents recorded at the county recorder's office. The assessor receives a list of recorded documents pertaining to changes in ownership electronically from the recorder on a daily basis. Once the assessor determines that a document pertains to a change in ownership, a hard copy is printed from the recorder's database.
The following table sets forth the total number of reappraisable transfers processed by the assessor's office for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>REAPPRAISABLE TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>14,391</td>
</tr>
<tr>
<td>2008-09</td>
<td>15,481</td>
</tr>
<tr>
<td>2007-08</td>
<td>12,994</td>
</tr>
<tr>
<td>2006-07</td>
<td>15,968</td>
</tr>
<tr>
<td>2005-06</td>
<td>20,457</td>
</tr>
</tbody>
</table>

Ventura County has an ordinance requiring the assessor's parcel number to be noted on recorded documents. For each recorded document copied from the recorder's office database, the assessor's technician verifies the assessor's parcel number based on legal descriptions, determines vesting, and decides as to whether further documentation is necessary for a possible exclusion. If the *Preliminary Change of Ownership Report* (PCOR) accompanying a recorded document indicates a possible exclusion may apply, the appropriate form and cover letter are mailed to the property owner. PCORs, as well as additional change of ownership forms, are available at the assessor's public counter and on the website.

We reviewed a number of recent transfers and found no problems with processing transfer documents.

**Leases**

The assessor's technician initially processes all long and short-term lease transactions. Lease transactions are typically discovered by reviewing recorded documents. Leases are also discovered by reviewing business property statements and Legal Entity Ownership Program (LEOP) reports from the BOE, as well as discoveries by appraisers during the valuation process.

The assessor does not request copies of long-term leases; instead, a lease questionnaire, *Lease Information Request: Change in Ownership Statement*, is sent to the lessee to obtain the terms of the lease. Lease information is keyed into a database for tracking purposes. Once the assessor's technician processes the lease transaction and determines that the terms of the lease have resulted in a reappraisable event, the information is forwarded to an appraiser for valuation.

While reviewing files involving leases, we found an area in need of improvement.

**RECOMMENDATION 4:** Do not include unauthorized penalty language on a county-developed form used to obtain leasing information for change in ownership purposes.

Upon discovery of a lease, the assessor sends a *Lease Information Request: Change in Ownership Statement* to the lessee in an effort to obtain the terms of the lease. This is a county-developed form that incorporates a portion of Board-prescribed form BOE-502-AH,
Change in Ownership Statement (COS). In addition, this form contains penalty language for noncompliance. The assessor has not submitted this form to the BOE for approval.

Section 480 provides that transferees shall file a COS with the recorder or assessor in the county where the subject property is located. At the time of our survey, section 482(a) provided that if, upon written request from the assessor, a required party failed to file the COS within 45 days (90 days as of 1/1/12), a specific penalty shall be applied. The COS is a Board-prescribed form and cannot be altered without BOE approval.

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. If an assessor rearranges a Board-prescribed form, pursuant to Letter To Assessors No. 2004/049, copies of all such forms should be submitted to the BOE property tax forms coordinator for approval.

The assessor's practice of using a county-developed form that contains penalty language for failure to file is contrary to the specific statutory requirements in section 480. In addition, using a rearranged Board-prescribed form that has not been approved by the BOE may lead to incorrect information being conveyed to property owners.

Penalties

If a document is recorded without a PCOR, or the PCOR is incomplete, the assessor's technician sends a COS to the property owner for completion. The property owner then has 45 days to respond to the first request. If the COS is not returned within 45 days, an office assistant sends a second request with another COS to the property owner.

**RECOMMENDATION 5:** Correctly implement the penalty process in accordance with section 482(a).

It is the assessor's current practice to allow 45 days from the date the letter is mailed for a property owner to file a COS as requested. If no response, the assessor will send a second notice several months after the filing deadline has passed, allowing the property owner additional time to file the COS. If there is still no response, the assessor may send an additional COS before applying penalties, in an effort to allow the property owner to file the COS. It can be up to a year or more before the penalties are actually applied to the assessment roll.

At the time of our survey, section 482(a) provided that if a person or legal entity required to file a statement described in section 480 failed to do so within 45 days (90 days as of 1/1/12) from the date of a written request by the assessor, a specific penalty shall be added to the assessment made on the roll. The assessor should not allow a property owner more time to file a COS than what is prescribed in section 482(a) before a penalty is applicable.

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6 Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

7 Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.
The information contained in a properly completed COS assists the assessor in making an accurate assessment. By allowing the property owner more time to file the requested COS than described in section 482(a) and by not applying penalties when they fail to file the COS within the permitted time, the assessor is not in compliance with proper statute.

Transfer List

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than an undivided interest, within the county, which have occurred within the preceding two-year period. We found the assessor maintains a two-year transfer list that is available to the public for review. The list is updated quarterly and contains two years of preceding transfers. It is divided into assessor's parcel number (APN) order and includes the names of the transferor and transferee (if available), the APN, the situs address of the property (if available), the date of the transfer/recording, the document number, and the sale price as indicated by the documentary transfer tax (if available). The assessor's two-year transfer list is in full compliance with the provisions of section 408.1.

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 45 days (90 days as of 1/1/12) of the date of change in control or change in ownership; reporting is made on BOE-100-B, Statement of Change in Control and Ownership of Legal Entities. Section 482(b) provides for application of penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 45 days (90 days as of 1/1/12) from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE

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8 Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement from 45 days to 90 days for a legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.
advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

In Ventura County, the assessor's main source of discovery for changes in control or ownership of legal entities is by reviewing the monthly LEOP reports from the BOE. The assessor also discovers potential changes in control or ownership of legal entities from business property statements (BPS) or from staff's personal knowledge.

The assessor does not have written policies in place for processing legal entity changes. Currently, the monthly LEOP reports are reviewed in order to determine if any changes in control or ownership have occurred within Ventura County. Parcels located within the county are identified and reviewed. The assessor also performs a name search on the computer system to ensure all of the entity's real property is reassessed.

The assessor reviews the Entities Indicating a Change in Control or Change in Ownership report to determine if the assessor should apply penalties for late-filings of the BOE-100-B. The assessor also reviews the BOE annual Historical Non-Response List to determine if the assessor should apply penalties for an entity's failure to respond to a request to file a BOE-100-B.

We found no problems with the processing or revaluing of properties within the LEOPs program.

Change in Ownership Exclusions – Section 63.1

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

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

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

Applications and information regarding section 63.1 exclusions are available to the public at the assessor's office and on the assessor's website. The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions.
The following table sets forth section 63.1 claims filed in Ventura County in recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>SECTION 63.1 CLAIMS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>1,194</td>
</tr>
<tr>
<td>2008-09</td>
<td>1,175</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,085</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,777</td>
</tr>
<tr>
<td>2005-06</td>
<td>2,317</td>
</tr>
</tbody>
</table>

If a PCOR indicates a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren), and a claim form was not submitted, a claim form and cover letter are sent to the property owner advising of a possible exclusion from reassessment. When a claim form is sent, the technician uses a database to track the claim form, which allows two weeks for the property owner to respond. However, the technician will wait another four weeks after the property owner fails to respond before having the property assigned to the appropriate appraiser for reassessment. The assessor's technicians review all section 63.1 claim forms to determine if the claim form is complete and valid. All claim forms are then routed to Document Control for further processing. For some of these, an appraiser needs to provide values, for Document Control to complete the final processing, and generate a report to the BOE.

The *Report of Transferors Exceeding $1,000,000* from the BOE is reviewed by the clerical supervisor when received. The supervisor also has an online program to enter value data into, which will not allow the update of information once the $1 million is exceeded, and this is how the supervisor knows to reconcile the claims. For transfers exceeding the limit, the supervisor makes contact with other counties and the claimant to clarify information, and to determine which properties to exclude and which to reappraise.

Pursuant to section 63.1(i), the assessor keeps all claim forms in a secure area and the information is not accessible to the public in order to protect property owner confidentiality.

We reviewed several section 63.1 claim forms and found them to be properly handled.

**Change in Ownership Exclusions – Section 69.5**

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

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.
The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Ventura County has an ordinance in place to accept base year value transfers from other counties. As required, the assessor reports to the BOE on a quarterly basis any approved section 69.5 applications. Applications and information regarding exclusions from reassessment are available to the public at the assessor's office.

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>SECTION 69.5 CLAIMS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>156</td>
</tr>
<tr>
<td>2008-09</td>
<td>238</td>
</tr>
<tr>
<td>2007-08</td>
<td>391</td>
</tr>
<tr>
<td>2006-07</td>
<td>441</td>
</tr>
<tr>
<td>2005-06</td>
<td>607</td>
</tr>
</tbody>
</table>

To avoid duplicate filing of a section 69.5 claim, the assessor reviews the *Duplicate Social Security Report* from the BOE to determine if any claims made in Ventura County duplicate any claims made previously in another county.

Pursuant to section 69.5(n), the assessor keeps all claim forms in a secure area and the information is not accessible to the public in order to protect property owner confidentiality.

We reviewed several section 69.5 base year transfer exclusions, including filed applications, and found all documents to be in compliance.

**Valuation**

Once a change in ownership has been determined to be an assessable event, transfer data is input into the computer system and sent to the appraiser for valuation. Assessable transfers are reviewed to confirm the listed sale price accurately reflects market value. The sale price is not automatically enrolled if the appraiser determines the reported sale price is outside of the market value range. Value conclusions are documented on the appraisal record.

The assessor maintains residential and commercial electronic sales data files. Residential sales for single family residences are updated nightly, and all sales are periodically downloaded into one database by an office assistant. Field inspections are not performed on all properties and are performed at the appraiser's discretion.

**Direct Enrollment Program**

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraisal involvement. Direct enrollments currently
represent 0.73 percent of the total roll value. In prior years, the assessor's direct enrollment program was used only to enroll the sale prices of qualifying single-family residences and condominiums. The assessor has very recently developed and started using a direct enrollment template that allows the assessor to enter property characteristics and base year values for multi-family properties. To meet the criteria for direct enrollment, the transfer must involve a 100 percent change in ownership of the subject property, the subject property must be located within designated neighborhoods, the deed must show a documentary transfer tax based on the full sale price, and the sale price must exceed the current assessed value. An appraiser conducts a desk review and makes a final determination on whether to enroll the sale price. We found no problems with the assessor's direct enrollment program.

**Improvement Bonds**

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

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration paid for a property exclusive of the lien amount. The assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in that consideration. The assessor currently has a total of 472 parcels encumbered by improvement bonds, with an outstanding balance of $4,782,983. It is the assessor's policy not to add any amount for improvement bonds unless market evidence indicates otherwise. This is consistent with the requirements of section 110(b).

We found no problems with the assessor's treatment of parcels encumbered by improvement bonds.

**New Construction**

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

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

Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from the following permit-issuing agencies: the County of Ventura, and the cities of Camarillo, Fillmore, Moorpark, Ojai, Oxnard, Port Hueneme, Santa Paula, Simi Valley, Thousand Oaks, and Ventura. In addition, the assessor receives manufactured home installation and accessory permits from the California Department of Housing and Community Development (HCD). The assessor also makes extensive use of the aerial photography program Pictometry, which has the ability to detect changes in photographs over time.

The following table sets forth the number of building permits received and the number resulting in new assessments in recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>PERMITS RECEIVED</th>
<th>NEW ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>19,254</td>
<td>9,684</td>
</tr>
<tr>
<td>2008-09</td>
<td>21,488</td>
<td>10,919</td>
</tr>
<tr>
<td>2007-08</td>
<td>23,353</td>
<td>12,274</td>
</tr>
<tr>
<td>2006-07</td>
<td>26,174</td>
<td>17,813</td>
</tr>
<tr>
<td>2005-06</td>
<td>31,720</td>
<td>18,249</td>
</tr>
</tbody>
</table>

Permit Processing

Permits are received in the assessor's office in hard copy form from the permit issuing agencies along with building plans. The document control division is responsible for entering the permit information into the mainframe computer, which includes confirming the parcel and address information. This process is called encoding. The document control division is also responsible for culling permits for potential no-value items. For residential properties, the document control division automatically discards certain types of permits. For commercial, industrial, and special properties, potential no-value permits are forwarded to an assessment technician or the chief appraiser for further review.

All encoded permits are automatically forwarded to the AES work queue of the appraiser responsible for valuing the new construction. Responsibility is determined by property type and geographic location of the parcel.

Self Reporting Program

Once a permit is processed, the assessor sends the property owner a questionnaire (Property Owner New Construction Statement) in an attempt to obtain information on new construction projects. There are seven different templates the assessor uses, which vary based on permit and property type. The form is sent automatically for residential, commercial, and industrial
properties. More detailed commercial and special property forms may be sent by the appraiser if additional information is needed.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The assessor relies primarily on the cost approach to value new construction, but also utilizes the market and income approaches to value when applicable. The appraiser determines the completion status of new construction through direct contact with the building department, new construction questionnaire data, on-site inspections, or the recorded date of occupancy. The assessor uses a variety of sources to develop a cost indicator of value for new construction, including the Los Angeles County Residential and Commercial Cost Manuals, Assessors' Handbook Section 531, Residential Building Costs (AH 531), Assessors' Handbook Section 534, Rural Building Costs (AH 534), the owner's reported costs, and Marshall Valuation Service. It is the assessor's practice to field inspect most property with new construction events. However, in cases of minor new construction with a completed Property Owner New Construction Statement, the appraiser may determine that a field inspection is not required. Supplemental assessments are created and issued based on the date of completion for new construction activity.

Construction in Progress

Section 71 requires the assessor to enroll construction in progress at its fair market value as of each lien date. The appraiser must determine the completion status of new construction at each lien date and attribute a value based upon the percent complete. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. The assessor is currently valuing new construction in progress pursuant to section 71.

We have no recommendations for the assessor's new construction program.

Declines in Value

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

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>63,226</td>
</tr>
<tr>
<td>2008-09</td>
<td>63,256</td>
</tr>
<tr>
<td>2007-08</td>
<td>40,559</td>
</tr>
<tr>
<td>2006-07</td>
<td>13,805</td>
</tr>
<tr>
<td>2005-06</td>
<td>4,976</td>
</tr>
</tbody>
</table>

With the recent downturn of the housing market, Ventura County, like many other counties, has experienced a notable decline in property values. Consequently, there has been a significant increase in the total number of properties eligible for decline in value assessments. There were 63,226 declines in value assessments enrolled for the 2009-10 roll year, while there were only 4,976 enrolled for the 2005-06 roll year. These numbers represent a major workload increase for the assessor.

Discovery and valuation of properties with declines in value are of high priority for the assessor and he has been proactive in adjusting the assessments of properties affected by declines in value. The assessor has a formal program to annually adjust residential properties with a market value that is less than its FBYV. To determine what years or groups of years have a potential for loss in value below the FBYV, the program administrator runs reports comparing market values and roll years. From this data the assessor determined a review was warranted for roll years 2002-03 through 2010-11, as well as roll years 1991-92 and 2001-02. All condominiums are reviewed each year.

Single family residences are appraised for decline in value using the mass appraisal module in the residential computer application. A benchmarking tool within the module allows the appraiser to choose the best comparables for the selected subject. Benchmarked sales are compared to the subjects, automated adjustments are made, and the valuation is approved. Where the benchmarking tool is not used, the automated appraisals are reviewed and approved on an individual basis. Certain characteristics, such as lot size and location influences, are considered on an individual basis.

All assessments reduced for declines in value are identified and tracked by code in the computer system. This prevents the annual inflation factor from being applied to these properties. Reports are generated from the computer system to make sure the properties are reviewed each subsequent lien date. The assessor sends a Notification of Assessment to all property owners. As required by section 619, the notification includes the new assessed value, the FBYV, a notification of hearings by the assessment appeals board with the appeals filing period and the location where the appeal may be filed, and an explanation of the stipulation process as set forth in section 1607. Commercial, industrial, and agricultural properties are identified and valued on an individual basis. Information for decline-in-value analysis is placed in each file reviewed. The assessor's value estimates on the parcels reviewed were well documented and appear reasonable.
The assessor has an effective program for annually reviewing and adjusting real property assessments to reflect declines in value, and we have no recommendations for this program.

**California Land Conservation Act Property**

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

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

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

Most of the rural property in Ventura County is devoted to agricultural use, with strawberries and nursery stock being the top two commodities by value. The county surpassed $1.6 billion in gross production value of agricultural commodities in 2009, an increase of approximately 0.7 percent from the 2008 production value.

For the 2010-11 roll year, Ventura County had 1,622 parcels encumbered by CLCA contracts, totaling approximately 131,429 acres with a total assessed value of $1,697,375,471. This included 62 Farmland Security Zone (FSZ) contracts covering a total of 2,956 acres. Ventura County currently has 16 contracts in nonrenewal. The assessor's computer program handles the calculations for properties in nonrenewal and a review of several files revealed that nonrenewal calculations are being done correctly. Ventura County has not had any recent contract cancellations. The assessor mails out CLCA questionnaires annually for all agricultural properties in Ventura County.

Each year, using the computer program, the assessor calculates the restricted values of the land in accordance with section 423 and section 423.3. The assessor then compares the restricted values to the factored base year value (FBYV), enrolling the lower of the three values. The assessor considers current market value and it is the assessor's opinion that the current market value is higher than both the restricted value and the FBYV.

In Ventura County, homesites are properly treated as unrestricted property and are valued at the lower of the FBYV or current market value in accordance with section 428. Homsite value is properly determined based on the contributory value of the land as a homesite as of the base year of the entire property.
Income and expenses are derived from a market analysis performed by the assessor, using data from the Ventura County crop report, questionnaires from property owners, and other published data.

In developing the capitalization rate used in the valuation process for CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE and includes required components for risk and property taxes. The property tax component is specific to the property's location.

We reviewed several CLCA assessments and found the assessor has an efficient and well organized program in place to value these properties.

**Taxable Possessory Interests**

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

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

The Ventura County Assessor’s program for discovering taxable possessory interests includes annual polling of all government entities in the county and requesting information on agreements with private parties. The assessor contacts approximately 73 public agencies and 22 school districts annually by letter to request current information on new or changed tenancies and rents. The agencies are typically cooperative and responsive, but good follow up is required. There are 3,941 taxable possessory interests currently enrolled on the 2010-11 assessment roll and their total assessed value is $802,285,440.

Valuation and monitoring of the taxable possessory interests are the primary responsibility of two appraisers and two appraiser technicians. The supervising appraiser reviews the valuation findings of all taxable possessory interests.

We reviewed several taxable possessory interest files with month-to-month terms of possession, including airport concessions, airport tie downs and airport landing rights, public marinas and boat slips, Redevelopment Agency property, and fairground uses. In determining the reasonably anticipated term of possession for these types of properties, the assessor documents the history, customs, and practices of the private possessor and the public owners, including the actions of the parties and the histories of their relationships. The accumulated data is then compared to similar private possessors. We looked at properties with three, five, seven, and ten year anticipated terms. Our examination indicates that the assessor is properly assessing these properties as required by section 61(b)(2).
Pursuant to section 155.20 the Ventura County Board of Supervisors passed and adopted a resolution to exempt property with a full value of less than $5,000. Our review of taxable possessory interests at the Ventura County fairgrounds confirms the assessor is properly exempting certain uses at the fairgrounds.

Section 51 requires the assessor to value real property, including taxable possessory interests, at the lesser of factored base year value (FBYV) or current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term, typically the market value of the taxable possessory interest declines as the remaining term of the contract declines. The assessor has developed a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized.

After reviewing many of the taxable possessory interest appraisal files, we found the assessor is properly making deductions from gross rent for management and other operating expenses, developing capitalization rates consistent with Rule 8, and issuing supplemental assessments on the unsecured roll for changes in ownership, new construction, and the creation of new taxable possessory interests. We found the assessor's taxable possessory interest program to be well administered, comprehensive, and in compliance with current law. We have no recommendations regarding the assessor's taxable possessory interest program.

**Leasehold Improvements**

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

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

When new construction by a tenant adds value to a property, the assessor must review those changes and reflect them in a property's assessed value. Attempts to assess this new construction include identifying tenant improvement construction permits, sending new construction questionnaires to tenants, examining rent rolls to look for tenant changes and rent changes, and coordination between the business property and real property staff.
The most common methods of discovery for leasehold improvements are reviewing the BPSs and building permits. Schedule B of the BPS is a useful source for discovering tenant improvements. It is the practice of the assessor's office to refer expenditures reported on Schedule B, columns 1, 3, and/or 4 to the real property division for additional review. The BPSs are flagged for referral and a copy is forwarded to the real property division.

Proper classification of leasehold improvements as structure items or fixtures is important, because fixtures are treated differently than structures. Fixtures are a separate appraisal unit when measuring declines in value; in certain cases, fixtures are not subject to supplemental assessments.

We found the assessor properly classifies, assesses, and enrolls structural improvements and fixtures. The assessor assigns responsibility for the assessment of tenant improvements classified as structures to the real property division. Tenant improvements classified as fixtures are assessed by the business property division.

We have no recommendations for the assessor's leasehold improvement program.

Mineral Property

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

The total value of the mineral assessments in Ventura County is approximately $1.8 billion. This includes personal property and improvements associated with the mineral rights. There are over 500 mineral properties on the assessment roll. Most of these are petroleum properties. There are no assessable high temperature geothermal properties in Ventura County.

Petroleum Property

Ventura County has a significant amount of petroleum production, approximately 7.5 million barrels of oil and 7.6 billion cubic feet of gas in 2009. Offshore production for 2009 was approximately 50,000 barrels of oil and nearly 65,000 MCF of gas. Two appraisers appraise the petroleum properties.

The assessor uses discounted cash flow analysis to determine the current market value of producing petroleum properties. Petroleum property appraisal using a discounted cash flow analysis involves developing a complex model with many variables. As part of this analysis, the assessor forecasts production using an analysis of production decline curves. The assessor then creates a cash flow model representing the economics of well production. This model makes additional assumptions beyond those required to forecast production – including variables such as product pricing, operating costs, and capital costs. These variables can have complex interactions and are not always independent of each other.
RECOMMENDATION 6: Improve the petroleum property program by: (1) measuring production decline on a per well basis, and (2) considering real growth and inflation in well expenses.

Measure production decline on a per well basis.

We found that the assessor measures production decline on a field wide basis instead of conducting the analysis on a per well basis as recommended in Assessors' Handbook Section 566, Assessment of Petroleum Properties (AH 566). This can introduce errors into the estimate of reserves and value.

Decline curves are a deceptively simple method for forecasting future production from a well. Empirical studies of production history showed that once a trend had been established it usually continued unless there was some drastic change in the nature of the well. To develop decline curves, little information is needed beyond periodic production rates. No information is needed regarding the physical parameters of the reservoir or the well to conduct the analysis.

This relatively simple method used by the assessor to forecast petroleum production tends to underplay the complex interactions that occur in a petroleum reservoir. Typical decline-curve analysis plots well production versus time on a semi-log plot and attempts to fit the data to a straight line. This line is then extrapolated into the future, so that the average production rate per year can be interpolated and total reserves estimated.

Engineers working in this field understand that the well must be producing at capacity and have reached a steady state flow condition. Once a property has reached a steady flow rate, production typically will decline at a measurable and constant rate. Much research has been done to show how production curves can be used to determine reservoir parameters leading to a greater understanding of the production mechanism that occur far beneath the surface.

Once the decline trend has been interpolated, this can be used to estimate the future production from the field, but there are some assumptions that must be acknowledged. The capability of a well to conduct fluids to the surface is dependent upon several factors, including reservoir pressure, the thickness of the formation, permeability, reservoir radius, and well radius. The thickness of the formation and the well bore radius are of particular importance, because they represent the surface area available to produce the petroleum fluids. The greater the exposed surface area, the greater the flowing capacity. The primary assumption when doing a decline curve analysis is that factors affecting production in the past will continue into the forecasted period. This would include the production mechanism and the number of wells for a field wide study. As wells are shut-in, the capacity of the reservoir to produce fluid is reduced.

The use of decline curves dates back to the early 1900s, but it was not until the middle of the last century that research focused attention on the theory of how they worked. Research showed that the characteristics of the production decline trend could be traced to the physical parameters of the well. These are the same parameters that are used early in the life of the well to predict performance. Decline curves are most useful on mature petroleum properties, those that have reached what is considered to be a stable level of production with little variation in pressure at the well bore.
The production rate of a petroleum property will fluctuate as the number of wells in production changes. To account for the effects of adding and shutting in wells over the life of the field, decline curves should be constructed with production on a per well basis. This can be done by averaging production per well or by selecting sample wells (typical well analysis) and using production from these individual wells to determine general decline trends. Unless the number of wells is constant over the time period being analyzed, total production from the field should not be used. On a field wide basis, as wells are idled it will appear that the decline rate is actually greater than it is. Conversely, as wells are added the field wide decline rate will appear to be less than what is actually occurring. This can lead to errors in estimates of proved reserves.

Consider real growth and inflation in well expense.

After modeling the production for a property, the appraiser develops an economic model that is used to estimate value. The assessor's valuation estimate is based on what is commonly referred to as real economic projection. In this type of analysis inflation is not forecasted and economics are based on current dollar estimates. The assessor in conjunction with the Petroleum Standards Advisory Committee (PSAC) invest considerable effort in determining what real growth in petroleum prices should be used in the county's economic forecasts.

Equal effort should be invested in determining if a real growth component exists in operating expenses. Bureau of Labor statistics indicate that inflation from 2005 to 2009 was about 1.9 percent. An Energy Information Agency report indicates that over the same time frame operating costs for a ten-well, 4,000-foot lease increased a little over 4 percent. Thus, the real growth associated with these operating costs is approximately two percent.

The assessor averages prior years reported expenses to determine the expenses for the current market value forecast. The use of a real economic forecast, however does not mean that inflation can be ignored entirely. Historic data need to be adjusted to reflect current dollar values. For example, expenses reported in 2006 of $10,000 would actually be $10,862 in a 2011 analysis.

In some of the models created by the assessor, properties show a decline in the number of producing wells. The number of wells is strongly interconnected to how the assessor treats operating expenses for the property. The assessor states that this decline in the number of wells is to model the decrease seen in some fields in active producing wells. The assessor has set this decline rate at one half the production decline rate. When asked about the justification for this rate, the assessor's staff indicated that that was how they were trained by another county to apply this adjustment. This application is arbitrary. To correctly model the decrease in the number of wells the assessor should use the actual rate of change. When the arbitrary decrease in wells is coupled with an underestimate of the well expenses, the result could lead to an over estimate of the current market value of the property.

As noted, total fluid production from a property tends to remain the same over the life of a property. This means that as oil production decreases, water production will increase. This increase in water has to be handled by the production facilities and as the volume grows, so does the operating cost. This is part of the real growth in operating costs that the assessor should consider in his analysis.
Mining Property

Mining property mineral rights refer to the rights to explore, develop, and produce minerals other than oil, gas, and geothermal resources. There may be other real property associated with these rights. Pursuant to Rule 469, the rights to enter in or upon the land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent that they individually or collectively have ascertainable value. Ventura County has eight mining properties according to United States Geological Survey (USGS) records.

The assessor has made changes to his mineral property valuation methods as recommended in a prior survey. However, we have an additional recommendation based on our findings in the current survey.

**RECOMMENDATION 7:** Measure declines in value using adjusted base year values for fixtures.

We found that the assessor incorrectly determines the adjusted base year value for the mining appraisal unit. The assessor erroneously adds the current market value of the fixtures to the adjusted base year value of the mineral rights instead of adding the adjusted base year value of the fixtures when determining the adjusted base year value of the mining appraisal unit. Discussions with the assessor's staff have brought this error to light and the error was confirmed by reviewing several mining properties worksheets.

Rule 469(e)(2)(C) states that declines in value with respect to mining property are measured based on the value of the entire mining appraisal unit. The adjusted base year value of the appraisal unit is the sum of the adjusted base year value of the fixtures and the adjusted base year value of the mineral rights; the current market value of the appraisal unit should be the sum of current market value of the fixtures and the current market value of the mineral rights. The taxable value of the mining appraisal unit is the lower of these values.

The failure to properly measure declines in value based on the entire appraisal unit can result in an overassessment of the mineral rights or an underassessment of the fixtures and improvements associated with the mining property.
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

The assessor's staff assigned to the business property program consisted of 23 positions: 1 principal appraiser, 2 supervising auditor-appraisers, 13 auditor-appraisers, 2 assessor's technicians, 1 clerical supervisor, and 4 office assistants. The business property staff works in conjunction with the real property appraisers to ensure the correct classification and allocation of all real and personal property items being assessed to businesses. This process maximizes the coordination of real property and business property assessments.

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

Audit Program

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

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

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

The following table sets forth the assessor's audit workload and production during recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits Scheduled</td>
<td>128</td>
<td>203</td>
<td>211</td>
<td>221</td>
</tr>
<tr>
<td>Audits Carried Over From Prior Years</td>
<td>64</td>
<td>52</td>
<td>114</td>
<td>78</td>
</tr>
<tr>
<td>Total Audit Workload</td>
<td>192</td>
<td>255</td>
<td>325</td>
<td>299</td>
</tr>
<tr>
<td>Audits Completed</td>
<td>177</td>
<td>191</td>
<td>273</td>
<td>185</td>
</tr>
<tr>
<td>Audits To Be Carried Forward</td>
<td>15</td>
<td>64</td>
<td>52</td>
<td>114</td>
</tr>
</tbody>
</table>

As previously noted, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 128 audits per year hereafter. During the 2009-10 roll year, the assessor completed 177 audits and projects the completion of 128 audits for the 2010-11 roll year. Given recent and current audit production levels, it appears the assessor will meet the minimum number of audits threshold as defined by section 469.

Statute of Limitations

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

When an audit cannot be completed within the statutory time, the assessor should request a waiver. This allows the assessor additional time to complete any audits that were in process at the end of the assessment year. We found the assessor requests signed waivers for accounts that are scheduled for audit and/or approaching expiration under the statute of limitations.

Audit Quality

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

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

**Business Property Statement Program**

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

The following table displays the assessor's workload of secured and unsecured BPSs for the 2010-11 roll year:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>11,904</td>
</tr>
<tr>
<td>Agriculture</td>
<td>393</td>
</tr>
<tr>
<td>Apartments</td>
<td>166</td>
</tr>
<tr>
<td>Financial</td>
<td>301</td>
</tr>
<tr>
<td>Direct Billing</td>
<td>4,939</td>
</tr>
<tr>
<td>Leased Equipment</td>
<td>580</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,283</strong></td>
</tr>
</tbody>
</table>

**General Statement Processing**

BPSs are reviewed by an auditor-appraiser or technician for completion and the inclusion of a legally acceptable signature. Completed statements are sorted for processing. During the preliminary screening, BPSs with current cost data on Schedule B are routinely forwarded to the real property division for additional review. Further, any values greater than $10 million are given to a supervisor for review. Data fields in the mainframe are codified to reflect the timely submission and related processes of valuation for each BPS.

**Discovery**

The assessor has an efficient discovery program. Taxpayer self-reporting is the principal means of discovering assessable business property. Other means include reviewing business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories,
landlord report of tenants, referrals from other counties, and BOE notifications. We found that the assessor employs effective methods for discovering business personal property.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a BPS. The assessor establishes an initial value for the business property and continues it for several years. Property statement filings or field reviews are required periodically. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated launderettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff thereby increasing time available for the auditor-appraisers to perform other required duties.

The Ventura County Assessor utilizes such a program. The accounts that are in the direct billing program are generally stable and have a total personal property cost of less than $100,000 reported on the BPS. In our review of several direct billing accounts, we found that after three years the assessor's office sends a BPS to direct billing taxpayers to determine if there have been any substantial changes in business property, including increases or decreases in equipment, changes in ownership, or changes in location. The assessor then decides whether the account is still suitable for direct billing. Accounts no longer meeting the criteria for direct billing are converted to a regular account and yearly BPS mailings are resumed.

Overall, due to effectively managed processing procedures, we found no problems with the business property statement program.

Business Equipment Valuation

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

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

Valuation Factor Tables

Ventura County has developed valuation factor tables using AH 581 guidelines and tables, and the California Assessors' Association (CAA) suggested life tables. These valuation factor tables are referenced in the assessor-created *Table of Allocations and Years of Life Guide* This guide enables the assessor to reference the appropriate factor table quickly for a specified business type or equipment.
We reviewed the assessor's valuation factor tables and the assigned life tables, verifying that they were accurate and applied consistently within industries. Samples were analyzed to verify that the assessor was applying the correct valuation factor tables to various industries, estimating supplies when not reported, making appropriate trade-level adjustments for self-constructed equipment, assessing banks and financial institutions for fixtures, and correctly assessing mobile construction and agricultural accounts. We found that the assessor does a good job valuing business equipment correctly and we have no recommendations for this program.

**Manufactured Homes**

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

There are 11,363 manufactured homes located in 96 mobilehome parks in Ventura County, with a total roll value of $279,555,908. There are approximately 315 manufactured homes in Ventura County located on land owned in fee, with a total roll value of $80,211,330.

Once a manufactured home is permanently affixed to an approved foundation, the home is considered an improvement and enrolled as real property. The assessor verifies that each home is affixed to an approved foundation in accordance with section 18551 of the Health and Safety Code and requires proof that the notice of affixation, HCD Form 433A, *Notice of Manufactured Home (Mobilehome) or Commercial Coach, Installation on a Foundation System*, has been recorded, and that HCD Form 433B, *Notice to Assessor*, has been provided to the assessor. Once assessed as real property, manufactured homes are treated as any other structural improvement subject to Proposition 13.

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

The assessor discovers assessable manufactured homes by receiving information from the California Department of Housing and Community Development (HCD), dealer reports of sale, tax collector tax clearance certificates, building permits, PCORs, certificates of occupancy, annual reports of transferred spaces from resident-owned parks, and requests for Prop 60/90 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 sale prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, National Automobile Dealers Association, *Manufactured Housing Cost Guide* (NADA). Ventura County subscribes to the online version of NADA.
There is one principal property appraiser, one appraiser, and one assessor's technician responsible for the assessment of all manufactured homes located within rental and resident-owned mobilehome parks throughout the county. The rural property appraisal staff refers manufactured home appraisals on fee land to this group.

We reviewed a number of manufactured home assessments. This review included transfers, supplemental assessments, a voluntary conversion, accessories, record keeping and assessments related to manufactured homes on permanent foundations, reviews for decline in value, new construction, and new installations of manufactured homes. The assessor's manufactured home program is well-administered. Discovery procedures are good, and new construction and accessories are assessed properly. The program for valuing manufactured homes is effective and conforms to statutory provisions; however, we discovered one area for improvement with the assessor's valuation of resident-owned mobilehome parks.

RECOMMENDATION 8: Value residents' interests in resident-owned mobilehome parks using the residual approach.

While reviewing resident-owned mobilehome parks in Ventura County, we found that the assessor incorrectly values the residents' interests or shares in the mobilehome park. Each year as part of the valuation process, the assessor prepares a share price analysis of the resident-owned mobilehome parks to determine the share price to be allocated for the spaces in each of the parks. When a manufactured home is purchased in one of these resident-owned mobilehome parks, the assessor calculates the value of the manufactured home using NADA and deducts this amount from the reported sale price to determine the value of the land. Next, the assessor deducts the allocated share price (the resident's share in the park) as determined for that mobilehome park from the land value to determine the premium paid for that particular space in the park. The assessor then enrolls only the resident's share in the park and does not enroll the portion determined to be a premium paid for the space.

Letter To Assessors No. 99/87 and Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks* (AH 511), describe the change in ownership procedure for residents' interests in spaces. AH 511 recommends that if the purchase price was negotiated on the open market at arm's length, the assessor should enroll the entire amount of the combined assessments of the manufactured home and the underlying interest in the park. The most reasonable way of allocating the value between the two assessments is to extract from the purchase price the value of the manufactured home, using one of the recognized value guides, and then assign the remainder of the purchase price to the interest in the park. This method of allocation ensures that the market value attributable to the location of the space being transferred is recognized. This residual value represents the market value of each share.

The assessor's current practice of only enrolling the resident's share in the mobilehome park and not including the premium paid for the space may cause the assessor to enroll incorrect assessments.
Aircraft

General Aircraft

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

For the 2010-11 roll year, the assessor enrolled 1,027 general aircraft with a total assessed value of $303,882,680. One auditor-appraiser and one assessor's technician administer the aircraft program. The assessor discovers aircraft through airport operators' reports, hangar letters, inter-county referrals, Federal Aviation Administration reports, and field canvassing.

An aircraft property statement is mailed each year to the known owner of each aircraft in the county. The form is comprehensive and requests the owner report current situs information, overall condition, date of last overhaul, engine air hours since last major overhaul, optional equipment, damage history, and transfer information, if applicable. Both the aircraft property statement and cover letter include a statement indicating the filing deadline of January 31.

Upon receipt of the aircraft property statement, it is date-stamped and then valued by an auditor-appraiser, who incorporates adjustments for sales tax, condition, and equipment to determine a market value estimate. The assessor mails aircraft statements annually, analyzing information provided by the taxpayer, adjusting the bluebook value for condition, engine hours, and added equipment, and correctly applying a 10 percent penalty when aircraft statements are filed late or not filed.

Certificated Aircraft

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

Three commercial air carriers fly in and out of two airports, Oxnard and Camarillo, within Ventura County. These air carriers file a detailed report annually with the assessor listing their aircraft, total time in the county based on a representative one-week period, total fleet time, and calculated value for their aircraft. The assessor uses this report to quantify a taxable value for the aircraft.

We reviewed the certificated aircraft appraisal procedures and found them to be properly administered and the estimates of value to be properly calculated.
Historical Aircraft

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

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

For the 2010-11 roll year, the assessor enrolled 158 historical aircraft with a total value of $7,106,148.

We reviewed several historical aircraft and found that the assessor properly exempts taxpayers who have timely filed both the Aircraft Property Statement and the Claim for Exemption from Property Taxes of Aircraft of Historical Significance, whose aircraft meets the Historic Aircraft requirements, and who have met the criteria for publicly displaying their aircraft.

Fractionally Owned Aircraft

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

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

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

Fractionally owned aircraft has situs in California if an aircraft within the fleet makes a landing in this state per section 1161(b). A lead county will be designated for each manager in control of a fleet of fractionally owned aircraft that has situs in this state. The lead county is responsible for obtaining a property statement from each manager and calculating the allocation factor. This
information is then transmitted electronically to each county in which the fleet of fractionally owned aircraft has situs.

For the 2010-11 roll year, the assessor enrolled six fractionally owned aircraft with a total assessed value of $15,375,500. Ventura County is the designated "lead" county for Avantair-Elite Services.

We reviewed several fractionally owned aircraft and verified that the assessor is appropriately valuing these aircraft.

**Vessels**

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

Ventura County is a coastal community with an active pleasure vessel and commercial fishing industry. For the 2010-11 roll year, the assessor enrolled 29,917 vessels with a total assessed value of $261,255,873.

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>VESSELS</th>
<th>COMMERCIAL VESSELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>29,917</td>
<td>$261,255,873</td>
</tr>
<tr>
<td>2009-10</td>
<td>30,975</td>
<td>$297,008,881</td>
</tr>
<tr>
<td>2008-09</td>
<td>30,872</td>
<td>$341,936,074</td>
</tr>
<tr>
<td>2007-08</td>
<td>30,209</td>
<td>$336,518,559</td>
</tr>
</tbody>
</table>

Two auditor-appraisers, assisted by one assessor's technician, administer the assessor's vessel program. Vessels are valued using data from the National Automobile Dealers Association, *Marine Appraisal Guide* (NADA), and *BUC Used Boat Price Guide* (BUC). If current information is not available in the published guides, the assessor refers to the manufacturer or dealer internet sites, such as "Soldboat.com," "Yachtworld.com," "Boats.com," or local yacht brokers' sales data/listings.

The assessor mails vessel statements annually to verify the ownership, situs, make, model, intended use, and purchase price of vessels in the county. For new vessels, the assessor also requests either a purchase agreement or an invoice.

Since Ventura County has a large quantity of vessels to appraise annually, the assessor devised a method to value these vessels more efficiently. Using NADA, the assessor determines the net average year-to-year retail value change based on the most commonly found vessels in the county, summarizes these defined vessel groupings in the Boat Trend Summary by Class and Production Code listing, and reviews this listing for reasonableness before updating their computer. These trend factors are then applied to the vessels to determine current market value. We reviewed these trend factors and found the assessor correctly values vessels using this trending approach.
We reviewed a sampling of the vessels and found that the assessor was correctly valuing the vessels using NADA and properly applying penalties when statements were filed late.

**Vessels Qualifying for the 96 Percent Exemption**

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

For the 2010-11 roll year, there were 86 commercial vessels that qualified for the 96 percent exemption provided in section 227. We sampled several exempt vessels and found that the exemption forms were filed timely and exemptions appropriately granted.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Ventura County

Chief
Dean Kinnee

Survey Program Director:
Benjamin Tang Principal Property Appraiser

Survey Team Supervisor:
David Dodson Supervising Property Appraiser

Survey Team Leader:
Paula Eagleman Senior Specialist Property Appraiser

Survey Team:
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Michael Ash Associate Property Appraiser
Andrew Austin Associate Property Appraiser
Bryan Bagood Associate Property Appraiser
Jennifer Prince Associate Property Appraiser
Brian Salmon Associate Property Appraiser
Catherine Houlihan Associate Property Auditor-Appraiser
Ardeshir Noroozkhani Associate Property Auditor-Appraiser
B. Relevant Statutes and Regulations

Government Code

15640. **Survey by board of county assessment procedures.**

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

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

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

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

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

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

15641. **Audit of records; appraisal data not public.**

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

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.
The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

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

15642. **Research by board employees.**

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

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

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

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

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. **Recommendations by board.**

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

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

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

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

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

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
(3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
(3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

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

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


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

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

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

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

1. Uniformity of treatment for all classes of property.

2. Discovering and assessing newly constructed property.

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


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

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

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

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

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

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The Ventura County Assessor's response begins on the next page.

Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our comments follow the assessor's response.
June 11, 2012

Mr. Dean R. Kinnee, Chief
County Property Tax Division
State Board Of Equalization
Sacramento, CA, 94274-0062

Re: Response to Ventura County Assessment Practices Survey - May 2012

Dear Mr. Kinnee,


The Board of Equalization’s survey program is a vital oversight to ensuring public confidence and integrity in the property assessment process. I thank your entire survey team for their professionalism and consideration during this survey process. Their constructive comments and recommendations for improvement will have a positive impact on our business practices.

We appreciate that the survey recognized my staff’s outstanding accomplishments in areas that are "...setting the standard for other California counties to follow..." and that the office has "strong policies in place to prevent conflicts of interest." My staff’s commitment to continuous process improvement and public service excellence is the key to the success of the Ventura County Assessor’s office.

While we generally agree with most of the recommendations, as in past surveys, there continues to be different points of view on the assessment of petroleum producing properties. We take these differences in the spirit of a healthy debate in search of consensus and solutions to these complex assessment issues. We look forward to further discussions with all stakeholders in these important issues.

Sincerely,

Dan Goodwin
Assessor Ventura County

Enclosure
RECOMMENDATION 1: Improve the disaster relief program by revising outdated procedures, and form letters.

We agree with this recommendation and have taken steps to update our disaster relief procedures, and form letters. While the specific Assessor’s Operation Manual section on disaster relief was not current, other sections of the Manual, as administrative priorities allowed, have been continually updated. As noted in the survey, all calamity assessments were properly determined.

RECOMMENDATION 2: Improve the church and religious exemption programs by: (1) granting the church exemption only to property used for worship, and (2) not imposing annual late-filing penalties to religious exemption claimants.

We agree with part (1) of this recommendation and our own regularly scheduled comprehensive audit of all church exemptions, found only one isolated property that was not qualified for the church exemption and this exemption has been removed from the one property. We have taken steps with our Quality Assurance Section to ensure that site visits for all parcels on a claim, and verification of economic units are completed as part of the routine church exemption review process.

We agree with part (2) of this recommendation and all misapplied late-filing penalties for religious exemption claimants have been removed from the small number of properties where the claimants failed to file an annual change in eligibility notice when requested. However, the survey incorrectly states that imposing late-filing penalties for religious exemptions was the Assessor’s “policy”. In fact, there was no considered or officially implemented policy change, but rather, there was a one-year, inadvertent administrative oversight to include the religious exemption change in eligibility notice with other exemption claims processes that do have late filing penalties.
RECOMMENDATION 3: Review, revise, and implement changes to the disabled veterans' exemption program.

The BOE’s findings of the Office’s past practices are accurate. However, we do not agree that our disabled veterans' exemption program did not comply with the controlling statutes.\(^1\) These statutes lacked clarity, were ambiguous, inconsistent, and specifically silent on the areas of exemption effective dates.\(^2\) The ambiguity in the statutes necessitated new clarifying legislation with Assembly Bill 188 and Senate Bill 947 amending the sections and the issuance of BOE Letter to Assessors, DISABLED VETERANS’ EXEMPTIONS (2012/014). We now have clear statutory authority and guidelines on how to process the disable veterans’ exemptions and are processing the exemptions in accordance with the amended statutes.

\(^1\) Revenue and Taxation Code Sections 75.23, 205, 276.2, 278, and 279
\(^2\) “The current laws on the disabled veterans’ exemption are widely dispersed and lack cross references. While Section 279 lists the events that would cause the exemption to be terminated, it does not specify those events that allow the exemption to be granted. Furthermore, it does not specify the effective date for each of those various circumstances.” BOE Legislative Analysis AB 188, 1/12/12

“The current statutes are disjointed resulting in confusion for tax practitioners.” BOE Legislative Analysis SB 947, 01/01/12
RECOMMENDATION 4: Do not include unauthorized penalty language on a county-developed form used to obtain leasing information for change in ownership purposes.

We agree with this recommendation and have discontinued the use of the unauthorized language on the county-developed leasing information request form. We look forward to the pending BOE interested parties meeting “PROPERTY TAX RULES — FORMS PROCEDURES” initiated by the BOE to address the need to “…clarify…” and for “…specifying the limited circumstances under which county assessors may develop and use their own property tax forms…” amid the myriad of BOE forms, procedures, and related requirements in the Property Tax Rules.

RECOMMENDATION 5: Correctly implement the penalty process in accordance with section 482(a).

The BOE’s findings of the Office’s past practices are accurate for the small number of properties affected. However, the penalty implementation process, within the statutory 45-day deadline to return a Change in Ownership Statement, was an officious burden for Assessors to administer and onerous to property owners. While facing severe time-limit penalties, many property owners were trying to comply with the unrealistic 45-day deadline during difficult estate settling circumstances.

The issues of efficient administration and reasonable deadlines to return Change in Ownership Statements were addressed by recent legislation, Senate Bill 507, changing the requirement from 45 to 90 days. We are now processing the penalties in accordance with the now more sensible amended statutes.

3 BOE LTA 2012/015, 04/9/12
RECOMMENDATION 6: Improve the petroleum property program by: (1) measuring production decline on a per well basis, and (2) considering real growth and inflation in well expenses.

General Comment

We strongly disagree with this recommendation.

As stated in the survey “Ventura County has a significant amount of petroleum production.” Given this major assessment duty, the Assessor has been diligent in applying both a prudent and consistent mass appraisal methodology to our petroleum reassessment practices.

The BOE discussions on these points hold out an alternative thesis for valuation that may have theoretical merit but is hardly a suitable premise for a recommendation. The BOE failed to find the Assessor’s assessment practice in these areas to be adverse to existing statutes, rules or generally accepted appraisal practices, which is the BOE’s standard for proffering recommendations. Furthermore, the thesis is beyond the limits of the practical application that Assessors need or have for efficient assessment administration. Ultimately all valuation methodology is confirmed by the market and we see no correlation between the BOE narrative and actual market transactions at this time.

We are confounded by the pejorative tone of the survey in referring to the results of the California Assessors Association (CAA) Petroleum Standards Advisory Committee (PSAC) inter-county training efforts as, “arbitrary” applications that need more “effort.” BOE staff is not present at all PSAC meetings and therefore is not informed of all the “effort” extended by California Assessors’ staff to methodically determine petroleum appraisal parameters. Our collaborations with other petroleum producing counties promote equalization of assessment practices and ensure that taxpayers, especially with properties in adjacent counties, are treated in a uniform manner.

We recommend that the BOE initiate outreach to the CAA before introducing any pivot of policy into a County Survey and consult with PSAC before applying this specific alternative thesis in any future County Surveys.
Specific Response: (1) measuring production decline on a per well basis

Our current practice of measuring decline curves on an appraisal unit basis is a proper and acceptable technique for mass appraisal of oil properties. The only situations where we use field wide declines are where the actual appraisal unit is also field wide. We have discussed our practices with other counties and they similarly use decline curves on an appraisal unit basis. Furthermore, the local representatives of the California State Department of Oil, Gas and Geothermal Resources stated that they do not do decline curves on a per well basis except when a lease is at the end of its economic life.

The survey overstates the presumption conveyed on this topic in the Assessor’s Handbook, Assessment of Petroleum Properties (AH 566). The survey incorrectly states that conducting the analysis on a per well basis is “recommended” in the AH 566. What the AH 566 actually states is that, “…it is customary to plot the production rate per well…”4 (emphasis added). Other methods, such as using total lease, field or appraisal unit are also commonly used in mass appraisal techniques. Therefore our current practices are not in conflict with AH 566 guidelines.

Also, the level of detail recommended in the survey is beyond mass appraisal techniques. For example, determining the actual bores of every well, reservoir pressure, thickness of the formation, permeability, reservoir radius and well radius all require significant owner operator reporting and the expertise of professional petroleum engineers. In addition it would take a commitment in resources not commensurate with mass appraisal or available to budget constrained Assessor’s Offices.

4 Assessment of Petroleum Properties (AH 566) August 1996, p 4-13
Specific Response: (2) considering real growth and inflation in well expenses

The BOE argument, to consider a real component to expense growth, may have theoretical merit for investigation. However, care should be taken in forecasting real expense growth in a period of rising oil prices. To suggest that expenses exist in a vacuum from oil prices is flawed. As an example, the years 2005 to 2009 of real expense growth noted in the survey, also exhibited a tremendous growth in the price of oil. Specifically, the benchmark oil in Ventura County increased by one hundred seventy percent\(^5\). Furthermore, the forecasted oil prices that PSAC used in their cash flows actually showed declines in the outlying years for four of the five years mentioned. If we are not forecasting real growth in oil prices we should be very careful in forecasting real growth in our expenses.

While the concept, that inflation cannot be ignored entirely in forecasts, is reasonable, in fact, the effect may be de minimis and again, any application is beyond the practical scope of mass appraisal techniques. The example given in the survey is that a reported expense in 2006 of $10,000 would rise to $10,862 in 2011. Presumably the years in between 2006 and 2011 would show smaller increases to get to the 2011 “real” number. Therefore, the effect of inflation over a period of five years worth reported expenses would actually be much less than the 8.62% in the survey.

As a result, we conclude that the BOE has not found any of our current practices in conflict with specific statutes, rules or AH 566 guidelines.

RECOMMENDATION 7: Measure declines in value using adjusted base year values for fixtures.

We agree with this recommendation and have revised the procedures and methodology for valuation of mineral properties to comply with Rule 469 (e) (2) (C). We now use the “adjusted base year value” for fixtures when measuring decline in values for the small number of mineral producing properties affected.

RECOMMENDATION 8: Value residents' interests in resident-owned mobilehome parks using the residual approach.

We do not agree with this recommendation. The Assessor’s current practice of only enrolling the resident's share in the mobilehome park is consistent with the “...plain meaning of section 62.1 ... and the statute’s legislative history.”6 The California Court of Appeal Second Appellate District, which is the controlling Appellate court in Ventura County, has affirmed our position. If the Appeals Court finding is reversed, we will initiate steps to revise our procedures and assessment methodology to be consistent with the courts decision for the one mobilehome park property affected.

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6 Assessor for County of Santa Barbara v, Assessment Appeals Board No.1, 2d Civil No.B229656, page 3, 5/16/12 (Super. Ct. No. 0124457)(Santa Barbara County)
BOE COMMENTS TO ASSESSOR'S RESPONSE

RECOMMENDATION 6: Improve the petroleum property program by: (1) measuring production decline on a per well basis, and (2) considering real growth and inflation in well expenses.

BOE Comments to Assessor's Response:

Mass Appraisal

Mineral properties do not lend themselves well to mass appraisal techniques. Each property is unique and the detail required to identify and value the differences are nearly as complex as the actual appraisal of the property.

While shortcuts and standardized appraisal parameters aide in this process they do not eliminate the need to base assumptions on reasonably projected physical and economic operating conditions for each appraisal unit. This is not an alternative thesis of valuation but a requirement of Property Tax Rule 468. Consistent methods applied to valuations can still be incorrect if they do not match the definitions of reasonably projected physical and economic operating conditions. The procedures outlined in the recommendation do not represent any policy change on the part of the BOE and have been the recommended procedures for nearly fifty years. On the other hand the procedure being commented on by the BOE was implemented by the county three or four years prior to the survey.

The theory provided in the recommendation was meant to be illustrative of how Decline Curve Analysis (DCA) works and provide some background for appraisers that do not have extensive experience with these types of properties. Often having some basic understanding about how something works can aide when trying to determine a specific instance of why it does not.

Decline Curve Analysis

The recommendation of measuring production decline on a per well basis is still being misinterpreted by the assessor. There are over 4,800 wells located in Ventura County and the BOE knows that it would be impossible for the assessor's staff to analyze each and every well, even if they were assigned full time to petroleum properties. The assessor currently plots production for appraisal units based on barrels per day or month. Data is reported to the Division of Oil, Gas, and Geothermal Resources (DOGGR) on a monthly basis and includes the number of days wells were active. Production reports for individual wells often reflect an allocated production base on periodic well tests. This data is often used to confirm annual production reports to the assessor from petroleum producing taxpayers. The data is typically plotted to develop the production history of the appraisal unit or well.

While it is not necessary to plot monthly or daily production per well to get a decline curve, it is the best way to address the specific problem of variable well counts that the assessor has identified in his development of expenses and developing the current market value of petroleum properties. The recommendation is not to analyze each well but to account for the monthly
variation in well count by dividing production by the number of active wells for that month. This has been an industry recommended procedure for addressing variable well counts for years. For properties with declining well counts, production will appear to decline faster than is the actual case because of the reduced number of wells contributing to production. This can lead to lower than actual estimates of reserves that will be produced over the life of the appraisal unit.

Therefore, we are not suggesting that the county review every well for its decline parameters, but that for each appraisal unit the county divide the total production per period by the number of active wells during that period. This would require only one or two additional columns in an Excel spreadsheet to make the recommended adjustments.

Operating Expenses Real Growth Rate

The assessor already considers real growth or contraction in petroleum prices and to be consistent should also consider them for expenses. In the past, petroleum operating expenses have shown a strong correlation to petroleum prices. To ensure more accurate current market values the assessor should make an effort to determine reasonably projected costs. This correlation should be investigated.

Contrary to the assessor's response, the BOE is pleased with the efforts of the California Assessors' Association Petroleum Standards Advisory Committee (PSAC) in helping assessors to improve petroleum property assessments. The committee's procedure for estimating future oil prices is sophisticated and demonstrates the hard work the assessors have done over the last several years to understand market dynamics. However, the Ventura County Assessor's application of one half of the production decline rate to the annual forecast of expenses has no correlation with the actual decrease in active wells observed in the county. When asked how this number was determined the assessor's staff responded that this was what they were told to do when they attended training in another county. No other justification was provided to show correlation of the active wells' decline on a property to the production decline rate. Absent an analysis to show some connection, the rate is arbitrary.

The BOE has been present at several PSAC meetings and training, however, we are not always notified of such meetings and training. We would be happy to participate in the PSAC events and to work with the assessors in a collaborative effort to address petroleum related assessment issues.

RECOMMENDATION 8: Value residents' interests in resident-owned mobilehome parks using the residual approach.

BOE Comments to Assessor's Response:

On June 13, 2012, the Second District Court of Appeal granted appellant’s petition to rehear Assessor for County of Santa Barbara v. Assessment Appeals Board No.1, Case No. B229656. An order granting a rehearing vacates the decision and any opinion filed in the case and sets the cause at large in the Court of Appeal.