December 30, 2008

TO COUNTY ASSESSORS:

VENTURA COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2008/075

A copy of the Ventura County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (Board) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the Board 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, 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 Board's County-Assessed Properties Division from September through October 2006. 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/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:am
Enclosure
TABLE OF CONTENTS

INTRODUCTION ................................. 1
SCOPE OF ASSESSMENT PRACTICES SURVEYS ................................................. 2
EXECUTIVE SUMMARY ......................... 3
RESULTS OF 2003 SURVEY ....................... 6
OVERVIEW OF VENTURA COUNTY ............... 9
ADMINISTRATION ................................ 11
  BUDGET AND STAFFING ...................... 11
  STAFF PROPERTY PROCEDURES ............ 13
  APPRAISER CERTIFICATION ................ 13
  ASSESSMENT APPEALS ....................... 13
  DISASTER RELIEF .............................. 14
  ASSESSMENT ROLL CHANGES ............... 15
  LOW-VALUE PROPERTY EXEMPTION ........ 16
  EXEMPTIONS ..................................... 17
  RACEHORSE ADMINISTRATIVE TAX ........ 19
ASSESSMENT OF REAL PROPERTY ............. 21
  CHANGE IN OWNERSHIP ..................... 21
  NEW CONSTRUCTION ......................... 24
  DECLINES IN VALUE ........................... 26
  CALIFORNIA LAND CONSERVATION ACT PROPERTIES ............... 27
  TAXABLE GOVERNMENT-OWNED PROPERTIES .............. 29
  TIMBERLAND PRODUCTION ZONE PROPERTIES ............ 30
  TAXABLE POSSESSORY INTERESTS ............ 30
  HISTORICAL PROPERTIES .................... 31
  LEASEHOLD IMPROVEMENTS ................ 31
  TIMEShaRES .................................... 33
  WATER COMPANY PROPERTIES ............ 33
  MINERAL PROPERTIES ....................... 35
  PIPELINE RIGHTS-OF-WAY ................... 37
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES ........ 38
  AUDITS .......................................... 38
  BUSINESS PROPERTY STATEMENT PROCESSING ............. 39
  BUSINESS EQUIPMENT VALUATION ............ 41
  LEASED EQUIPMENT ........................... 42
  MANUFACTURED HOMES ..................... 43
  AIRCRAFT ........................................ 44
  VESSELS .......................................... 46
  ANIMALS ......................................... 47
APPENDIXES ......................................................................................................................................... 49
A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP .................................................. 49
B. ASSESSMENT SAMPLING PROGRAM ....................................................................................... 50
C. RELEVANT STATUTES AND REGULATIONS ............................................................................. 53
ASSESSOR'S RESPONSE TO BOARD'S FINDINGS ........................................................................ 59
INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board'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 Board, 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, 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) 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 Board determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Ventura County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Ventura County who provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2006 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

---

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

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

More specifically, this survey reports on the current procedures and practices of the assessor and addresses problems discovered in our 2003 survey, in which we made 27 recommendations for improvement of assessor's policies, procedures, and practices. The assessor has fully implemented 16 of those recommendations. Statutory changes and or changes in Board guidance have rendered inapplicable five of the remaining 11 recommendations. The remaining recommendations that were not implemented, or implemented only in part, are repeated in this report.

In Ventura County, the assessment roll value experienced a 45.7 percent increase between fiscal years 2002-03 and 2006-07. During this period, staffing levels decreased slightly. The assessor has been able to complete the county assessment rolls over this period by making more efficient use of his resources, including advantageous use of technology. Following are a few examples:

- The assessor has converted 7,058 maps to digital format. Of these, 4,189 are maps with tax rate area layers, 2,415 are zoning maps, and 67 are Thomas Brothers Guide map overlays. The conversion to digital format means enhanced productivity, better inter departmental information exchange, and assurance of disaster recovery.

- The assessor has improved public service by offering assessor's maps and Board forms on his website.

- The assessor has increased productivity with office automation and record imaging technology. The assessor has done this by installing personal computers at all work stations, developing customized software, improving mainframe computer programs, and imaging his records.

- The assessor has implemented electronic filing for business property statements.

We also noted that the assessor and his staff are very accessible to the public.

The recommendations in this report concern portions of programs that are currently effective but need improvement. In many instances, the assessor initiated corrective measures prior to completion of our fieldwork.

The assessor is effectively managing many portions of the administration program, including assessment appeals, assessment roll changes, exemptions, low-value property exemption, and the racehorse administrative tax. Our primary concern with the administration program is that the assessor is dealing with an outdated disaster relief ordinance.
In the area of real property assessment, we found that the assessor effectively manages the major portions of the program. The appraisers are diligent, efficient, and productive. However, the assessor needs to revise the procedures for assessing special use properties; we make recommendations regarding how to improve them. For example, in assessing mutual water companies, the assessor does not always obtain and review the articles of incorporation and other relevant documents, which may result in double assessment in land values.

Overall, the personal property program is well-managed and the quality of work performed by the personal property section is good. The statement processing program has improved substantially since our last survey. The assessor's leased equipment and manufactured home programs are also well-managed. However, we make a number of recommendations regarding the valuation of business property; the most significant of these deal with needed revisions to the audit and business property valuation programs.

Specifically, the assessor's mandatory audit program continues to be in arrears. In addition, the assessor does not differentiate between mobile construction equipment purchased new or used, regardless of how the taxpayer reports the equipment.

The balance of this report enumerates and explains our recommendations for improvement in the assessor's operations; however, we do not generally emphasize the positive aspects of his program. The reader, however, should not infer that the assessor's programs are ineffective. On the contrary, it is our opinion that the Ventura County Assessor's Office is a prime example of a well run, efficient, assessing organization.

The Ventura County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2006-07 assessment roll indicated an average assessment ratio of 99.97 percent, and the sum of the absolute differences from the required assessment level was 0.30 percent. Accordingly, the Board certifies that Ventura County is eligible to receive reimbursement 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:** Request the board of supervisors revise the disaster relief ordinance to conform to statutory provisions. ............................15

**RECOMMENDATION 2:** Annually review all parcels that have experienced a decline in value as required by section 51(e). .............................................27

**RECOMMENDATION 3:** Deduct a charge for the return of the well value from income attributable to the property.................................................................29

**RECOMMENDATION 4:** Improve the mutual water company properties assessment program by: (1) reviewing all mutual water company property assessments for possible double assessments, and (2) obtaining the articles of incorporation and other relevant property tax documents from each mutual water company.......34
RECOMMENDATION 5: Reflect oil well abandonment costs as provided in Assessors' Handbook Section 566. ..............................................................36

RECOMMENDATION 6: Determine declines in value based on the full appraisal unit of mineral properties in accordance with Rule 469(e)(2)(C). ..........36

RECOMMENDATION 7: Timely audit the books and records of professions, trades, and businesses pursuant to section 469. ........................................38

RECOMMENDATION 8: Use Table 5 of Assessors' Handbook Section 581 for mobile construction equipment as intended. ...............................42

RECOMMENDATION 9: Apply a 10 percent penalty for failure to timely file aircraft property statements. ..............................................................45

RECOMMENDATION 10: Apply a 10 percent penalty for failure to file or late-filing of Board-prescribed Vessel Property Statement as required by section 463. ........................................................................47
RESULTS OF 2003 SURVEY

Standards and Quality Control

We recommended the assessor complete and update his operations manual. The assessor has made significant improvements in updating office policies and guidelines and making them available to staff. Therefore, we do not repeat this recommendation.

Assessment Forms

We recommended the assessor submit rearranged and final prints of all Board-prescribed forms for approval and that he maintain only current Board-prescribed forms on his website. The assessor has implemented these recommendations.

Disaster Relief

We recommended the assessor obtain fire reports from local fire departments to improve the discovery of properties eligible for disaster relief. The assessor has implemented this recommendation.

Assessment Roll Changes

We recommended the assessor cite the caption required by section 533 when enrolling escape assessments. Due to recent legislative changes to section 533, this recommendation is no longer applicable.

Exemptions

We recommended the assessor follow procedures governing the approval of newly filed claims. The procedure for approval of newly filed claims has changed; this recommendation no longer applies.

Racehorse Administrative Tax

We recommended the assessor follow statutory guidelines when administering the racehorse tax. This recommendation has been implemented.

Declines in Value

We recommended the assessor annually review all parcels that have experienced a decline in value, as required by section 51(e). This recommendation has not been implemented; we repeat it in this report.
California Land Conservation Act (CLCA) Properties

We recommended the assessor revise the irrigation labor costs imputed to CLCA properties. This recommendation has been implemented.

Timberland Production Zone (TPZ) Properties

We recommended the assessor note "Timberland Production Zone" or "TPZ" on the assessment roll as required by section 433 for those properties assessed as TPZ. This recommendation has been implemented.

Taxable Possessory Interests

We recommended the assessor recognize lessor expenses when valuing taxable possessory interests by the income approach. This recommendation has been implemented.

Water Company Properties

We recommended the assessor review all mutual water company assessments for possible double assessments. Currently, we found parcels owned by mutual water companies that were enrolled for substantial amounts, while the assessments of the lands served by the companies were based on sales prices. Because the problem persists, we repeat the recommendation.

Mining Properties

We recommended the assessor (1) value petroleum producing properties in accordance with Rules 8 and 468, (2) reflect oil well abandonment costs in the year they occur or by means of a sinking fund allocation, and (3) determine declines in value based on the full appraisal unit of mineral properties in accordance with Rule 469(e)(2)(C).

Due to recent changes in the assessor's procedures, the first recommendation is no longer applicable. The remaining two recommendations have not been implemented, and are, therefore repeated.

Audits

We recommended the assessor revise the audit program by: (1) bringing the audit program to current status, (2) seeking a waiver of the statute of limitations when a mandatory audit will not be completed timely, and (3) performing all mandatory audits, including those where the statute of limitations has expired.

We found that the assessor is still behind in completing his mandatory audit workload; therefore, we repeat this recommendation. However, the assessor is requesting waivers of the statute of limitations, and we found no problems with the assessor completing mandatory audits where the statute of limitations has expired; accordingly, these recommendations will not be repeated.
**Business Property Statement Processing**

We recommended the assessor accept only complete business property statements. The assessor has implemented this recommendation.

**Business Equipment Valuation**

We recommended the assessor: (1) discontinue using unsupported minimum valuation factors, and (2) use appropriate percent good factors for new and used agricultural equipment. The assessor has implemented these recommendations.

**Manufactured Homes**

We recommended the assessor annually review manufactured home assessments to identify declines in value. The assessor has developed a program to periodically review the assessments of manufactured homes to ensure that declines in value are consistently recognized. As a result, we do not repeat the recommendation.

We also recommended the assessor enroll manufactured homes as personal property. Currently, we found that the assessor continues to enroll manufactured homes as improvements on the secured roll. However, the assessor has adequate controls in place to ensure that special assessments are not levied against manufactured homes. Therefore, we do not repeat the recommendation.

**Aircraft**

We recommended the assessor apply a 10 percent penalty when aircraft owners fail to file aircraft property statements. We found that the assessor has not implemented this recommendation. Therefore, we repeat the recommendation.

**Vessels**

We recommended the assessor: (1) annually appraise all vessels at market value, (2) require vessel owners to file annual vessel property statements for vessels costing $100,000 or more, and (3) require a current certification of inspection for documented vessels, as provided by section 227.

We found that the assessor now annually conducts a vessel valuation survey utilizing current market value from a recognized value guide. The assessor now annually sends vessel property statements to vessel owners for vessels costing a $100,000 or more. We also found that the assessor now requires and collects a current certificate of inspection for documented vessels pursuant to section 227. Therefore, we do not repeat these recommendations.
OVERVIEW OF VENTURA COUNTY

Ventura County is located northwest of Los Angeles County and bordered by Kern County to the north, Santa Barbara County to the west, Los Angeles County to the east, and the Pacific Ocean to the southwest. Ventura County ranks 26th in land size and 12th in population among California's 58 counties. Currently, Ventura County has a population of about 800,000, most of whom live in the county's ten incorporated cities: Camarillo, Fillmore, Moorpark, Ojai, Oxnard, Port Hueneme, San Buenaventura (Ventura), Santa Paula, Simi Valley and Thousand Oaks.

With a large and diverse labor pool, Ventura County has a strong economic base. The economy once depended primarily on oil and agriculture for employment and property taxes. Today, however, the economic base is much broader, although agriculture remains a major contributor. Aside from federal, state, and local government, the largest employers include biotechnology, high technology, health insurance, light manufacturing, financial services, and education.

Ventura County covers an area of 1,873 square miles, including 43 miles of coastline, 7.5 miles of public beaches, and 411 acres of state beach parks. The Los Padres National Forest accounts for 860 square miles of the northern portion of the county (about 46 percent of the county's total land mass).

Ventura County is a general law county that was created by the Legislature in 1872.² The City of San Buenaventura (Ventura) is the county seat; the county is governed by a five-member board of supervisors.

² California State Association of Counties, Counties Close-up, www.csac.counties.org
The following table displays information pertinent to the 2005-06 assessment roll:

<table>
<thead>
<tr>
<th></th>
<th>ASSESSMENTS</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td>250,736</td>
<td>$92,503,723,000</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td>50,547</td>
<td>$3,305,823,000</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>301,283</td>
<td>$95,809,546,000</td>
</tr>
</tbody>
</table>

The next table illustrates the growth in assessed value in recent years as provided in the Board's annual reports:

<table>
<thead>
<tr>
<th>ROLL YEARS</th>
<th>TOTAL ROLL VALUE</th>
<th>INCREASE</th>
<th>STATEWIDE INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>$95,809,546,000</td>
<td>11.8%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2005-06</td>
<td>$85,715,615,000</td>
<td>10.4%</td>
<td>11.1%</td>
</tr>
<tr>
<td>2004-05</td>
<td>$77,617,205,000</td>
<td>9.4%</td>
<td>8.3%</td>
</tr>
<tr>
<td>2003-04</td>
<td>$70,971,610,000</td>
<td>7.9%</td>
<td>7.3%</td>
</tr>
<tr>
<td>2002-03</td>
<td>$65,768,816,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

---

3 State Board of Equalization Annual Report, Table 7.
ADMINISTRATION

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

**Budget and Staffing**

As shown in the following table, the assessor's office has benefited from increased budget levels over recent years. The 2006-07 budget increase is partially due to the conversion of State supported positions through the State-County Property Tax Administration Program to permanent county supported positions.

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>INCREASE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>$12,722,000</td>
<td>14.15%</td>
<td>131</td>
</tr>
<tr>
<td>2005-06</td>
<td>$11,145,267</td>
<td>0.88%</td>
<td>121</td>
</tr>
<tr>
<td>2004-05</td>
<td>$11,047,955</td>
<td>10.65%</td>
<td>121</td>
</tr>
<tr>
<td>2003-04</td>
<td>$9,984,719</td>
<td>3.15%</td>
<td>136</td>
</tr>
<tr>
<td>2002-03</td>
<td>$9,679,550</td>
<td></td>
<td>136</td>
</tr>
</tbody>
</table>

The size of the assessor's staff has fluctuated over recent years. There are 131 staff members: 12 managers (including the assessor), 52 real property appraisers, 14 auditor-appraisers, 5 mapping technicians, 4 office system coordinators, and 44 support staff.
The following organizational chart shows the structure and functions of the assessor's office:
Staff Property Procedures

We reviewed the office procedures and property records to determine if the assessor has proper procedures in place to ensure that properties owned by employees are assessed appropriately. The assessors' employees own a total of 63 properties within Ventura County. Our review indicates that when an employee's property requires valuation the assignment is forwarded to a member of the management staff who lives outside the geographical area of the subject property.

The final valuation is reviewed by another member of the management staff before enrollment. We reviewed a number of properties owned by the assessor's staff and did not find any instance where an appraiser valued his or her own property.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are a total of 64 certified appraisers on staff, of which 33 hold advanced certificates. We found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor engages an appraisal consultant. We found that the appraisal consultant's contract is current and in compliance with section 674(d).

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 appeal process.

In Ventura County, the board of supervisors has appointed three regular and two alternate members to serve on one assessment appeals board. Additionally, the county has one hearing officer and one alternate hearing officer. The clerk of the board is responsible for providing the public with applications for changed assessment, receiving the completed applications, and providing copies of the applications to the assessor. The county board of equalization schedules hearings as needed to timely resolve all cases. All members of the county board of equalization and the hearing officers have received assessment appeals training from the Board.

Once the assessor receives a copy of an application for changed assessment, he reviews the case and contacts the taxpayer in an attempt to discuss and resolve the disagreement. If an agreement is not reached, the appeal process continues and a hearing is scheduled. The staff prepares and presents all real property appeals before the county board of equalization. If an appeal involves a business property audit, the principal auditor-appraiser and staff prepares and presents the case before the county board of equalization.

The clerk of the board maintains the original assessment appeals' application and tracks the progress of the assessment appeal. The assessor's appeals and standards unit also tracks the status of each appeal. This ensures that appeals cases are resolved in a timely manner. Few appeals in
the last five years have gone unresolved for more than two years, and time extensions for those were mutually agreed to by the applicant and the assessor.

The following table illustrates the appeals workload in recent years:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Appeals:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications Received</td>
<td>752</td>
<td>1,118</td>
<td>1,018</td>
</tr>
<tr>
<td>Carried Over</td>
<td>1,190</td>
<td>1,033</td>
<td>989</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,942</strong></td>
<td><strong>2,151</strong></td>
<td><strong>2,007</strong></td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawn</td>
<td>672</td>
<td>732</td>
<td>433</td>
</tr>
<tr>
<td>Stipulation</td>
<td>185</td>
<td>152</td>
<td>310</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>25</td>
<td>17</td>
<td>31</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>12</td>
<td>11</td>
<td>64</td>
</tr>
<tr>
<td>Other Determinations</td>
<td>82</td>
<td>49</td>
<td>136</td>
</tr>
<tr>
<td><strong>Total Resolved</strong></td>
<td><strong>976</strong></td>
<td><strong>961</strong></td>
<td><strong>974</strong></td>
</tr>
<tr>
<td>Carried over to next year</td>
<td>966</td>
<td>1,190</td>
<td>1,033</td>
</tr>
</tbody>
</table>

Over the last three years, the assessor agreed to stipulations in about 11 percent of all appeal cases. We reviewed 22 cases and found them to be clear and well documented. The staff handling appeals is experienced and works well with the county board of equalization. We found no problems with the assessment appeals program.

**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 property tax relief is available to the owner of any taxable property whose property suffers damage exceeding $10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

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

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 assessor discovers calamities through building permits, newspaper articles, and taxpayer notification. In addition, the assessor obtains fire reports from local fire departments to improve the discovery of properties eligible for disaster relief.

We reviewed the records of several properties that had suffered a calamity and were granted disaster relief. We noted that the records were well documented. Disaster relief applications contain all the elements required by section 170.

All of the calculations were accurate and complied with current statutory provisions. The assessor processed mid-year tax relief for property owners when applicable. Claims received after the filing deadline were denied. The appropriate documentation of filing dates was maintained. However, we noted one area for improvement with the assessor's disaster relief program.

**RECOMMENDATION 1:** Request the board of supervisors revise the disaster relief ordinance to conform to statutory provisions.

The board of supervisors has not updated the disaster relief ordinance since it was adopted in 1982. Since that time, section 170 has been revised to change the assessment appeals filing period from 14 days to 6 months, to increase the damage threshold to $10,000 or more, and to extend the time period in which an assessee may apply for relief.

Although the assessor follows the current provisions in section 170, he should request that the Ventura County Board of Supervisors revise the existing disaster relief ordinance to conform to current statutory provisions.

**Assessment Roll Changes**

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

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

<table>
<thead>
<tr>
<th>ROLL YEARS</th>
<th>ROLL CHANGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>7,169</td>
</tr>
<tr>
<td>2005-06</td>
<td>7,056</td>
</tr>
<tr>
<td>2004-05</td>
<td>8,099</td>
</tr>
<tr>
<td>2003-04</td>
<td>8,130</td>
</tr>
<tr>
<td>2002-03</td>
<td>7,977</td>
</tr>
</tbody>
</table>

In the Ventura County Assessor's Office, appraisers and auditor-appraisers prepare the documentation for roll changes by citing the appropriate statutory authority and preparing necessary exhibits. All roll changes are reviewed by a senior, supervising, or principal appraiser prior to being forwarded to the document control section for data entry. Once the new values are entered into the computer system, the amount of the change is computed and the appropriate notices are generated. The assessor mails the Notice of Proposed Escape Assessment and monitors the process to ensure compliance with the ten-day notice requirement specified in section 531.8.

We reviewed the assessor's procedures and a sampling of roll changes. We found roll changes are made within the authorized period and the Notice of Proposed Escape Assessment is correctly mailed to the taxpayer at least ten days before the change is entered on the roll. There are no problems with the assessor's program for assessment roll changes.

The assessor also properly notifies taxpayers of the enrollment of an escape assessment. Section 534(b) provides that an escape assessment is effective only after the assessee has been notified. In Ventura County, the assessor sends a Notice of Enrollment of Escape Assessment to notify taxpayers of the enrollment of an escape assessment.

**Low-Value Property Exemption**

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

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

The Ventura County Board of Supervisors adopted its current low-value property tax exemption resolution on November 23, 2004, commencing with the fiscal year 2005-06. The current
resolution exempts low-value property from taxation on the secured roll at or below $2,000 in base year or full value and exempts low-value property from taxation on the unsecured roll at or below $5,000 in base year or full value. The resolution provides that this exemption does not apply to property which is enforceably restricted (e.g., land in timberland preserves or property used exclusively for non-profit golf course purposes) or to property owned by local government, which is outside the agency's boundaries. All properties covered by the resolution are enrolled by the assessor; however, the assessment is not forwarded to the county auditor for billing.

We found that the assessor's practices concerning the exemption of low-value properties comply with the resolution adopted by the Ventura County Board of Supervisors and with all statutory provisions.

**Exemptions**

**Church and Religious Exemptions**

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, 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.

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require 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, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.
The assessor processed 144 church exemption claims and 462 religious exemption claims for the 2006-07 assessment roll. The following table illustrates religious and church exemption data for recent years:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>RELIGIOUS</th>
<th>EXEMPTED VALUE</th>
<th>CHURCH</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>462</td>
<td>$292,664,531</td>
<td>144</td>
<td>$94,340,409</td>
</tr>
<tr>
<td>2005-06</td>
<td>431</td>
<td>$266,331,824</td>
<td>183</td>
<td>$79,575,441</td>
</tr>
<tr>
<td>2004-05</td>
<td>382</td>
<td>$236,502,031</td>
<td>233</td>
<td>$91,524,724</td>
</tr>
<tr>
<td>2003-04</td>
<td>499</td>
<td>$248,627,555</td>
<td>163</td>
<td>$64,897,910</td>
</tr>
<tr>
<td>2002-03</td>
<td>476</td>
<td>$232,393,126</td>
<td>164</td>
<td>$55,607,070</td>
</tr>
</tbody>
</table>

In Ventura County, first-time claimants for the religious exemption file Form BOE-267-S, Religious Exemption Claim. Once established, the assessor annually mails Form BOE-267-SNT, Religious Exemption Change in Eligibility or Termination Notice. If a claimant fails to return Form BOE-267-SNT, the assessor contacts the claimant by telephone or in person to determine the status of the religious exemption. We found the assessor's religious exemption program to be well documented and properly administered.

As required by sections 255 and 256, claimants for the church exemption are required to file an annual claim using Form BOE-262-AH, Church Exemption. Pursuant to section 270, the assessor limited the exemption for late filed claims to 85 or 90 percent, as appropriate. As with the religious exemption program, we found the assessor's church exemption program to be well documented and properly administered.

**Welfare Exemption**

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the Board and county assessors. The Board is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing Organizational Clearance Certificates (OCCs) to qualified nonprofit organizations. Additionally, 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 Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's possession of a valid Board-issued OCC.
In our 2003 survey, we recommended the assessor follow procedures then applicable to the approval of newly filed claims. The procedures for approval of newly filed claims changed on January 1, 2004, with the implementation of co-administration by the Board and county assessors; thus, this recommendation no longer applies.

The following table summarizes welfare exemptions granted in recent years:

<table>
<thead>
<tr>
<th>ROLL YEARS</th>
<th>WELFARE</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>818</td>
<td>$1,251,375,539</td>
</tr>
<tr>
<td>2005-06</td>
<td>789</td>
<td>$1,248,391,322</td>
</tr>
<tr>
<td>2004-05</td>
<td>872</td>
<td>$1,161,939,005</td>
</tr>
<tr>
<td>2003-04</td>
<td>844</td>
<td>$1,078,878,942</td>
</tr>
<tr>
<td>2002-03</td>
<td>743</td>
<td>$783,831,181</td>
</tr>
</tbody>
</table>

We reviewed a variety of welfare exemption claims on file at the assessor's office. Some of the specific property types we reviewed included the following:

- Hospitals
- Staff housing, including parsonages
- Land conservation organizations
- Rental housing for the elderly
- Exempt organizations subject to mandatory audit pursuant to section 469

The assessor makes a concerted effort to obtain the OCC from each applicant; at a minimum, he verifies each OCC on the Board's website. The assessor's staff also verifies the actual use for each type of exemption through field inspections.

We found no problems with the assessor's exemption program.

**Racehorse Administrative Tax**

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 and 1047. Rule 1045(c) requires the assessor to furnish Board-prescribed forms to racehorse owners for reporting the in-lieu tax.

For the 2006-07 roll year, the assessor received reports from three racehorse owners in Ventura County. The assessor maintains a file of racehorse owners and sends racehorse tax return forms annually to owners reporting in prior years. The assessor sends appropriate tax report forms to horse boarding facilities that have reported domicile changes. The assessor also forwards copies of these reports to the tax collector as required by Rule 1045(c)(2).
We reviewed the forms submitted to the tax collector and found no returns that exceeded the threshold amount for mandatory audit.

The Ventura County Assessor effectively administers the racehorse administrative tax.
ASSESSMENT OF REAL PROPERTY

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

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

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, adjusted annually for inflation by a factor not to exceed 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 change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor's primary means of discovering properties that have changed ownership is by reviewing deeds and other documents recorded at the county recorder's office. Documents that transfer ownership are imaged and scanned daily by the recorder and automatically sent to the assessor. Ventura County has an ordinance (No. 2585) requiring deeds to be identified by assessor's parcel number (APN).
During recent years, the number of documents evidencing changes in ownership averages about 23,500 per year. The following table shows the total number of recorded documents and reappraisable transfer documents processed by the assessor's office for recent years:

<table>
<thead>
<tr>
<th>ROLL YEARS</th>
<th>RECORDED DOCUMENTS</th>
<th>RESULTING CHANGES IN OWNERSHIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>53,002</td>
<td>23,564</td>
</tr>
<tr>
<td>2005-06</td>
<td>53,085</td>
<td>22,293</td>
</tr>
<tr>
<td>2004-05</td>
<td>61,186</td>
<td>23,992</td>
</tr>
<tr>
<td>2003-04</td>
<td>52,224</td>
<td>23,886</td>
</tr>
<tr>
<td>2002-03</td>
<td>44,867</td>
<td>24,229</td>
</tr>
</tbody>
</table>

We reviewed a number of transfers and found them to be well documented. We found that the assessor has an effective deed-processing program to aid his discovery of changes in ownership.

We also found that both Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), and Form BOE-502-AH, *Change of Ownership Statement* (COS), are effectively tracked and that penalties, if any, are applied as required by section 482.

**Transfer List**

Section 408.1 requires the assessor to maintain, and make available for public inspection, a list of property transfers for the most recent two-year period. The type of information that should be included on the list is specifically outlined in the statute.

The assessor provides the public with access to a computerized database of real property transfers that occurred in the preceding two-year period. The database includes the following data: APN, recording date, document number, and selling price as indicated by the documentary transfer tax. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

**Parent-Child Exclusion and Base-Year Value Transfer**

Section 63.1 excludes from reappraisal most purchases or transfers between parents and children. Certain transfers between grandparents and grandchildren are also excluded.

Section 69.5 allows qualified homeowners 55 years of age or older, and those who are severely and permanently disabled, to transfer the base year value of their principal residence to a replacement dwelling purchased or newly constructed within the same county. Section 69.5 also allows counties to adopt ordinances to expand these benefits to include intercounty transfers. Ventura County has such an ordinance in place.
The following table shows the number of filings for section 63.1 and section 69.5 claims for recent years:

<table>
<thead>
<tr>
<th>ROLL YEARS</th>
<th>SECTION 63.1</th>
<th>SECTION 69.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>1,714</td>
<td>267</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,761</td>
<td>254</td>
</tr>
<tr>
<td>2004-05</td>
<td>2,059</td>
<td>271</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,197</td>
<td>263</td>
</tr>
</tbody>
</table>

We found that the assessor's staff is effectively processing section 63.1 and section 69.5 claims.

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 its subsidiaries. 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 corresponding 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 notice of the real property transfer.

To help assessors, the Board's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county 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, many of the acquiring entities do not provide information sufficient to identify the real property. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings in their county to determine whether all affected parcels have been identified and properly reappraised.

The Board has notified the assessor of eight recent LEOP transfers in Ventura County. We reviewed the assessments for a number of properties owned by these legal entities and found that the assessor has properly reviewed the transfers and reappraised the properties when appropriate.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements (e.g., sewers, sidewalks, lighting, and water lines) that 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. Improvement bonds are liens that run with the land and bind all owners and successors in interest in accordance with 1911, 1913, or 1915 Bond Acts.
Section 110(b) provides a rebuttable presumption that the value of improvements financed by such bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of evidence.

The assessor's staff reviews each parcel that is encumbered by improvement bonds. Unless there is evidence to the contrary, the assessor assumes that the value of the improvements encumbered by the bonds is included in the sales price. If there is evidence to support an increment for the public improvements, then the assessor adds the value of the public improvement to the sales price.

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

**Direct Enrollment Program**

Direct enrollment is used by many assessors to streamline the processing of uncomplicated transfers of residential properties. In Ventura County, the assessor's direct enrollment program is used only to enroll the sales prices of qualifying single-family residences and condominiums.

For the 2006 roll year, approximately 7,046 transfers were enrolled through this program. These properties met the following criteria:

- The transfer must involve a 100 percent interest in the property;
- The subject property is located within Direct Enrollment 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.

If a transfer meets the criteria for direct enrollment, a direct enrollment report is created for review. The report is forwarded with the COS and PCOR to the appraisal staff, who conducts a desk review and makes a final determination on whether to enroll the sales price based upon a review of comparable sales data. Once accepted, the appraiser directly enrolls the sales price for the property.

We found no problems with the assessor's direct enrollment program.

**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), (d), and (e), 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 11 permit-issuing agencies: the Ventura County Building and Safety Division and each of the county's ten incorporated cities: Ventura, Thousand Oaks, Simi Valley, Santa Paula, Port Huenme, Oxnard, Ojai, Moorpark, Fillmore and Camarillo. Methods used for the discovery of non-permitted new construction include field inspections of other assignments and review of business property statements.

The assessor does not have a self-reporting program. New construction cost questionnaires are automatically mailed for all permits that indicate an appraisable event.

**Permit Processing**

All cities within Ventura County send permits to the assessor on a monthly basis. Permits are received by regular mail except those from the Ventura County Building and Safety Division (which are transmitted by e-mail) and the cities of Camarillo and Simi Valley (which are picked up by the assessor's staff).

The document control section, which consists of five office assistants and one supervising clerk, is responsible for processing all permits. The residential permits identified as having new construction activity are keyed into the system and forwarded to the appraisal staff. The non-qualifying permits are culled. Culled permits are not logged on the appraisal record or computer system. However, all permits for commercial, industrial, rural, and special properties are forwarded directly to the real property staff for review.

For residential permits, the document control staff identifies the APN and neighborhood data, and forwards the permits to the system section for data entry. The system sends out a *New Construction* and a *Land Development Questionnaire* to property owners. The permits are then forwarded to the appraisers for review and valuation.

The appraiser determines the value for the new construction and forwards the appraisal file to the supervisor for approval. If approved, the new values are forwarded to the system section. Once the values are inputted, a supplemental assessment is automatically generated. The system tracks each appraiser's workload by appraiser identification code and permit number.
The following table shows the permit workload of the assessor in recent years:

<table>
<thead>
<tr>
<th>ROLL YEARS</th>
<th>PERMITS RECEIVED</th>
<th>PERMITS GENERATING VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>31,720</td>
<td>18,249</td>
</tr>
<tr>
<td>2005-06</td>
<td>32,886</td>
<td>15,855</td>
</tr>
<tr>
<td>2004-05</td>
<td>37,949</td>
<td>18,258</td>
</tr>
<tr>
<td>2003-04</td>
<td>38,302</td>
<td>17,784</td>
</tr>
<tr>
<td>2002-03</td>
<td>29,008</td>
<td>15,283</td>
</tr>
</tbody>
</table>

The assessor follows specific procedures to ensure proper processing of all permits. The processing procedures are thorough and provide for effective retrieval of information upon which an appraiser can make informed decisions.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The appraiser determines the completion status of new construction from an on-site inspection, a review of the notice of completion from the building department, or a review of information provided by the taxpayer. The assessor uses the following resources to develop a cost indicator of value for new construction: Marshall and Swift *Residential Cost Handbook* and *Marshall Valuation Service*; Los Angeles County Cost Handbook; Assessors’ Handbook Section 531, *Residential Building Costs*, and Section 534, *Rural Building Costs*, new construction statements; and cost surveys conducted by staff.

All permits are field reviewed, except for low value residential additions where the taxpayer has returned a cost questionnaire. We reviewed several new construction appraisal records and found no problems with the assessor's program for assessing new construction.

*Declines in Value*

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

Discovery of value declines is accomplished through several means. The most common method used by the assessor is the appraisers' familiarity with their assigned geographic areas and specialties. Appraisers are expected to be familiar with value trends within their areas of responsibility. In addition, taxpayer requests for review and assessment appeals trigger reviews for value declines in properties surrounding the subject properties.
All properties reduced for declines in value are tracked and coded with a primary base year code in the computer system. In addition, the computer system flags these properties for review by appraiser's area of assignment.

Due to a strengthening of the local real estate market, the number of properties that are experiencing a decline in value has dropped as shown by the following table:

<table>
<thead>
<tr>
<th>ROLL YEARS</th>
<th>DECLINE-IN-VALUE PROPERTIES</th>
<th>VALUE DIFFERENCE (BETWEEN FBV &amp; FCV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>4,877</td>
<td>$23,235,813</td>
</tr>
<tr>
<td>2005-06</td>
<td>4,937</td>
<td>$139,415,590</td>
</tr>
<tr>
<td>2004-05</td>
<td>5,407</td>
<td>$133,469,356</td>
</tr>
<tr>
<td>2003-04</td>
<td>8,838</td>
<td>$352,091,099</td>
</tr>
</tbody>
</table>

We found that the residential and commercial property records with decline-in-value assessments have comparable sales listings included in their folders supporting the new values, and that the appraisals were well documented, complete, and reasonable.

In our last survey report, we recommended that the assessor annually review all parcels that have experienced a decline in value, as required by section 51(e). We found the assessor's office has conducted only periodic reviews depending on availability of staff. Therefore, this recommendation is repeated.

RECOMMENDATION 2: Annually review all parcels that have experienced a decline in value as required by section 51(e).

We found the assessor does not annually review all parcels with decline-in-value assessments. The assessor has made some reviews of decline-in-value properties, but has not conducted the required annual reviews since our last survey.

Section 51(e) provides that once the base year value of real property is lowered to reflect a decline in value, it must be annually reappraised until its market value once again exceeds the factored base year value.

The effect of not annually reviewing all decline-in-value parcels is that some properties may be assessed at an amount that is other than the appropriate taxable value.

**California Land Conservation Act Properties**

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

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

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

For the 2006-07 roll, Ventura County had a total of 128,780 acres (1,568 parcels) under CLCA contract, including 2,913 acres in nonrenewal status and 2,855 acres subject to *Farmland Security Zone* contracts. The total assessed value for land and living improvements for all CLCA properties was $734,012,986.

The following table shows assessment data for CLCA properties for recent years:

<table>
<thead>
<tr>
<th>ROLL YEARS</th>
<th>CLCA ACRES</th>
<th>NONRENEWAL ACRES</th>
<th>LAND</th>
<th>GROWING IMPROVEMENTS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>128,780</td>
<td>2,913</td>
<td>$672,461,179</td>
<td>$61,551,807</td>
<td>$734,012,986</td>
</tr>
<tr>
<td>2005-06</td>
<td>128,680</td>
<td>2,747</td>
<td>$610,792,376</td>
<td>$57,730,310</td>
<td>$668,522,686</td>
</tr>
<tr>
<td>2004-05</td>
<td>128,437</td>
<td>1,909</td>
<td>$534,858,218</td>
<td>$56,590,035</td>
<td>$591,448,253</td>
</tr>
<tr>
<td>2003-04</td>
<td>128,228</td>
<td>1,946</td>
<td>$543,326,800</td>
<td>$57,228,988</td>
<td>$600,555,788</td>
</tr>
</tbody>
</table>

Since 2003, the CLCA acreage has remained relatively stable. The increase in non renewals can be attributable to rising real estate values for developable land. Most of the rural land in Ventura County is diversified, consisting of row crops, grazing, and orchards (avocado, lemon, orange, and grapefruit trees).

The valuation of CLCA properties is the responsibility of the rural special property section, which consists of six real property appraisers and one supervising appraiser. The unit is responsible for (1) valuing all permits, (2) reappraising all changes in ownership, and (3) reviewing any activity that triggers a value review. The CLCA program is completely automated. The computer program calculates the restricted values and compares them with the factored base year values to determine the taxable value.

In Ventura County, the total (land and improvements) taxable value of property subject to a CLCA contract averages less than $6,000 per acre. Therefore, currently, and for the past several years, the market value has rarely been the lowest value indicator, and since 2002, has usually set the upper limit of value.

When valuing CLCA property, section 423(a)(1) requires the assessor to capitalize an annual income determined from market rents, imputed to the land being valued, based upon rent actually received and typical rentals received in the area for similar land in similar use.
The assessor annually mails out the Agriculture Preserve Questionnaire to taxpayers, requesting rents, compatible use information, production, and other information. The assessor uses cash rents to value all CLCA properties.

In our last survey report, we recommended the assessor revise the irrigation labor costs imputed to CLCA properties. This recommendation has been implemented. However, we found another problem that needs to be addressed.

**RECOMMENDATION 3:** Deduct a charge for the return of the well value from income attributable to the property.

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

By failing to deduct a charge for the recapture of the investment in the well, the assessor overstates the net income to the property and overvalues the property.

**Taxable Government-Owned Properties**

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

There are 52 taxable government-owned properties in Ventura County, including parcels owned by various cities and three municipal utilities. The total assessed value of taxable government-owned properties on the 2006-07 assessment roll was $2,456,000.

To verify that all taxable properties owned by public agencies are situated outside that agency's boundaries, we reviewed several properties assessed as taxable government-owned properties. We also reviewed government-owned properties with a zero roll value to confirm the properties were not located outside that agency's boundaries.

We found that the assessor properly handles changes in ownership and new construction on taxable government-owned properties. The assessor also properly assesses taxable government-owned properties by enrolling the lowest of the restricted value, current market value, or factored base year value, and follows proper procedures when establishing base year values.
**Timberland Production Zone Properties**

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The restricted value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435).

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed as all other real property.

The Ventura County Board of Supervisors passed an ordinance adopting a TPZ district in 1977; this ordinance was last amended on December 6, 2005. The land zoned TPZ is assessed in accordance with values determined each year by the Board. All TPZ properties located in Ventura County are classified as Pine-Mixed Conifer Site Class 1. Ventura County has five properties assessed as TPZ, comprising approximately 41 acres with a combined value of $5,859.

We found the assessor has properly valued land zoned as TPZ according to the Board-prescribed values for 2006. The records contained pertinent information and showed that residences and other structures had been properly valued. The land on these parcels not zoned TPZ was also properly valued.

We found no problems with the assessor's TPZ program.

**Taxable Possessory Interests**

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

The Ventura County Assessor's program for discovering taxable possessory interests includes an annual polling of all government entities owning property in the county requesting information on agreements with private parties for the use of their property. The appraisal staff also discovers taxable possessory interests through periodic inspections of government-owned property. The assessor annually contacts approximately 59 public agencies by mail to request current information on new or changed tenancies and rents. There are currently 2,256 taxable possessory interests assessed in Ventura County, with a total value exceeding $770,778,704.

The assessor has a comprehensive program for the discovery and enrollment of taxable possessory interests in all publicly owned land in Ventura County. We found that the terms of possession used are reasonable, rents are market-derived, appraisals are well-documented, values
are determined in a uniform manner for all assessments, and extensive information is maintained for each taxable possessory interest in a computer database that is updated frequently.

**Historical Properties**

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

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

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

For the 2006-07 roll, the assessor properly valued 15 qualifying historical properties at a taxable value of $4,036,999. The appraisal files contain copies of the contracts with the local governments, and also contain the ordinances establishing an historical preservation district and historical preservation zone.

No deficiencies were found in the documentation, including the contract, property description, and annual valuation. The assessor annually enrolls properties of this classification at the lowest of their factored base year value, current market value, or restricted value. The assessor's valuation procedures are in full compliance with sections 439 through 439.4.

**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 a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.
When real property is reported on form BOE-571-L, Business Property Statement (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes 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 leasehold improvement construction permits, sending new construction questionnaires to tenants, examining rent rolls to look for tenant changes and rent changes as a result of the new construction, and coordinating the assessment between the business property and real property staff. The BPS, an annual filing requirement for many business owners, is a useful source for discovering leasehold improvements.

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 for purposes of measuring declines in value; moreover, in certain cases, fixtures are not subject to supplemental assessment. Additionally, fixtures and personal property are components in the value criteria for mandatory audits.

We found that the assessor properly classifies reported structural improvements on the secured roll and fixtures on the unsecured roll. The assessor's policy allocates responsibility for the assessment of leasehold improvements classified as structures to the real property staff. Tenant improvements classified as fixtures are assessed by the business property staff.

The most common methods of discovery for leasehold improvements are the BPS filings and building permits. Schedule B of the BPS is a useful source for discovering leasehold improvements. It is the policy of the assessor to refer to the real property staff expenditures reported on schedule B, columns 1, 2, and 4. The BPS is flagged for referral, and a copy is forwarded to the real property staff, which is later filed with the appraisal record.

The discovery of billboards, a specific type of leasehold improvement, comes from BPSs submitted by outdoor advertising companies or from building permits. The business property staff reviews all permits received for billboards. The billboards are valued using the methodology recommended by the California Assessors' Association (CAA) Billboard Committee. When billboards change ownership or are newly constructed, the assessor establishes a new base year value. Each year thereafter, the factored base year value of the billboard is compared to the fair market value, and the lower value is enrolled.

We compared the BPSs with the corresponding real property appraisal records and found good coordination between the real property and the business property staff.

Ventura County's leasehold improvement program is in compliance with the current statutes.
**Timeshares**

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable non-real-property items. Examples of non-real-property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

Ventura County has two timeshare estate projects with a total of 1647 separate assessments. These assessments are given a "900" series number which is linked with the homeowners' association reference number. This ensures proper tracking of each assessment and prevents confusing a resale timeshare with a new (original sale) transfer. Even though all of the estates have been sold, the association at times repossesses properties and offers them for sale again.

All transfers of timeshare properties are reviewed and listed on a spreadsheet. Each year this data is analyzed and summarized. Based upon data from these transfers, values are assigned to each timeshare estate according to the unit model and season. This in effect compensates for any value decline. We found no significant deficiencies in the assessment of timeshare estate property.

**Water Company Properties**

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

**Municipal Water Systems**

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments located within city limits, and property owned by water districts located within district boundaries. Ventura County has 21 municipal water companies and districts. We reviewed the records of eight of these and found that properties owned by these water companies were all located within their district's boundaries and are properly exempted from taxation.

When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California Constitution provides that publicly-owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired. Ventura County has four municipal water systems with properties located outside of its boundaries that were taxable when acquired. The properties of these systems are correctly assessed as taxable government-owned properties.
Regulated Water Companies

Privately-owned water companies are utility companies that earn profit from the sale of water. The California Public Utility Commission regulates the rates charged by private water companies, limiting profits to an authorized return on each company's investment. The market value of real property owned by regulated companies is influenced by those rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value.

Our examination of the appraisal records for properties owned by regulated water companies indicates that the assessor correctly assesses these properties. The assessor uses the historical cost less depreciation method to develop a current market value indicator, compares that value to the factored base year value, and enrolls the lower of the two values. The assessor applies the proper procedures when valuing properties owned by private regulated water companies.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to property owned by the water company because the value of such property is reflected in the assessments of the member or stockholder parcels. We were able to identify 33 mutual water companies in Ventura County.

In our 2003 survey, we found three instances of possible double assessments and recommended the assessor review all mutual water company assessments for possible double assessments. We found that the problem still persists, and, we therefore repeat the recommendation.

**RECOMMENDATION 4:** Improve the mutual water company properties assessment program by: (1) reviewing all mutual water company property assessments for possible double assessments, and (2) obtaining the articles of incorporation and other relevant property tax documents from each mutual water company.

**Review all mutual water company property assessments for possible double assessments.**

We found parcels owned by three mutual water companies whose articles of incorporation restricted delivery of water to its members, and whose shares are appurtenant to the land they serve, that were enrolled for substantial amounts.

Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, on page 18, provides that the value of mutual water company property is typically reflected in the value of the lands they serve and to which the shares are attached. This takes into account the matter of water availability, i.e., share ownership, when buying served property. Thus, if the assessor values the served land at the sales price, the value of the mutual water company properties is included in the value of the served land.
If the assessor enrolls a separate assessment for the mutual water company property while appraising the lands serviced by such companies at the values indicated by sale prices, double assessments may result.

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

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

**Mineral Properties**

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

**Petroleum Properties**

Petroleum property mineral rights refer to the rights to remove petroleum and natural gas from the earth. Other property may be associated with these mineral rights. The right to remove such minerals from the earth is a taxable real property interest. Increases in recoverable amounts of petroleum and natural gas caused by changed physical or economic conditions constitute additions to such property interests. Conversely, reductions in recoverable amounts of such minerals caused by production or changes in expectation of future production capabilities constitute reductions in these interests.

Ventura County produces about 3 percent of the state's total oil production and nearly 3.5 percent of the state's natural gas production. Overall the county ranks third in production in the state.

A recommendation from the 2003 survey regarding petroleum properties dealt with the use of a memorandum of understanding (MOU) between some of the county assessors and the petroleum industry dealing with the method and the specific formulation for determining the petroleum price schedule used in income approach valuations. The formula heavily weighted past prices in determining the future income forecasts. When prices are stable, this method has merit. However, when prices are volatile, as they were in the early part of the 2001 and subsequent years, reliance on past price performance is not advisable. Since our 2003 survey, the MOU has been discontinued and the Ventura County Assessor is now forecasting petroleum prices that incorporate forward looking price projections.
The other recommendation from our 2003 survey dealt with the treatment of abandonment expenses. The assessor has not fully implemented this recommendation; therefore, we repeat it below.

**RECOMMENDATION 5:** Reflect oil well abandonment costs as provided in Assessors' Handbook Section 566.

We found that the assessor has implemented some changes to the treatment of abandonment expenses. For those properties that have an abandonment program plan on file with the assessor, expenses are entered into the cash flow when they are expected to occur over the life of the property. For properties that do not have a plan on file, abandonment expenses are still inappropriately deferred up to three years after the economic limit of the property has been reached.

Assessors' Handbook Section 566 (AH 566), *Assessment of Petroleum Properties*, provides that the appraiser should not make the assumption that abandonment costs will occur after the economic limit has been reached. Two mechanisms for accounting of abandonment expenses are discussed in AH 566. These include accounting for the full abandonment cost when the economic limit is reached in the cash flow, or allocating funds from the cash flow to a sinking fund that grows at a safe rate of return such that the necessary funds will be accumulated when the property reaches its economic limit and the abandonment expense will be incurred.

**Mining Properties**

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 they individually or collectively have ascertainable value. Ventura County has ten sand and gravel properties, two clay properties, and one gypsum/anhydrite property used for cement processing. The properties are appraised by a senior appraiser.

Our 2003 survey had one recommendation regarding mining properties. The assessor has not implemented our recommendation; it is repeated below.

**RECOMMENDATION 6:** Determine declines in value based on the full appraisal unit of mineral properties in accordance with Rule 469(e)(2)(C).

The assessor enrolls the lower of the current market value or the factored base year value of the mineral right. The improvements, fixtures, and personal property are appraised separately by the business property staff.

Declines in value for mineral properties are to be measured by reference to the entire appraisal unit, the combination of property most likely to transfer in the market place. Rule 469(e)(2)(C) defines this appraisal unit as land, improvements (including fixtures), and reserves. This is in contrast to most other properties, where fixtures are treated as separate appraisal units and typically enrolled each year at market value. It is possible that, for an individual property, the
mineral rights could be enrolled at the factored base year value and the fixtures and personal property enrolled at current market value.

The clear intent of Rule 469 is that the entire appraisal unit be evaluated for declines in value and not the individual components. The assessor is actually researching methods to remedy this conflict.

**Pipeline Rights-of-Way**

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

The assessor had seven right-of-way assessments on the 2006-07 roll with a total assessed value of $4,985,617. The assessor has developed a computerized spreadsheet to track each pipeline right-of-way by owner. All the pipeline rights-of-way are valued by one real property supervising appraiser. The assessor maintains a separate base year value for each separate right-of-way interest, but assesses each taxpayer's intercounty pipeline rights-of-way to a single countywide parcel pursuant to section 401.8(a).

We checked the current roll values and confirmed that the values have been correctly factored from their 1975 base year. Each individual pipeline right-of-way receives a separate base year assessment.

The assessor properly administers his right-of-way assessment program.

---

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 business property statements.
- Annual revaluation of taxable personal property and fixtures.
- Auditing the business records of taxpayers whose assessments are based on information provided in property statements.

Audits

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.

The personal property section is composed of one principal auditor-appraiser, two supervising auditor-appraisers, and 12 full time auditor-appraisers.

Mandatory Audits

Section 469 provides that audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at $400,000 or more for four consecutive years.

There are approximately 800 accounts in Ventura County that are subject to the mandatory audit requirement. Each year the assessor generates a computer listing of accounts attaining values of $400,000 or more for four consecutive years. This listing becomes the basis for scheduling mandatory audits.

Although the assessor has made progress in his effort to bring the mandatory audit workload current, he is still behind in completing his mandatory audits. This was the basis for a recommendation in our 2003 report. We repeat the recommendation.

RECOMMENDATION 7: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

The assessor has an average of 200 mandatory audits to be completed per year. We found that the assessor is completing an average of only 177 audits per year. For fiscal year 2005-06, a total of 200 mandatory audits were assigned, but only 164 were completed.
Section 469 and Rule 192 require the assessor to audit at least once every four years those taxpayers engaged in a profession, trade, or business that has a full value of $400,000 or more. The mandatory audit verifies the reporting of the largest business property accounts. The further removed the audit is from the year being audited; the more difficult it may be to obtain the necessary records.

By failing to complete these audits in a timely manner, the assessor is not complying with the provisions of section 469.

We recommend that the assessor timely audit the books and records of professions, trades, and businesses pursuant to section 469.

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 audited amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

Business Property Statement Processing

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

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business</td>
<td>16,697</td>
</tr>
<tr>
<td>Agriculture</td>
<td>407</td>
</tr>
<tr>
<td>Apartments</td>
<td>157</td>
</tr>
<tr>
<td>Financial</td>
<td>364</td>
</tr>
<tr>
<td>Leased Equipment</td>
<td>780</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,405</strong></td>
</tr>
</tbody>
</table>

Section 442 requires that the property statement show all taxable property owned, claimed, possessed, controlled, or managed by the person filing it. Data submitted on the business property statement serves as the basis for the subsequent business property assessments. In addition, business property statements provide important information regarding changes in business ownership, location of the property, and the business start date at the current location.

**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, and telephone directories, referrals from other counties, and Board 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 the property of qualified lower-value businesses without the annual filing of a business property statement. It results in reduction of both paperwork for taxpayers and the number of business property statements that must be processed annually by the assessor's staff, thus increasing the time available for the auditor-appraisers to perform other required duties.

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 and restaurants, and professional firms with small equipment holdings.

The Ventura County Assessor utilizes such a program. The accounts that are direct-billed are generally stable and less than $100,000 in reported cost on the business property statement. In our review of several direct billing accounts, we found that after four years the assessor's office sends a business property statement to direct-billed 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. If not, he converts the account back to a regular account and resumes yearly business property statement mailings.

Overall, we found no problems with the property statement processing program.

**Business Equipment Valuation**

**Commercial, Industrial, and Agricultural Equipment**

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

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

**Minimum Percent Good Factors**

The California Assessors' Association (CAA) recommends the use of minimum percent good factors to recognize the fair market value of older property. The minimum factors recommended for most commercial and industrial equipment are based on a review of data in the *Marshall Valuation Service*. This review indicated an average 9 percent minimum percent good factor for all industrial property and an average 10 percent minimum percent good factor for all commercial property. The CAA also recommends the use of a 25 percent minimum percent good factor when valuing automated teller machines. This recommendation is based upon a separate study conducted by the Los Angeles County Assessor. The assessor follows the minimum percent good factor guidelines recommended by the CAA.

**Biopharmaceutical Equipment Valuation**

The Board prescribes "Interim Valuation Factors for Biopharmaceutical Industry Equipment and Fixtures," which are located on Table 9 of the AH 581. We found that the assessor does not use these valuation factors. Instead, the assessor uses the valuation factors developed by the CAA.

To promote the uniform and fair assessment of the specialized property used in this industry, Board staff conducted research regarding the value of biopharmaceutical equipment and fixtures in 1999. As a result of this research, the Board issued special valuation factors for this type of property (see Letter to Assessors 99/54). Board staff is currently in the process of reviewing and updating the biopharmaceutical valuation factors. Because of the current study, we will not comment on the assessor's practice at this time.
Computer Valuation

Pursuant to section 401.5, the Board also issues valuation factors for computer equipment (see AH 581, "Table 7: Computer Valuation Factors").

We found the assessor has adopted the CAA factors for computer equipment. The factors agree with those found in the AH 581.

Recommendation

In most cases the assessor has adopted the price indices and percent good factors recommended by the CAA. The price indices parallel the indices published in the AH 581. However, we found one area in which the assessor can improve its business valuation program.

**RECOMMENDATION 8:** Use Table 5 of Assessors' Handbook Section 581 for mobile construction equipment as intended.

When valuing mobile construction equipment, we found that the assessor does not consider the condition of this equipment as reported by the taxpayer. He uses the percent good factors only from the average column on Table 5 of AH 581, "Construction Mobile Equipment Percent Good Factors," regardless of whether the taxpayer reports the equipment as purchased new or used.

This practice is contrary to section 401.16(a)(1), which recognizes that the condition of mobile agricultural and construction equipment at the time of purchase affects the rate of obsolescence. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. The statute does not authorize the assessor to use the average percent good factors when the taxpayer properly indicates on the property statement the condition of the equipment when purchased.

If the assessor has insufficient information from the taxpayer on hand to determine "new" or "used" condition of equipment, he may average the new and used percent good factors. Where the condition is known, however, the assessor should use the appropriate "new" or "used" table.

**Leased Equipment**

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

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

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

We reviewed the procedures for assessing leased equipment along with a number of business accounts of lessors and lessees. We found the leased equipment program is well managed with staff doing an excellent job in the discovery, processing, tracking, and cross-checking of leased equipment information.

**Manufactured Homes**

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

The following table illustrates the number of manufactured homes assessed in recent years and their total assessed values:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>MANUFACTURED HOME</th>
<th>TOTAL ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>3,344</td>
<td>$116,006,883</td>
</tr>
<tr>
<td>2005-06</td>
<td>3,122</td>
<td>$101,060,435</td>
</tr>
<tr>
<td>2004-05</td>
<td>2,909</td>
<td>$84,675,046</td>
</tr>
<tr>
<td>2003-04</td>
<td>2,622</td>
<td>$72,929,622</td>
</tr>
<tr>
<td>2002-03</td>
<td>2,419</td>
<td>$66,030,316</td>
</tr>
</tbody>
</table>

There are 104 mobilehome parks in Ventura County; nearly all of the manufactured homes in the county are located in these parks. Manufactured homes are identified by using a fictitious map book parcel number. These parcel numbers are assigned by geographic area and are associated with a manufactured home's location within the park.

The assessor enrolls manufactured homes on the secured roll. The assessor's office is notified of manufactured home sales by the State Department of Housing and Community Development reports, building permits, dealer reports of sale, and annual park surveys.

A principal property appraiser, a senior property appraiser, and an assessment technician are responsible for the assessment of all manufactured homes located within mobilehome parks.
throughout the county. The real property appraisal staff is responsible for valuation of manufactured homes outside these parks.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803(b), must take into consideration sales prices listed in recognized value guides for manufactured homes. The assessor uses the N.A.D.A. Manufactured Housing Appraisal Guide to value manufactured homes.

We reviewed a number of manufactured home assessments, including transfers and new installations, and found the assessor has an effective program for the discovery and assessment of manufactured homes. The program conforms to statutory provisions and is well-administered. Overall, we found no problems with the assessment of manufactured homes.

**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 (the contrast between general aircraft and certificated aircraft is discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the Board. Section 5364 requires the Board to establish such standards. On January 10, 1997, the Board approved the Aircraft Bluebook-Price Digest (Bluebook) as the primary guide for valuing aircraft, with the Vref Aircraft Value Reference (Vref) as an alternative guide for aircraft not listed in the Bluebook.

For the 2006-07 assessment roll, the assessor enrolled 894 general aircraft with a total assessed value of $218,165,870. An auditor-appraiser and an assessment technician administer the assessor's aircraft program. The assessor discovers aircraft through airport operators' reports, referrals from other counties, Federal Aviation Administration reports, and physical inspections of airports.

An aircraft property statement is mailed each year to the known owner of each aircraft in the county. The statement is comprehensive and requests the owner to report any optional equipment, engine hours since last major overhaul, date of last overhaul, airframe hours, overall condition, current situs information, and transfer information if applicable. A cover letter mailed with the statement requests a response within 15 days.

Upon receipt of the aircraft property statement, an auditor-appraiser incorporates adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

In our 2003 survey, we recommended that the assessor apply a 10 percent penalty for failure to file aircraft property statements. We found that the problem still exists, and we therefore repeat the recommendation.
RECOMMENDATION 9: Apply a 10 percent penalty for failure to timely file aircraft property statements.

When a property owner fails to return the aircraft property statement within the time specified, the assessor does not apply the required 10 percent penalty.

Section 5367 provides that if the aircraft owner does not file the aircraft statement by the time specified by the assessor, a penalty of 10 percent of the aircraft's market value shall be added to the assessment placed on the current roll.

The penalty provision is intended to promote compliance with the law.

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 a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the Board). 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. The auditor-appraisers responsible for aircraft valuation predicate their appraisals of certificated aircraft on the reported costs from the business property statements of the carriers. The auditor-appraiser then applies the percentage of time the aircraft was situated in Ventura County based on a one-week sample, ground time and air time, to the carrier's total audited fleet estimate of value to derive an estimate of the certificated aircraft value for Ventura County.

We reviewed the certificated aircraft appraisal procedures and found them to be correctly administered and the estimates of values 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 exemption is claimed.

There were 125 historical aircraft assessed on the 2006-07 roll in Ventura County with a total value of $5,759,700. The assessor properly obtains signed affidavits, in the format prescribed by the Board, and certifications of attendance for historical aircraft exemptions claimed within the county pursuant to section 220.5(c).

We found that the assessor has properly assessed these aircraft and applied the exemption when the legal conditions are met. We were also able to confirm that the assessor correctly denied the exemption when the affidavit was not filed, and that he properly applied a partial exemption when the required filing documents were filed between February 15 and August 2 in compliance with section 276.5. In summary, we found the historical aircraft exemption program to be properly administered.

**Vessels**

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include State Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

Ventura County is a coastal community with an active pleasure vessel and commercial fishing industry. The assessor enrolled 29,239 vessels on the 2006-07 assessment roll, with a total assessed value of $315,587,017.

An auditor-appraiser, assisted by an assessment technician, administers the assessor's vessel program. The primary sources of discovery are DMV reports, marina lists, and referrals from other counties. Vessels are valued using data from the *BUC Used Boat Price Guide* (BUC) and the *National Automobile Dealers Association Small and Large Boat Appraisal Guides* (NADA). If current or reliable information is not available in the published value guides, the assessor uses information from a variety of other sources, including manufacturer and dealer websites, local broker sales listings, boat shows, and published private advertisements.

In our 2003 survey, we recommended that the assessor: (1) annually appraise all vessels at market value, (2) require vessel owners to file annual vessel property statements for vessels costing $100,000 or more, and (3) require a current certification of inspection for documented vessels, as provided by section 227.

We found that the assessor now annually conducts a vessel valuation survey using current market data from NADA to develop market value indicators for vessels. The findings are applied in the form of a trend to calculate assessed values of vessels. We also found that the assessor now annually sends form BOE-576-D, *Vessel Property Statement*, to the owner of each vessel falling under the cost guidelines prescribed in section 441. Finally, we established that the assessor now requires and collects a current certificate of inspection for documented vessels pursuant to section 227. However, we did discover one problem concerning vessel property statements.
**RECOMMENDATION 10:** Apply a 10 percent penalty for failure to file or late-filing of Board-prescribed *Vessel Property Statement* as required by section 463.

We found that when a vessel owner fails to file form BOE-576-D, *Vessel Property Statement*, or files that statement after the statutory deadline, the assessor does not apply the required 10 percent penalty pursuant to section 463.

Section 441 requires owners of taxable personal property with an aggregate cost of $100,000 or more to file an annual property statement. Upon the request of the assessor, every person owning personal property must file a signed property statement regardless of the aggregate cost. These requirements also apply to the vessel property statement.

Section 463 specifically requires the assessor to add a 10 percent penalty to the assessed value when a taxpayer fails to file a property statement or files that statement after the statutory deadline. The application of the penalty, when prescribed, encourages taxpayer's compliance with the obligations pursuant to section 441, and consequently, reduces the likelihood of escaped property resulting from the lack of consistent reporting.

Certain commercial vessels may qualify for a 4 percent assessment (i.e., a 96 percent exemption) if they meet the requirements set forth in section 227. In order for the vessel to qualify for the exemption, the owners must file an *Affidavit For 4 Percent Assessment Of Certain Vessels* (form BOE-576-E). If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted as provided in section 275.5. If the affidavit is filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent (80 percent of the 96 percent exemption). However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

For the 2006-07 assessment year, there are 83 commercial vessels that qualify for the 96 percent exemption provided in section 227. We reviewed several commercial vessel assessments and found that the exemption forms were filed and exemptions granted as appropriate.

**Animals**

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

Show horses are one of the few types of animals subject to property taxation. Show horses (and other nonexempt horses) are assessed in the same manner as any other personal property.

The assessor has enrolled 50 active show and breeding horses. He annually sends a *Registered and Show Horses Other Than Racehorses* (form BOE-571-F2) or *Horse Property Statement (Other Than Racehorses)* (form BOE-571-K) to the owners of these horses. The
assessable horses in the ten stables in Ventura County were assessed at $4,695,907 for the 2006 roll year.

We reviewed the procedures for assessing taxable show horses and found that the program is being administered correctly. We found no problems with the assessor's animal assessment program.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Ventura County

Chief
Dean Kinnee

Survey Program Director:
Arnold Fong  Principal Property Appraiser

Survey Team Supervisor:
Bob Reinhard  Supervising Property Appraiser

Survey Team Leader:
Dale Peterson  Senior Specialist Property Auditor-Appraiser
Pam Bowens  Senior Specialist Property Auditor-Appraiser

Survey Team:
Jim McCarthy  Senior Petroleum and Mining Appraisal Engineer
Carlos Zaragoza  Senior Specialist Property Auditor-Appraiser
Bob Donay  Associate Property Appraiser
Chuck Matura  Associate Property Appraiser
Tom McClaskey  Associate Property Appraiser
Nick Winters  Associate Property Appraiser
Lloyd Allred  Associate Property Auditor-Appraiser
Jeffrey Arthur  Associate Property Auditor-Appraiser
Alan Dannen  Associate Property Auditor-Appraiser
Ella Chin  Tax Technician I
B. Assessment Sampling Program

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

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

The Board's County-Assessed Properties Division (CAPD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

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

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

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

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

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

---

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

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

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

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

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

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

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

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

Government Code

15640. Survey by board of county assessment procedures.

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

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

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

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

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

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

15641. Audit of records; appraisal data not public.

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

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

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any
information and records relating to an appraisal of his or her property, including "market data" as defined
in Section 408. However, no information or records, other than "market data," which relate to the property
or business affairs of a person other than the assessee shall be disclosed.
Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

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

15643. When surveys to be made.

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

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

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

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

15644. Recommendations by board.

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

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

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

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

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

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

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

Rule 370. **Random selection of counties for representative sampling.**

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

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

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

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

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

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

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

Rule 371. **Significant assessment problems.**

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

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

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

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

(1) Uniformity of treatment for all classes of property.

(2) Discovering and assessing newly constructed property.

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

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

(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 BOARD'S FINDINGS

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

The Ventura County Assessor's response begins on the next page. The Board has no comments on the response.
September 25, 2008

Mr. Dean Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
450 N Street
Sacramento, Ca 94279-0062

SUBJECT: Response to Assessment Practices Survey – October 2006

Enclosed you will find our department’s finalized responses to the confidential post – conference draft of the Ventura County Assessor’s Assessment Practices Survey Report. I would appreciate these responses included in the final product. I also want to thank your survey team for their professionalism in the performance of their assignment.

Please contact Frank Newell at 805-477-1514 or Mike Winton at 805-645-2155 if you have any questions or need further clarification.

Thank you for time and professional help in directing this survey.

Very truly yours,

Dan Goodwin,
Assessor Ventura County

cc: Mr. David Gau
Mr. Arnold Fong
Mr. Robert Reinhard
SBE Assessment Survey
Assessor Responses to Recommendations 1-10

Recommendation 1: Request the Board of Supervisors revise the disaster relief ordinance to conform to statutory provisions.

Response:

We agree with the recommendation. As noted in the survey, we have followed the current provisions in Revenue and Taxation Code section 170, however, the County ordinance had not been changed to conform to current statutory provisions.

We have worked with the Ventura County Board of Supervisors to revise the current ordinance to reflect the changes that have been made in Revenue and Taxation Code section 170 since the last revision of the ordinance in 1982. On July 22, 2008, the Board of Supervisors adopted the revised ordinance we drafted to reflect the most current language in Revenue Code Section 170.

Recommendation 2: Annually review all parcels that have experienced a decline in value as required by Section 51 (e).

Response:

We agree and have implemented steps to comply with the recommendation that all parcels that have experienced a decline in value under Section 51 (e) be reviewed annually. Since the Survey visit in the fall of 2006, the Assessor has implemented AES Rapid 2000 (AMS), an Automated Valuation CAMA program for use in the Residential Services group. In the initial roll out of AMS for the 2007 assessment roll; the Residential Service group reviewed approximately 18,000 properties for decline in value. These reviews resulted in approximately 9,000 assessment reductions throughout the county. For the 2008 assessment roll, approximately 43,000 properties were reviewed, with 34,000 receiving assessment reductions. With this tool in place, we now have the capacity to annually analyze the market values and implement decline-in-value reviews, as well as base value restorations when they may occur throughout the county.

We also have a program for property owners to request a decline-in-value review and have initiated procedures for a review if a request is submitted after the close of the roll. Where applicable, we use the assessment roll correction process to address the requests filed after the roll close.

The Business Valuation group subscribed to several economic forecasting resources and commercial sales data bases in 2007 to aid in determining Commercial and Industrial properties.
that may need to be reviewed under Section 51(e). These industry publications provide forecasts for specific industries by property types and regions. In addition, we are identifying areas that may need to be reviewed by analysis of the Applications For Changed Assessment filed for decline in value. The backlog of Commercial and Industrial decline-in-value reviews from prior years, were completed for the 2007 and 2008 assessment rolls.

The Assessor is reviewing other resources and methods to continue to add cost efficient and effective means of both identifying and analyzing for decline in value. Our goal is to maintain a current inventory and annually review all declines in value under Section 51(e).

Recommendation 3: Deduct a charge for the return of the irrigation well value from income attributable to the property.

Response:

We agree and will make modifications to our CLCA program and develop procedures to deduct a charge for the return of the irrigation well value from the income attributable to the real property on these properties.

Recommendation 4: Improve the mutual water company properties assessment program by: (1) reviewing all mutual water company assessments for possible double assessments, and (2) obtaining the articles of incorporation and other relevant property tax documents from each mutual water company.

Response:

We agree and are analyzing the assessments of the mutual water companies and will correct any double assessments.

We will continue to mail and request water company property statements annually and review their articles of incorporation to ensure double assessments do not occur. Staff will continue to request copies of articles of incorporation and by-laws for newly discovered mutual water companies. In addition, we will request any documentation on mutual water companies we discover missing from our records.

Recommendation 5: Reflect oil well abandonment costs as provided in Assessors' Handbook section 566.

Response:

We disagree with a key part of this recommendation for the reasons discussed below.

1) We agree, in part, with this recommendation that there needs to be an accounting of abandonment expenses; but disagree as to the point in time when to account for them in the discounted cash flow (DCF) analysis. The recommendation, if applied, would prematurely schedule accounting for oil well abandonment costs, which is inconsistent with standard
appraisal theory and creditable market evidence. The actions of market participants indicate owners typically defer these costs until at least the end of the production cycle and frequently years after a well has been idled. Specifically, we find that market data points to making an allowance for well abandonment after the last year of well production. This methodology has been verified by a neighboring county in its analysis of more than 50% of the market data occurring in California for their study period. Inasmuch as county borders do not geographically confine this industry’s market participants, and their market actions are repetitive throughout California’s alternative locations, this study is considered very applicable to Ventura County as well. However, if the taxpayer provides a dependable abandonment schedule, we have and will continue to account for the costs as the taxpayer reasonably anticipates in their pro forma.

2) We account for abandonment costs when they are anticipated to occur. This is consistent with Board Rule 8, the Assessor’s Handbook 501 and 502, and the decision in Dominguez v. County of Los Angeles (1997) 56 Cal.App.4th 839. This recommendation is in conflict with the above and would result in an underassessment.

Our office will seek to confirm details and provide evidence from within Ventura County for well abandonment cycles in addition to that provided by an adjacent county. Our efforts to study the intra-county market data will include questionnaires. We will continue to make efforts to discover and document local evidence to further resolve this area of disagreement.

Recommendation 6: Determine declines in value based on the full appraisal unit of mineral properties in accordance to Rule 469 (e) (2) (c).

Response:

We agree with this recommendation. Staff will adjust the procedures and practices for mineral properties to comply with Rule 469 (e) (2) (c). In measuring the decline in value for the mineral properties, we will include the improvement, fixtures as well as the land and reserves in the appraisal unit.

Recommendation 7: Timely audit the books and records of professions, trades and business pursuant to section 469.

Response:

We agree with this recommendation. We have adjusted the procedures and practices to provide for timely audits of the books and records of professions, trades and businesses pursuant to section 469.

The audit production standards per auditor appraiser have been increased as the recently hired staff of auditors completed their training and increased their ability to produce more audits. In addition, we obtained waivers of the statute of limitations on all audits that are in arrears. We have implemented this recommendation as of the 2008 assessment roll.
Recommendation 8: Use Table 5 of the Assessors' Handbook Section 581 for mobile construction equipment as intended.

Response:

We agree with this recommendation. Staff has adjusted the procedures and practices for mobile construction equipment assessments to comply with Assessors’ Handbook Section 581. We have created tables for the assessment of both new and used mobile construction equipment. We have applied this recommendation as of the 2008 assessment roll.

Recommendation 9: Apply a 10 percent penalty for failure to timely file aircraft property statements.

Response:

We agree with this recommendation. Staff will adjust the procedures and practices for aircraft to comply with a 10 percent penalty for failure to file timely Aircraft Property Statements. We have targeted the 2009 assessment roll for implementing this recommendation.

Recommendation 10: Apply a 10 percent penalty for failure to timely file or late filing of Board-prescribed Vessel Property Statement as required by Section 463.

Response:

We agree with this recommendation. Staff will adjust the procedures and practices for Vessel Property Statements that are not filed or filed late to comply with Rule 463. We have targeted the 2009 assessment roll for implementing this recommendation.