VENTURA COUNTY
ASSESSMENT PRACTICES SURVEY

 APRIL 2003

CALIFORNIA STATE BOARD OF EQUALIZATION

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April 30, 2003

TO COUNTY ASSESSORS:

VENTURA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Ventura County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Dan Goodwin, 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 in the report. This report and the county assessor's response constitute the final survey report. Pursuant to Government Code section 15646, this report 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.

The BOE's County Property Tax Division performed fieldwork for this survey of the Ventura County Assessor's Office during January and February 2002. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Goodwin and his staff for their cooperation and patience during this assessment practices survey. These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department
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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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

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

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, the Ventura County Grand Jury and the Ventura County 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 our survey; that response is included in this report following the Appendices.

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

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor. In addition, Revenue and Taxation Code section 75.60 requires the BOE to certify whether the county assessment roll meets a minimum assessment level.\(^1\) This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Ventura County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Ventura County with information relevant to the property tax assessment program. Since this survey did not include an assessment sampling pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined in rule 371.\(^2\)

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

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

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\(^1\) All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

\(^2\) All rule references are to the California Code of Regulations, Title 18, Public Revenues.
EXECUTIVE SUMMARY

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

In our 1997 survey, we made 19 recommendations addressing problems found in the assessor's policies and procedures. The assessor has implemented 11 and partially implemented one of those recommendations. Due to the revised scope of our survey research, one recommendation is no longer made. The remaining six recommendations were not implemented. The seven recommendations not implemented, or implemented in part, are repeated in this report.

In the area of general administration, we noted several positive aspects:

• Through his participation in the State-County Property Tax Administration Loan Program (PTAP), the assessor has lessened backlogs in several areas of his workload.
• We found that the assessor and his appraisal staff possess the appraiser's certificates required by section 670.
• The assessor has an effective assessment appeals program.
• The assessor's low-value property exemption program conforms to statutory requirements.

Several administrative components of the assessor's programs have room for improvement:

• We found that the assessor's operations manual is incomplete and in need of updating.
• The assessor failed to submit rearranged and final prints of BOE-prescribed forms for review and approval.
• We found that the county's Web site contains outdated forms.
• The assessor fails to obtain all fire reports from the city and county fire departments to help with discovering property subject to disaster.
• When enrolling escape assessments, the assessor does not include the notation required by section 533.
• The assessor fails to wait for BOE approval of first-time filings for the welfare exemption.
• The assessor has not properly identified horses subject to the in-lieu racehorse tax.

In the area of real property assessment, the assessor has effective programs for the enrollment of changes in ownership, supplemental assessments, historical property, leasehold improvements, and pipeline rights-of-way. However, we noted the following deficiencies in his real property program:

• Annual decline-in-value reviews are approximately two years behind schedule.
• The assessor should revise irrigation labor costs assigned to properties under California Land Conservation Act contract.

• The assessor does not include the notation on the assessment roll for Timberland Production Zone property as required by section 433.

• When valuing possessory interests by the income approach, the assessor fails to recognize lessor expenses. Otherwise, we found the possessory interest assessment program to be well-managed, including effective discovery techniques, consistent appraisal procedures, and thorough documentation.

• Mutual water companies appear to be double assessed. In contrast, the program for assessing regulated water companies is commendable.

• In his assessments of petroleum-producing property, the assessor does not use market price forecasts to establish future income; moreover, abandonment costs associated with oil wells are not reflected in the year they occur.

• When reviewing mineral properties for potential declines-in-value, the assessor should consider the full appraisal unit.

In the area of personal property and fixture assessment, we found several strong points. We found that the assessor has an effective leased equipment program; that he properly uses the Aircraft Bluebook-Price Digest and the VREF valuation guides for appraising general aircraft; and that he now consistently applies adjustments for aircraft engine hours above or below average.

We also noted areas of personal property and fixture assessment where the assessor should make changes:

• The assessor does not complete all of his mandatory audit workload in a timely manner, fails to obtain waivers of the statute of limitations when audits will not be completed timely, and fails to audit years for which the statute of limitations has expired.

• The assessor inappropriately accepts incomplete business property statements.

• The assessor's method of applying percent good factors to older equipment still in service, as well as new and used agricultural equipment, is contrary to Assessors' Handbook Section 581.

• The assessor misclassifies manufactured homes as real property.

• The 10 percent penalty should be applied to aircraft owners who fail to file the annual aircraft property statement.

• The assessor inappropriately depreciates vessel assessments using a three-year-cycle adjustment, fails to send vessel statements to owners of vessels costing $100,000 or more,
and does not keep current United States Coast Guard certificates of inspection on file for documented vessels.

Although we found a deficiency in mandatory audit production, petroleum properties, and California Land Conservation Act properties, which are "significant assessment problems" as defined in rule 371, we believe these areas do not suggest that the assessment roll would fail to meet the requirements of section 75.60. Accordingly, Ventura County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Complete and update the Assessor's Operations Manual........14

RECOMMENDATION 2: Submit rearranged and final prints of all BOE-prescribed forms for approval.................................................................15

RECOMMENDATION 3: Maintain only current BOE-prescribed forms on the county's Web site.................................................................15

RECOMMENDATION 4: Obtain fire reports from local fire departments to improve the discovery of properties eligible for disaster relief..............17

RECOMMENDATION 5: Include the notation required by section 533 when enrolling escape assessments..................................................18

RECOMMENDATION 6: Follow statutory procedures governing the approval of all newly filed welfare exemption claims. ..........................21

RECOMMENDATION 7: Follow statutory guidelines when administering the racehorse tax.................................................................22

RECOMMENDATION 8: Annually review all parcels that have experienced a decline in value, as required by section 51(e)...............................25

RECOMMENDATION 9: Revise the irrigation labor costs imputed to CLCA properties...27

RECOMMENDATION 10: Note "Timberland Production Zone" or "TPZ" properties on the assessment roll for TPZ properties as required by section 433.................................................................28

RECOMMENDATION 11: Recognize lessor expenses when valuing taxable possessory interests by the income approach .......................................29

RECOMMENDATION 12: Review all mutual water company assessments for possible double assessments..................................................32
RECOMMENDATION 13: Value petroleum-producing properties in accordance with rules 8 and 468. .................................................................33

RECOMMENDATION 14: Reflect oil well abandonment costs in the year they occur or establish a sinking fund allocation. ........................................34

RECOMMENDATION 15: Determine declines in value based on the full appraisal unit of mineral properties in accordance with rule 469(e)(1)(c)............34

RECOMMENDATION 16: Bring the mandatory audit program to current status...............37

RECOMMENDATION 17: Seek a waiver of the statute of limitations when a mandatory audit will not be completed timely. .................................38

RECOMMENDATION 18: Perform all mandatory audits, including those where the statute of limitations has expired.................................38

RECOMMENDATION 19: Accept only complete business property statements...........39

RECOMMENDATION 20: Discontinue using arbitrary minimum valuation factors........40

RECOMMENDATION 21: Use the appropriate percent good factors for new and used agricultural equipment.........................................................40

RECOMMENDATION 22: Enroll manufactured homes as personal property. ..............43

RECOMMENDATION 23: Annually review manufactured home assessments for possible declines in value..............................................................43

RECOMMENDATION 24: Apply the 10 percent penalty for failure to file aircraft property statements.................................................................44

RECOMMENDATION 25: Annually appraise all boats at market value......................45

RECOMMENDATION 26: Require vessel owners to file annual vessel property statements for boats costing $100,000 or more.................................46

RECOMMENDATION 27: Require a current certificate of inspection for documented vessels, as provided by section 227.................................46
RESULTS OF THE 1997 SURVEY

Budget and Workload
We recommended that the assessor conduct a budget and workload study to determine whether staffing was at a sufficient level to fulfill all statutory requirements. Due to the revised scope of our survey research, however, we no longer examine internal management functions of the assessor's office outside those areas related to assessment. Consequently, our prior recommendation no longer applies.

Disaster Relief
We recommended that the assessor develop a program for cooperating with local fire departments in identifying properties that may have been damaged or destroyed. During our current survey we found that the assessor had not implemented our recommendation. Therefore, we repeat it in this report.

Assessment Roll Changes
We recommended that the assessor include the caption required by section 533 on all applicable escape assessments. We found that the assessor has not implemented this recommendation, and we repeat it.

Racehorse Tax
We recommended that the assessor follow statutory requirements when assessing racehorses. During our current survey we found that the assessor continues to exempt from ad valorem taxation all breeds of horses that could be eligible for taxation as racehorses, without considering whether they meet the required criteria in section 5703. Therefore, we repeat our prior recommendation.

Change in Ownership
We recommended that the assessor annually apply the inflation factor to new base year values resulting from changes in ownership and new construction occurring between the lien date and June 30 of each calendar year. The assessor now properly adjusts base year values as prescribed in section 75.18.

The assessor also failed to apply penalties to those assessments where the taxpayer did not respond to a request for a change in ownership statement. The assessor now applies the statutorily required penalties.

New Construction
We recommended that the assessor assess landscaping added to newly constructed single-family residences. Our current review of the assessor's new construction program showed that the
assessor now includes the value of landscaping when the residence transfers; any value attributable to landscaping is reflected in the new base year value of the property established by the assessor.

**California Land Conservation Act Property**

We recommended that the assessor deduct a charge for return on and of investment in irrigation systems and recapture of irrigation wells from the gross income of irrigated crop land. The assessor has fully implemented this recommendation.

**Taxable Government-Owned Property**

We recommended the assessor enroll all government-owned properties located outside the jurisdiction of the agencies owning those properties. We found that only several very low-valued properties may have since gone unassessed, and the assessor is investigating these. Therefore, we do not repeat our prior recommendation.

**Taxable Possessory Interests**

We recommended that the assessor revise the possessory interest assessment program by properly valuing redevelopment agency properties in accordance with the Health and Safety Code. The assessor has fully implemented this recommendation.

**Manufactured Homes**

We made a two-part recommendation regarding manufactured homes. First, we recommended that the assessor place greater emphasis on the use of recognized value guides. Second, we recommended that manufactured homes be reviewed annually for declines-in-value.

We found that the assessor has fully implemented only the first part of this recommendation. While a few decline-in-value reviews have been completed for manufactured homes in rental parks, the reviews have not been conducted on an annual basis.

**Water Companies**

We recommended a revision to the county's *Utility Water Company Property Statement*. We found that the assessor now uses BOE-prescribed form BOE-540-S, *Mutual or Private Water Company Property Statement*. The assessor has fully implemented this recommendation.

**Audit Program**

We recommended that the assessor maintain staffing levels sufficient to allow completion of all mandatory audits. We found that the assessor is still behind in his mandatory audit program.

We also recommended that the assessor revise escape assessment procedures by (1) enrolling all escape assessments and (2) following statutory requirements when determining audit results and enrolling escaped assessments. We found that the assessor has fully implemented both parts of this recommendation.
Property Statement Processing

We recommended that the assessor expand his efforts to discover changes in control noted on the business property statements and document that they have been investigated and resolved. We found that the assessor has complied with this recommendation.

Aircraft

We recommended that the assessor mail annual aircraft questionnaires and make engine-hour adjustments when appraising private aircraft. We also recommended that the assessor annually appraise aircraft at market value. We found that the assessor has fully implemented both recommendations.

Vessels

We recommended that the assessor appraise all vessels at market value. We also recommended that the assessor annually mail to certain vessel owners the annual vessel property statement. Our review of the assessor's vessel program shows that these problems have not been resolved.
OVERVIEW OF VENTURA COUNTY AND THE ASSESSOR'S OFFICE

Ventura County is located northwest of Los Angeles County and bordered by Kern County to the north, Santa Barbara County to the west, and the Pacific Ocean to the southwest. Ventura County ranks 26th in land size and 12th in population among California's 58 counties. It has 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 is anchored by agriculture, with crop values totaling over $1 billion in 1999, ranking the county 10th in agricultural production among California counties. Other major contributors in the local economy include biotechnology, telecommunications and advanced technologies, manufacturing, tourism, and military testing.

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).

The City of Ventura is the county seat. Governed by a five-member board of supervisors, Ventura County's population is approximately 750,000, with 170,000 persons residing in Oxnard, the county's largest incorporated city.

Budget

The assessor's budget for recent years is shown in the following table:

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>FINAL BUDGET</th>
<th>% CHANGE</th>
<th>NO. POSITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>$9,449,402</td>
<td>+7.11%</td>
<td>141</td>
</tr>
<tr>
<td>2000-01</td>
<td>$8,822,087</td>
<td>+4.15%</td>
<td>134</td>
</tr>
<tr>
<td>1999-00</td>
<td>$8,469,858</td>
<td>+4.78%</td>
<td>140</td>
</tr>
<tr>
<td>1998-99</td>
<td>$8,082,982</td>
<td>+5.20%</td>
<td>136</td>
</tr>
<tr>
<td>1997-98</td>
<td>$8,041,100</td>
<td>------</td>
<td>132</td>
</tr>
</tbody>
</table>

Workload

The assessor produced a local assessment roll for 2001-02 consisting of 316,859 assessments (246,730 on the secured roll and 70,129 on the unsecured roll). The 2001-02 roll had a gross taxable value of $59,943,022,036, which was an increase of 7.3 percent over the 2000-01 roll total of $55,884,692,887.
The 2001-02 real property workload consisted of approximately 38,379 transfers and 6,634 instances of new construction. The roll included 2,248 manufactured homes, 4,906 taxable possessory interests, 1,536 California Land Conservation Act parcels, 30,748 decline-in-value properties, 821 foreign improvements (those on land owned by another person), and various other categories of property. The assessor's staff also completed a business property workload that included approximately 25,200 business property statement reviews (both secured and unsecured), 29,263 vessel assessments, and 872 aircraft assessments.

For the 2001-02 roll year, the assessor assessed 210,279 residential properties having an assessed value of $43.7 billion; 17,234 rural or agricultural properties assessed at $9.004 billion; and 10,123 commercial or industrial properties assessed at $3.1 billion.

The following table shows the distribution of these property types for the last five years:

<table>
<thead>
<tr>
<th>ROLL YR.</th>
<th>NO. OF ASSESSMENT ROLL UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RESIDENTIAL</td>
</tr>
<tr>
<td>2001-02</td>
<td>210,279</td>
</tr>
<tr>
<td>2000-01</td>
<td>207,189</td>
</tr>
<tr>
<td>1999-00</td>
<td>200,953</td>
</tr>
<tr>
<td>1998-99</td>
<td>215,119</td>
</tr>
<tr>
<td>1997-98</td>
<td>205,427</td>
</tr>
</tbody>
</table>

Staffing

The assessor's office has 141 budgeted positions. This staff has produced a local roll as shown on the following table:

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>NO. OF ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>316,859</td>
</tr>
<tr>
<td>2000-01</td>
<td>313,788</td>
</tr>
<tr>
<td>1999-00</td>
<td>281,807</td>
</tr>
<tr>
<td>1998-99</td>
<td>333,456</td>
</tr>
<tr>
<td>1997-98</td>
<td>271,117</td>
</tr>
</tbody>
</table>

The deputy assessor manages all valuation functions, both real property and business property. The residential section is divided into three geographic areas. The residential sections consist of
four appraiser III's, 16 appraiser II's, 11 appraiser I's, five appraiser trainees, three appraiser technicians, one office assistant IV, and two office assistant II's. Three principal appraisers are responsible for all residential properties within their areas, with some exceptions.

The special property section handles service stations, agricultural properties, hotels and motels, apartments, taxable government owned properties, and possessory interest assessments. This section consists of one principal appraiser, one appraiser III, six appraiser II's, one appraiser I, one appraiser trainee, one appraiser technician, and one office assistant II.

There is also a commercial and industrial section which consists of one principal appraiser, two appraiser III's, six appraiser II's, one appraiser technician, and one office assistant II.

The business property section consists of two principal appraisers, two auditor-appraisers, five auditor-appraiser II's, three auditor-appraiser I's, four auditor-appraiser trainees, one appraiser II, one appraiser I, one office assistant III, one office assistant I, and one appraiser technician III.

In addition, to the above positions, the assessor has 52 other staff members performing various support functions.
ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the county's participation in the State-County Property Tax Administration Loan Program, certification of appraisal staff, assessment forms, the preparation and presentation of assessment appeals, disaster relief, changes to the completed assessment roll, the low-value property exemption, and the church, religious, and welfare exemptions.

State-County Property Tax Administration Loan Program

Enactment of section 95.31 established the State-County Property Tax Administration Loan Program (PTAP); this program provides state-funded loans to eligible counties for the improvement of property tax administration.³

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

Ventura County has participated in the PTAP every year since 1995-96. During fiscal year 2000-01, the county borrowed $1,477,789. The county's required base funding and staffing levels for the assessor's office is $6,183,500 and 96 positions, respectively. The Ventura County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment.

The assessor has used PTAP funds to reduce backlogs of assessment appeals and decline-in-value reductions by devoting more staff positions to these important functions. Funds have also been used to increase the time spent on nonfiling and other problem business property accounts, and to decrease the backlog of mandatory audits. All of these contract goals were accomplished by hiring numerous fixed-term employees (primarily real property appraisers, with several auditor appraisers as well). Many of these employees now have permanent status.

³ AB 818, Ch.914, Stats. 995. This program expired June 30, 2001. AB 589 (Ch. 521, Stats. 2001) established the Property Tax Administration Grant Program for fiscal years 2002-03 through 2006-07. The new grant program will operate in essentially the same manner as the loan program, except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.
Appraiser Certification

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid certificate issued by the BOE. The assessor's office has a total of 70 employees who are required to hold an appraiser's certificate.

Based on information obtained from the BOE training unit and the assessor records, we confirmed that the assessor and his staff possess the required certificates. The assessor does not employ contract appraisers.

Standards and Quality Control

Procedures Manual

Written valuation and review procedures are important components of an internal control system that promotes uniformity and ensures accurate assessments. A comprehensive procedures manual can provide specific standards and uniform procedures to assist the assessor's staff in the preparation of appraisal reports, as well as other technical work products. Up-to-date manuals can help ensure that the work is consistent with approved policies and practices.

RECOMMENDATION 1: Complete and update the Assessor's Operations Manual.

We found the Assessor's Operations Manual (AOM) incomplete and outdated. There are ten sections in the manual. One section has not yet been started, while two sections have not yet been completed. Additionally, most of the seven completed sections have not been updated in over ten years.

The foreword in the AOM states that the purpose of the manual is threefold:

• To document the assessor's policies and procedures used to create an organized and coordinated effort toward one end – equitable assessments.

• To document the parameters governing policies and procedures including the requirements and responsibilities of each employee.

• To give personnel a better understanding of what is expected of them.

A completed and updated operations manual would help ensure compliance with any changes to the law and lessen the chance of misinterpretation during meetings or verbal discussions. We recommend that the assessor complete and update the Assessor's Operations Manual as soon as possible.
Assessment Forms

Section 15606(d) of the Government Code requires the BOE to prescribe and enforce the use of all forms for assessment purposes. The BOE publishes an annually updated list of prescribed and recommended forms in Assessors' Handbook Section 222, Standard Form List. While the assessor may rearrange the layout of a BOE-prescribed form to suit his or her local needs, he or she may not add to or delete specific language on the form. In addition, any rearranged forms must be approved by the BOE prior to use.

The BOE annually sends three checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, return the property statements and miscellaneous forms checklists by October 15, and return the exemption forms checklist by December 1. Assessors are also required to submit to the BOE, by February 10, the final prints of all forms they will use.

RECOMMENDATION 2: Submit rearranged and final prints of all BOE-prescribed forms for approval.

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

We recommend the assessor submit the final prints of those rearranged forms to the BOE for approval before using them.

RECOMMENDATION 3: Maintain only current BOE-prescribed forms on the county's Web site.

We found that three of the BOE-prescribed forms posted on the county's Web site were outdated.

We recommend that the assessor post only current BOE-prescribed forms on the county's Web site.

Assessment Appeals

The assessment appeals function is mandated by article XIII, section 16, of the California Constitution. Sections 1601 through 1641.1 are statutory provisions governing county boards of supervisors in the appeals function. In addition, Government Code section 15606(c) directs the

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4 Government Code section 15606(d); Revenue and Taxation Code sections 480(b), 480.2(b), 480.4(b); rules 101 and 171.

5 Rule 171(a).
BOE to prescribe rules and regulations to govern local boards of equalization. Pursuant to that mandate, the BOE has adopted rules 301 through 326 regarding assessment appeals.

A review of the appeals function involves both the activities of the assessor's office and the activities of the county assessment appeals board as they relate to assessment appeals. The two entities must have a working relationship in order to make the entire appeals process effective and efficient, particularly for scheduling and document processing purposes. However, at the same time, they must maintain the statutory separation of authority and responsibility of both agencies.

The board of supervisors has created one assessment appeals board consisting of three members. The following data represents the number of Applications for Changed Assessment (Form BOE-305-AH) received by the assessment appeals clerk.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>REAL PROPERTY</th>
<th>BUSINESS PROPERTY</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>1,065</td>
<td>142</td>
<td>1,207</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,256</td>
<td>174</td>
<td>1,430</td>
</tr>
<tr>
<td>1999-00</td>
<td>2,009</td>
<td>361</td>
<td>2,370</td>
</tr>
<tr>
<td>1998-99</td>
<td>2,128</td>
<td>91</td>
<td>2,219</td>
</tr>
<tr>
<td>1997-98</td>
<td>4,830</td>
<td>111</td>
<td>4,941</td>
</tr>
<tr>
<td>1996-97</td>
<td>6,408</td>
<td>157</td>
<td>6,565</td>
</tr>
</tbody>
</table>

In our review of assessment appeal cases prepared by the assessor, we found all supporting evidence to be well documented and organized in a professional manner. Our sampling included single-family residences, commercial properties, and industrial complexes.

The assessor's assessment appeals program appears to be in compliance with all applicable rules and statutes. It includes timely resolution of cases, adherence to filing periods, and adequacy of written findings and conclusions.

**Disaster Relief**

Section 170 authorizes a county board of supervisors to adopt an ordinance that provides property tax relief to assessees whose property has been damaged or destroyed without the assessees's fault. The ordinance may limit relief to Governor-declared disasters or it may apply to both Governor-declared and other disasters, as the board of supervisors determines. At the time of our review, relief was available when a property suffered damage of $5,000 or more. Under section 170 the assessor reduces the assessment on the current roll based on the ratio of market value of land and improvements both before and after the loss. To obtain relief under this ordinance, the assessees must generally make a written application to the assessor requesting reassessment.
The Ventura County Board of Supervisors adopted an ordinance, last updated August 3, 1979, which makes disaster relief available to property owners in Ventura County. The assessor administers tax relief for properties that have sustained damage in accordance with section 170 using the procedures in the assessor's policies and procedures manual.

Effective January 1, 2002, section 170 was significantly revised in several respects:

- The board of supervisors may specify in the local ordinance that the assessor may initiate the reassessment of property where the assessor determines that taxable property within the county has been damaged or destroyed within the preceding 12 months;

- Where the assessor does not have the general authority to initiate reassessment, he or she may reassess a particular property with the approval of the board of supervisors;

- The property owner now has 12 months or the period established by local ordinance, whichever is longer, to file a claim for reassessment;

- The damage threshold has been raised to $10,000;

- The property owner now has six months to file an application to appeal a damage-adjusted value;

- The assessor may now notify owners of properties damaged within the preceding 12 months that they may file a claim, and the owner has 60 days to file the application after receipt; and

- The ordinance may provide that where no application is made, the assessor may reduce taxable values of property experiencing a misfortune or calamity up to 12 months after the disaster.

In our prior survey, we recommended the assessor obtain fire reports from all fire departments within the county. The assessor still does not obtain fire reports from fire protection agencies; rather, he relies solely on newspaper articles and building permits as discovery methods. We therefore repeat this recommendation.

**RECOMMENDATION 4:** Obtain fire reports from local fire departments to improve the discovery of properties eligible for disaster relief.

We found that the assessor does not request or receive a listing of structural fires from any of the fire agencies in Ventura County.

We believe that the assessor should utilize all available sources to discover properties suffering a misfortune or calamity. These sources include building permits, fire reports, newspaper articles, etc. Regularly obtaining fire reports may result in the discovery of calamities that would otherwise go unnoticed. Information will be received timely and will permit the assessor to make a prompt response after the disaster. Damage estimates included in fire reports can aid in screening applications for the minimum loss threshold.
We recommend that the assessor obtain fire reports from all fire protection agencies in the county on a regular basis.

**Assessment Roll Changes**

The assessor has a duty to complete the local assessment roll and deliver it to the county auditor by July 1 of each year. After delivery, any changes to the roll must be made according to specific statutory requirements.

Assessment roll changes can be grouped into two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was either not assessed on the July 1 roll, for any reason, or that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any escaped property upon discovery. A correction is any type of authorized change to an existing assessment except for underassessments caused by an error or omission of the assessee. All roll changes are based on specific statutes, and the assessment roll must contain appropriate statutory references for any changes.

We reviewed the assessor's procedures and a number of roll changes. Roll changes are made within the authorized period of time, and *Notices of Proposed Escape Assessment* are correctly mailed to taxpayers at least ten days before the changes are entered on the roll. The volume of annual roll changes for the last five years is shown in the following table:

<table>
<thead>
<tr>
<th>ASSESSMENT YEAR</th>
<th>NUMBER OF ROLL CHANGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>9,643</td>
</tr>
<tr>
<td>2000-01</td>
<td>9,118</td>
</tr>
<tr>
<td>1999-00</td>
<td>7,231</td>
</tr>
<tr>
<td>1998-99</td>
<td>10,097</td>
</tr>
<tr>
<td>1997-98</td>
<td>13,490</td>
</tr>
</tbody>
</table>

**Section 533 Notation**

We recommended in our prior survey that the assessor include the notation required by section 533 on all applicable escape and penalty assessments. We found that our recommendation has not been implemented. Therefore, we repeat it here.

**RECOMMENDATION 5:** Include the notation required by section 533 when enrolling escape assessments.

We found that escape assessments added to the assessment roll continue to lack the notation required by section 533. When an assessment roll change (ARC) is made, the assessor's staff posts it next to the previously assessed value in red pencil and draws a red line through the previous roll value. If an ARC is made for a prior year, then the roll book for that year is pulled.
and the new values for that year are likewise entered onto the roll for that year. If the roll changes are the result of an audit liability, the process is repeated for each year a liability occurs.

All escape assessments should be posted to the current year's roll and the escape assessments for prior years should be noted on the roll with the proper notation. This method, as set forth in section 533, is explained in greater detail in Assessors' Handbook Section 201, *Assessment Roll Procedures*.

Section 533 requires the assessor to enter a specific notation on the assessment roll when enrolling escape assessments. Section 533 provides, in relevant part, "If this is not the roll for the assessment year in which the property escaped assessment, the entry shall be followed with 'Escaped assessment for year ____ pursuant to Sections ____ of the Revenue and Taxation Code.'"

We recommend that the assessor include the notation as required by section 533 following the entry of an escape assessment.

**Low-Value Property Exemption**

Section 155.20 authorizes the county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine the point at which the costs of processing assessments and collecting taxes exceed the funds collected.

Ventura County has enacted a low-value property exemption resolution that exempts from taxation real property with a base year value, and personal property with a full value, of $2,000.

For the 2000-01 roll year, the assessor identified about 16,100 properties (4,700 secured and 11,400 unsecured) that qualify for the low-value property exemption. Each property is exempted only until such time as its full value (in the case of personal property) or its factored base year value (in the case of real property) exceeds the exemption limit. We found no problems with the low-value exemption program.

**Exemptions**

The California Constitution, article XIII, sections 3(f), 4(b), and 5 exempt or authorize the exemption from property taxation of qualifying property used for religious, hospital, scientific, or charitable purposes.
The following table shows exemption data taken from the 1997-98 through 2001-02 assessment rolls.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RELIGIOUS</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Value</td>
<td>Number</td>
<td>Value</td>
<td>Number</td>
</tr>
<tr>
<td>2001-02</td>
<td>417</td>
<td>$222,083,858</td>
<td>191</td>
<td>$51,388,336</td>
<td>548</td>
</tr>
<tr>
<td>2000-01</td>
<td>433</td>
<td>$207,565,670</td>
<td>173</td>
<td>$59,930,675</td>
<td>564</td>
</tr>
<tr>
<td>1999-00</td>
<td>403</td>
<td>$199,308,345</td>
<td>150</td>
<td>$54,003,819</td>
<td>485</td>
</tr>
<tr>
<td>1998-99</td>
<td>404</td>
<td>$188,965,466</td>
<td>148</td>
<td>$49,768,183</td>
<td>449</td>
</tr>
<tr>
<td>1997-98</td>
<td>407</td>
<td>$180,333,846</td>
<td>141</td>
<td>$44,942,024</td>
<td>440</td>
</tr>
</tbody>
</table>

Religious Exemption

The religious exemption may be granted to property used exclusively for either religious worship or for both religious worship and religious schools. It is available for real property owned by the claimant, real property leased for worship parking only, and for personal property either owned by or leased to the claimant (California Constitution article XIII, sections 2 and 4(b); sections 207 and 207.1). Generally, the religious exemption may not be granted for real property leased to a claimant.

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

Church Exemption

The church exemption is limited to property used exclusively for religious worship, worship-related activities, and parking for these religious activities (Constitution article XIII, sections 3(f) and 4(d); sections 206 and 206.1). It is available for property owned by the claimant church as well as property leased to a church, providing that the benefit of the exemption accrues only to the lessee church and, if the lessor seeks exemption, a lessors’ exemption claim has been properly executed and filed (section 206.2.) The church exemption may not be granted to property used for housing; only the welfare exemption provides exemption for reasonably necessary staff housing.

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

Welfare Exemption

Property used exclusively for religious, hospital, scientific, or charitable purposes may qualify for an exemption from property taxes. In order to qualify, the property must be owned and operated by community chests, funds, foundations or corporations organized and operated for religious, hospital, scientific, or charitable purposes. To qualify for the welfare exemption, the owner must also file an annual claim or affidavit for the exemption. The claim and approval process, including remedial provisions for late exemption claims, is described in Assessors’ Handbook Section 267, Welfare, Church, and Religious Exemptions.
To judge the effectiveness of the assessor's welfare exemption program, we reviewed a variety of applications filed with the assessor. We concentrated our review on applications that contained special findings. These findings include, but are not restricted to, the following:

- First-time filings (new claims);
- "Not been met" for any reason (e.g., a claim that was denied for deficiencies such as missing organizational documentation or lack of evidence for charitable, religious, or scientific activities);
- Late filed applications; and
- Mid-year acquisitions eligible for cancellation or pro-ration of taxes.

Specific property types that we reviewed included low-income housing and hospitals (partial exemptions), parsonages (staff housing), religious schools, private schools, and multispecialty healthcare clinics.

The assessor's administrative assistant processes annual welfare exemption claims. With the exception noted below, we found that the assessor generally follows correct procedures in applying this exemption.

**RECOMMENDATION 6:** Follow statutory procedures governing the approval of all newly filed welfare exemption claims.

We found a number of new claims where the assessor granted the welfare exemption to an organization without receiving prior BOE approval.

Section 254.5(a) provides that the assessor shall forward welfare exemption claims to the BOE each year with his or her recommendation for approval or denial, and that the BOE shall review the claims and make its own determination. Section 254.5(b) requires that the BOE notify the assessor of its findings, and further provides that while the assessor may deny a claim approved by the BOE, he or she may not grant a claim the BOE has denied. To this end, the assessor should forward all initial claims promptly to the BOE, and should not approve any claim unless the BOE has pre-approved it.

The assessor's practice results in (1) the assessor's failure to follow the law regarding the BOE's authority to co-administer the welfare exemption, and (2) possible improper exemptions.

We recommend that the assessor follow statutory procedures governing the approval of all new welfare exemption claims.

**Racehorse Tax**

Article XIII of the California Constitution provides that all property is taxable unless specifically exempted. Several categories of animals have been exempted from taxation, as provided in the Revenue and Taxation Code. For example, pets are exempt under section 224, and animals held
as business inventory are exempt under section 219. Rule 133 provides that the inventory exemption extends to animals used for the management of livestock.

Racehorses domiciled in California are subject to an annual tax in lieu of property tax. The provisions of this tax are contained in sections 5701 through 5790.

To meet the racehorse definition as stated in section 5703:

- A horse must have actually raced;

- A horse must be registered or eligible to be registered as a race horse in one of the five "eligible to race" breeds stated in rule 1046: Thoroughbred, Quarter Horse, Standardbred, Appaloosa Horse, and Arabian Horse; and,

- If the horse is over four years old in the case of Arabians (three years for all others) and never raced, the horse must have been used for breeding purposes in order to produce racehorses during the preceding two years.

The assessor in each county is responsible for these elements in the administration of the racehorse tax, as explained in rule 1045. The assessor is required to: (1) use BOE-prescribed forms, (2) discover and inventory taxable racehorses in his or her county, (3) mail the racehorse tax property statements to each identified owner in the county, (4) transmit a list of mailed returns to the county tax collector, (5) retain copies of returns for the period prescribed, and (6) perform audits when the tax liability threshold for audit is met.

In our prior survey report, we recommended that the assessor follow statutory guidelines when assessing racehorses. We found that the assessor still has not met the requirements of section 5703, leading to the possibility that some racehorse may have escaped taxation.

RECOMMENDATION 7: Follow statutory guidelines when administering the racehorse tax.

We found that the assessor continues to assume that all horses in the county are other than racehorses, without considering if they meet the requirements of section 5703. When property owners return the annual property statement listing horses used in conjunction with a trade or business, the assessor assumes they are not racehorses.

The assessor should establish a procedure to ensure that horses reported on the annual property statement are not racehorses. If this is not done, some horses may improperly escape assessment.

We suggest that the assessor contact the California Horse Racing Board to request a computer printout identifying all owners and trainers of racehorses in Ventura County. These individuals should then be required to file either form BOE-571-J, Annual Racehorse Tax Return, or form BOE-571-J1, Annual Report of Boarded Racehorses.

We repeat our recommendation that the assessor follow statutory guidelines when administering the racehorse tax.
ASSESSMENT OF REAL PROPERTY

The assessor's real property assessment program includes (1) revaluation of properties that have changed ownership, (2) valuation of assessable new construction, (3) annual review of properties experiencing declines in value, and (4) annual review of certain properties subject to special assessment provisions.

Change in Ownership

The assessor usually learns of a change of ownership when a deed is recorded at the county recorder's office. We reviewed the appraisal records of properties that had changed ownership, as well as the procedures for processing transfers. In a typical year, the assessor reviews approximately 40,000 to 45,000 recorded deeds. Overall, the assessor's operations in these areas are effective and in compliance with acceptable practices.

In our prior survey report, we recommended that the assessor apply the inflation factor as required by section 75.18 to changes in ownership and new construction for events occurring during period January 1 - June 30. The assessor has implemented this recommendation. We also recommended that he apply appropriate penalties for failure to file form BOE-502-A, Change in Ownership Statement, in a timely manner. The assessor has implemented this recommendation also.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed example of section 64 changes in ownership or control and applicable exclusions. Discovery of such a change in ownership is difficult because ordinarily there is no recorded notice of the transfer.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the 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 detailed information pertaining to the counties in which they have property, the assessor's parcel number, or how many parcels they own. Because of lack of reliable data provided by the entities, the LEOP Unit advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.

We reviewed several appraisal records of properties listed in recent LEOP reports. The assessor had reappraised all parcels shortly after notification by the LEOP unit. Appraisal records were properly documented for the reported changes in control. The assessor processes LEOP notices and identifies changes in control properly and expeditiously.
Direct Enrollment

"Direct enrollment" refers to any program developed in an assessor's office to streamline the processing of changes in ownership for less complicated types of real property, typically single-family residences. Regardless of the particular parameters selected in different assessors' offices, all direct enrollment programs involve a limited review of eligible properties by the appraisal staff, who are aided by computer-generated listings of confirmed sales of properties comparable to the property being directly enrolled.

Ventura County has a direct enrollment program for residential areas only. Only confirmed sales of single-family residences, evidenced by a recorded deed and a Preliminary Change of Ownership Report (Form BOE-502-AH) or Change in Ownership Statement (Form BOE-502-A) are eligible for the direct enrollment program. The assessor annually processes approximately 4,000 sales using the direct enrollment program. The direct enrollment program saves valuable review time for staff appraisers without compromising determinations of market value. It is a useful and important aspect of the assessor's change in ownership program.

New Construction

Section 71 requires the assessor to appraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Section 70 defines "new construction" as any addition to real property, whether land or improvements (including fixtures), since the last lien date, and any alternation of land or improvements since the lien date that constitutes a major rehabilitation thereof or that converts the property to a different use. When real property undergoes new construction, section 71 requires the assessor to determine the added value of those improvements upon completion. This value is established as the base year value for those specific improvements and is added to the property's existing base year value. When new construction replaces existing improvements, the value attributable to those pre-existing improvements is deducted from the property's base year value.

Building Permits

Section 72 requires that agencies that issue building permits transmit copies of the permits to the assessor as soon as possible. Obtaining and processing building permits issued by the county and the ten city issuing agencies is the assessor's main method of discovering assessable new construction. Additional sources of discovery are business property statements and field review. The collecting, screening, sorting, and tracking of permits is a high priority in an assessor's office.

The assessor's document processing section reviewed 28,946 building permits in 2000 and 28,243 in 2001. During the 2000-01 assessment cycle, the assessor enrolled 16,581 new construction items discovered by permit and 1,797 discovered by other means. The assessor enrolls all discovered new construction, including low-value items such as walls and patio covers.
Declines in Value

For real property, article XIII A of the Constitution, section 51, requires the assessor, when preparing the annual assessment roll, to enroll the lower of either a property's factored base year value (FBYV) or its current market value as defined in section 110. When a property's current market value falls below its FBYV on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's market value rises above the FBYV, then the assessor must re-enroll the FBYV.

The primary method of discovering declines in value is taxpayers' requests for value reviews. Alternatively, if a reappraisal of a residence in a homogeneous subdivision indicates its market value has declined below its FBYV, the assessor will review the values of all residences in that subdivision. Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor. Due to a strengthening of the local real estate market over the last few years, the number of properties with decline in value assessments has decreased.

RECOMMENDATION 8: 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 is two or more years behind in reviews for some properties.

Section 51 requires the assessor to enroll properties at the lesser of their market values or factored base year values. Subdivision (e) of section 51 requires the assessor to perform an annual review of all properties with assessed values that have been reduced to reflect declines in value.

The effect of not annually reviewing all decline-in-value parcels is that some properties may be inappropriately assessed at an amount that is neither the current market value nor the factored base year value.

We recommend that the assessor annually review those properties receiving decline-in-value assessments as required by section 51(e).

Supplemental Assessments

Section 75.10 requires the assessor to appraise property changing ownership or any new construction at its full cash value on the date the change in ownership occurs or the new construction is completed. This new value is the base year value for the property that changed ownership or was newly constructed. Section 75.11 requires a supplemental assessment to be made for the difference between this new base year value and the taxable value on the current assessment roll. A new base year value reflecting that change in ownership or completion of new construction is reflected on a supplemental roll for the balance of the fiscal year in which the qualifying event occurs.

If the event occurs between the lien date and the beginning of the fiscal year, a supplemental assessment is also levied for the coming fiscal year.
We reviewed a number of supplemental assessments and found the prorations, tax bill amounts, time periods, and ownership tracking were appropriately completed. The assessor's supplemental assessment program complies with applicable provisions of the Revenue and Taxation Code. We have no recommendation in this area.

**California Land Conservation Act Property**

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act of 1965 (CLCA). Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their land. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Section 8 of article XIII of the California Constitution authorizes special assessment procedures for such properties. Sections 422 through 430.5 govern the assessment of land subject to agricultural preserve contracts.

For the 2001-02 roll, Ventura County had 125,535 acres under CLCA contract. This acreage encompassed 1,536 parcels and included 743 acres in nonrenewal status. The total assessed value of open-space properties for 2001-02 was $811,671,442.

**Prior Recommendations**

In our 1997 survey, we recommended that the assessor deduct a charge for return on and of investment in irrigation systems and recapture of irrigation wells from the gross income of irrigated cropland. We found that the assessor has implemented this recommendation.

**Risk Component**

The assessor uses two different risk rates in the valuation of all properties under CLCA contract, depending on location, property characteristics, and type of use. Typically, farmers recognize a varying degree or level of risk among different types of agricultural properties.

Assessors' Handbook Section 521, *Assessment of Open-Space and Agricultural Properties* (AH 521), recommends a basic risk component of 1 percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. Additionally, AH 521 notes that the risk component will vary according to the risks associated with the development of the income to be capitalized. Factors such as price stability, production costs, availability of water, and wind or flood might increase or decrease the risk for a particular property. In addition, because the location and characteristics of land varies throughout the county, it is reasonable to expect variations in the risk rate used by the assessor.

As a result of studies performed by the assessor's staff, the assessor developed risk component guidelines as follows:

- **Row Crops and Grazing Lands**: 0.50 percent
- **Avocados and Citrus**: 1.50 percent.
Classification

For assessment purposes all property is classified as either real or personal property. Section 106 has broadly defined personal property as all property except real estate. A fixture is an item of tangible property, the nature of which was originally personal property, but which is classified as real property for property tax purposes because it is physically or constructively annexed to real property with the intent that it remain annexed indefinitely.

**RECOMMENDATION 9:** Revise the irrigation labor costs imputed to CLCA properties.

The assessor annually issues a CLCA handbook that contains standardized market tree values, production cost per acre, irrigation system and water costs, wind machine costs with typical costs to operate them, and other pertinent current data. In this handbook, we found what appeared to be excessive labor charges for irrigating permanent plantings. The charge for sprinkler system application is 2.0 acre feet @ $90.00 per acre-foot. This translates to $180.00 per acre labor charge, which seems excessive compared to the $23.00 per acre charge contained in other publications containing local production cost data. The assessor applies the costs listed in his CLCA handbook when valuing the restricted property.

Overstating irrigation labor costs leads to significant underassessments of the restricted property. We recommend the assessor revise the irrigation labor charges imputed to CLCA properties.

**Taxable Government-Owned Property**

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

Section 11 real property must be assessed at the lowest of (1) the current fair market value, (2) the restricted value pursuant to section 11 (Section 11 value), or (3) the factored base year value. In general, neither current market value nor the Section 11 value plays a significant role since, in most cases, they far exceed the factored base year value.

Improvements, on the other hand, may not be valued by use of the procedures applicable to land. If taxable when acquired, improvements will be valued at their full cash value as defined by article XIII A of the California Constitution. Newly constructed improvements that replace taxable original improvements must be taxed at the lowest of (1) current full cash value, (2) factored base year value, or (3) the highest full value ever used for taxation of the improvements that have been replaced. By contrast, any new improvements built on Section 11 land after acquisition by a government agency that do not replace improvements that were taxable when acquired are exempt from taxation.

In our 1997 survey, we recommended that the assessor review and assess all local government-owned properties that lie outside the local governments' boundaries. During our current survey, we found five properties that appear to be located outside the agencies'
boundaries and may therefore be taxable. However, the assessor has initiated investigations to determine the status of these parcels. We do not consider this to be an ongoing problem.

**Timberland Production Zone Property**

The Z'berg-Warren-Keene-Collier Forest Taxation Reform Act (Chapter 176, Statutes of 1976) imposed a yield tax on every owner of felled or downed timber in this state. Land zoned Timberland Production Zone (TPZ) became subject to assessment in accordance with special TPZ site classifications that exclude the value of the standing timber.

Sections 423.9 and 435 together require the assessor to appraise land zoned as TPZ, excluding those lands under CLCA contracts, based on special TPZ site classifications contained in section 434.5. The Ventura County Board of Supervisors passed an ordinance adopting a TPZ district in 1977. The land zoned TPZ is assessed in accordance with values determined each year by the BOE. The BOE's values exclude the value of the standing timber. All TPZ properties located in Ventura County are classified as Pine-Mixed Conifer Site Class I. Ventura County has five properties assessed as TPZ, comprising approximately 41 acres with a combined value of $6,312.

We reviewed property records of the five TPZ parcels in Ventura County. We found the assessor has correctly valued land zoned as TPZ according to the BOE-prescribed values for the 2001 lien date. The records we reviewed contained pertinent information and showed that residences and other structures had been properly valued. We did, however, find one problem.

**RECOMMENDATION 10:** Note "Timberland Production Zone" or "TPZ" properties on the assessment roll for TPZ properties as required by section 433.

We found the assessor does not make any notation on his assessment roll for TPZ properties. Section 433 specifically states "When land is zoned as timberland production a notation of such zoning shall be made on the assessment rolls by the words 'Timberland Production Zone' or the initials 'T.P.Z.'" (Emphasis added.) The assessor's practice fails to comply with an explicit statutory requirement. We recommend the assessor make the notation required by section 433 on his assessment roll.

**Taxable Possessory Interests**

Section 107 and rule 20(a) define a taxable possessory interest as an interest in real property which exists as a result of possession, exclusive use, or a right to possession or exclusive use of land and/or improvements unaccompanied by ownership of a fee simple or life estate in publicly owned real property. A taxable possessory interest exists whenever a private party has the exclusive right to the beneficial use of real property owned by a public agency. Possessory interest assessments are based on the value of a private possessor's right to use public property.

For the 2001-02 roll, the assessor enrolled over 1,800 possessory interests, with a total value in excess of $442 million. Approximately 200 of these assessments were exempted under the county's low-value property exemption. The low-value possessory interests include aircraft tie-downs at public airports, dry dock boat storage at public marinas, mining claims, and county fairgrounds concessions.
The assessor has a comprehensive program for discovering and enrolling taxable possessory interests. Current written procedures provide guidance to the assessor's staff assigned to the possessory interest assessment program. The assessor annually contacts 60 federal, state, and local public agencies by mail to update information about private uses of their property. The appraisers also personally visit certain agencies to review leases, including the county General Services Department, the Port of Ventura, and the Channel Islands Marina.

We noted several strong points in the assessor's possessory interest program:

- Discovery efforts are very thorough and generally successful;
- The values are determined in a uniform manner for all assessments;
- Documentation is very good (most files include the written agreement between the public entity and the private party); and
- Extensive information about each possessory interest is maintained in a relational database that is frequently updated.

In our prior survey, we recommended that the assessor revise his method of assessing possessory interests in property owned by redevelopment agencies. At that time, the assessor valued these uses in the same manner as all other possessory interests, i.e., by direct capitalization of contract rent for the anticipated term of possession. We found that the assessor has changed his procedure to conform to our recommendation that these interests be assessed as if owned in fee, as required by section 33673 of the Health and Safety Code.

We noted one aspect of the assessor's procedures that should be revised:

**RECOMMENDATION 11:** Recognize lessor expenses when valuing taxable possessory interests by the income approach.

When utilizing the income approach to value possessory interests, the assessor capitalizes the contract rent paid by the lessee, without making any deductions from gross rent for management and other operating expenses incurred by the public lessor. In many cases, however, the leases or rent agreements specifically provide that the public entity must assume property-related expenses such as exterior maintenance, utilities, and fire insurance.

Rule 21 prescribes the use of the income approach when valuing taxable possessory interests. In the direct approach used by the assessor, the amount to be capitalized is the future net income that the possessory interest is capable of generating under typical management during the anticipated term of possession. Rule 8(c) provides that it is appropriate to reduce a lessor's rental income for typical management and other operating expenses incurred by the lessor. The principles espoused in these regulations apply equally to properties owned in fee and to taxable possessory interests.

Failing to recognize appropriate lessor expenses may overstate the full cash value of a possessory interest. The written agreement creating the possessory interest should be reviewed to determine
which specific expenses pertain, while typical expenses such as management charges should also be recognized.

We recommend that the assessor recognize lessor expenses when using the income approach to value taxable possessory interests.

**Historical Property**

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with a local government restricting the use of that property in exchange for preferential assessment treatment. Section 50280.1 provides that in order for a property to qualify for assessment as a historical property it must, among other requirements, 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 set forth in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized at a rate that is not derived from the market but is a summation of the four basic components described in section 439.2, subdivision (b), as follows:

- An interest component that is determined annually by the BOE;
- 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.

Ventura County has two qualifying historical properties. We found that the county's valuation procedures comply with sections 439 through 439.4.

**Leasehold Improvements**

Leasehold improvements are real property items that are owned and installed by a lessee on leased real property. Such improvements can be secured to the real property or assessed to the tenant on the unsecured 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 alter the original improvements in a number of ways. Examples include additions, removals, or possibly both, resulting in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

A portion of the *Business Property Statement*, Form BOE-571-L, is reserved for reporting costs incurred by tenants for improvements to rented or leased land or structures where they operate
their business, trade, or profession. This section of the statement, referred to as Schedule B, can be a valuable means of discovering new construction.

In the assessor's office, both the real property and business property divisions are responsible for valuing leasehold improvements. If the assessment responsibility for the reported items is in doubt, the real property appraiser or auditor-appraiser attaches Schedule G (Schedule of Business Improvements and Appraisal Responsibility), to the Business Property Statement. Schedule G lists the items in question and requires an auditor-appraiser and real property appraiser to meet and discuss the reported tenant improvements and agree on the proper property classification. That schedule is then signed by both reviewers and placed in the property file.

We found that the assessor has an effective program for assessing leasehold improvements.

**Timeshare Property**

Timesharing is a system of sharing ownership interests in property in which each of the owners may occupy the property for a specified duration and time of year. When a timeshare is purchased, the sale price typically includes nonassessable items such as personal property, vacation exchange rights, club memberships, and prepaid expenses. These items are nontaxable and should not be considered in the valuation process. The value of timeshares is typically dependent on the season or time of year purchased. For example, a timeshare during the winter at a ski resort would be the high season, while the summer would be the low season.

Ventura County has two timeshare projects with a total of 1,647 separate assessments. Each assessment is given a "900" series number which is linked with the homeowners' association's reference number. This ensures proper tracking of each assessment and prevents confusing a resale timeshare with a new (original sale) timeshare.

The assessor relies primarily on the local resale market to value individual timeshares. We found no significant deficiencies in his assessment of timeshares.

**Water Company Property**

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

**Mutual Water Companies**

A mutual water company is a private association created for the purpose of providing water at cost to its stockholders or members. The association, when incorporated, can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can do these things only in the name of its members. Incorporated water companies organized for mutual benefit are not subject to CPUC regulation unless they deliver water for compensation to persons other than stockholders or members.
In our 1997 survey, we found the assessor did not use BOE-prescribed forms when requesting information from water companies. We found that the assessor now uses BOE-prescribed form BOE-540-S, *Mutual or Private Water Company Property Statement*. We also suggested that the assessor review all assessments of mutual water companies for possible double assessment. During our current survey, the assessor's staff indicated that a review had been made and that only mutual water companies that sold excess water for profit had been assessed separately from the lots served by the water system. However, we found that the problem persists. Therefore, we repeat this suggestion as a recommendation.

**RECOMMENDATION 12:** Review all mutual water company assessments for possible double assessments.

In addition to reflecting the value of the mutual water company in the land that it serves, the assessor separately assesses several mutual water companies' land and improvements for several companies. The assessor believes that these companies have sold water to persons who are not shareholders in the companies, and that those outside sales indicate that assessable value exists above and beyond the portion of the water system value appurtenant to the lots served by the system.

We reviewed the articles of incorporation for three of the five mutual water companies reviewed. In each case, the articles stated that the company was a nonprofit corporation whose purpose was to deliver water only to its members. The nonprofit status of the corporations and the restricted delivery of water appear to indicate that the entire value of the mutual water companies should be reflected in the value of the lots served by those mutual water companies.

Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, (pages 16-17) cautions:

"...in these situations, appraisers and auditor-appraisers must recognize that the value of the mutual water company is included in the value of the land that it serves and/or to which the shares attach (e.g., by fee interest or practice of the shareholders). If this fact is not recognized, and the water system is appraised separately while appraising the land at the value indicated by sales, a duplicate assessment may result."

We could find no evidence in the assessor's records that the mutual water companies engage in sales of water to nonmembers. Accordingly, the separate assessment of the companies' land, improvements and delivery systems appears to result in double assessments of those properties. We recommend the assessor review all mutual water company assessments for possible double assessments.

**Regulated Water Companies**

Private water companies whose rates are regulated by the CPUC have profits limited to a return based on the company's outstanding investment. The primary effect of regulation is that potential earnings and, consequently, market value do not change from year to year in the same manner as unregulated properties. A company whose plant investments are static could lose value as book depreciation reduces the return allowed by the CPUC. Current market value may be less than a
company's factored base year value, making it necessary to annually determine its taxable value as of the lien date. The proper taxable value is the lower of market value or factored base year value.

Our examination of the regulated water company appraisal records indicates that the assessor correctly assesses these properties. The assessor considers the historical cost less depreciation (HCLD) method and also develops a current market value indicator by the income approach. These two values are correlated and a final market value indicator is selected. The market value is then compared to the factored base year value and the lower of the two values is enrolled.

We commend the assessor for his assessment of regulated water companies.

**Mineral Property**

**Petroleum-Producing Property**

Ventura County accounts for 3.6 percent of the total petroleum production in California. Production is located both onshore and offshore. Most of the petroleum properties in the county are in a state of mature production and are showing a steady decline.

**RECOMMENDATION 13:** Value petroleum-producing properties in accordance with rules 8 and 468.

Ventura County is a signatory to the *Memorandum of Understanding* (MOU) between the petroleum industry and various counties regarding the procedure to use for determining the oil price schedule for valuation purposes. Generally, the MOU provides that counties will use a specific formula for determining their price forecast that relies significantly on past prices and little on future expectations. The MOU uses three components to determine the first appraisal year's petroleum price. For all subsequent years, the MOU employs the average price for the previous five years. The components for the first year price are the lien date price, the 12-month average of futures prices, and the average price for the last five years. No consideration is given to futures contracts for year two and beyond.

The economics of a petroleum property are based on future expectations about production, prices, and operating expenses. The income approach to value has its basis in the principle of anticipation. Properties are valued based on anticipated income and expenses. For most properties, anticipated cash flows are reasonably stable and predictable. However, prices for commodities such as petroleum and other minerals are more volatile, hence the higher degree of risk associated with the properties and the higher return required by investors.

While the assessor should be commended for trying to establish a structured way of estimating future oil prices, the use of the MOU is inconsistent with the requirements of rules 8 and 468. The terms of the MOU encourage the creation of an artificial price forecast that may have little relation to market expectations. The use of the MOU subjects the current market value analysis to artificial constraints that are not reflective of market expectations.

The use of the MOU formula also negates the efforts of industry and the assessors to analyze and use discount rate information from recent sales. The rates derived from the sales data provided to
the assessor and the industry consultant are based on the perceived risks of fluctuating commodity prices. However, the method by which a cash flow is defined affects the discount rate that should be used. For example, rule 8 requires that pre-tax cash flows be used; therefore, a pre-tax discount rate must be applied to the cash flow to determine value. Unless there is evidence that the petroleum-producing industry uses the MOU forecast in valuing its California acquisitions, the forecast violates the provisions of rule 468(b) that "... projected economic conditions shall be determined by reference to all economic factors considered by knowledgeable and informed persons engaged in the operation and buying or selling of such properties."

Restricting the appraisal by imposing an artificial price forecast that does not reflect market expectations will not result in an estimate of current market value. We recommend that the assessor follow rules 8(c) and 468(b) when valuing petroleum-producing properties.

RECOMMENDATION 14: Reflect oil well abandonment costs in the year they occur or establish a sinking fund allocation.

The assessor defers recognition of petroleum property abandonment expenses in his cash flow projections for as long as three years after petroleum production ceases. This practice assumes that those costs are paid from a source of funds other than the cash flow from the property.

The assessor's practice is contrary to the recommended procedure found in Chapter 8 of Assessors' Handbook Section 566, *Assessment of Petroleum Properties*. The correct procedure recognizes the abandonment expenses in the same year that the property reaches its economic limit, or allows an annual allocation from the cash flow sufficient to satisfy the abandonment expense requirements (i.e., a sinking fund). Postponing the abandonment expenses in the cash flow reduces the present value of those expenses and overstates the market value estimate of the property.

We recommend the assessor either reflect abandonment costs in the year in which they occur or establish a sinking fund allocation.

Sand and Gravel Properties

The county has several active sand and gravel operations. The assessor uses the royalty method to determine the value of the mineral rights.

RECOMMENDATION 15: Determine declines in value based on the full appraisal unit of mineral properties in accordance with rule 469(e)(1)(c).

We found that the assessor values the leased fee interest in the mineral rights to sand and gravel properties by the royalty method. He compares this estimate of current market value to the adjusted base year value of the leased fee interest in the mineral rights to determine which should be enrolled.
Rule 469(e)(1)(C) states: 'Declines in the value of the mineral property shall be recognized when the market value of the appraisal unit (i.e., land, improvements including fixtures, and reserves), is less than the current adjusted base year value of the same unit….'

We did not quantify the effect of measuring declines-in-value of mineral rights separate from other elements of the property. However, the potential exists for an overassessment of the property. This would occur if the current market value of the appraisal unit (mineral rights in land, personal property, and fixtures) falls below the total of the adjusted base year value of the mineral rights plus the current market value of fixtures and improvements.

We recommend that the assessor determine declines in value based on the full appraisal unit of the mineral property in accordance with rule 469(e)(1)(c).

**Pipeline Rights-of-Way**

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. (*Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App. 4th 42.) The court ruled that while the pipelines themselves are properly assessed by the BOE, the right-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, guiding county assessors in the valuation of intercounty pipeline lands and rights-of-way.

Seven different owners have pipeline rights-of-way in Ventura County. The assessor has assigned the duty of assessing these pipelines to a principal appraiser. The appraiser has developed a computerized spreadsheet and a new set of assessor's parcel numbers within the computer database that tracks each pipeline by owner. The owner is assigned a single parcel number under which the pipeline value from each tax rate area is totaled and placed on the roll each lien date. We checked the current roll values and confirmed that the values have been correctly factored from their 1975 base year.

When valuing the pipeline rights-of-way, the BOE developed "density classifications" for appraisal purposes in accordance with sections 401.8 through 401.12, and assessors have generally adopted this methodology. Ventura County uses the three specifications: high density, transitory density, and low density. High density is valued at $20,000 per mile, transitory density is valued at $12,000 per mile, and low density is valued at $9,000 per mile. One company owns multiple pipelines in the same rights-of-way and is assessed the appropriate incremental amount.

We found that all pipeline rights-of-way in Ventura County are being appropriately valued.

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6 Section 53.5 and rule 469 provide that each leach pad, tailings facility, or settling pond is a separate appraisal unit. These property types are not present in Ventura County.
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor’s business property staff processes about 25,000 annual property statements, annually audits about 125 accounts, and enrolls approximately 872 aircraft and 29,263 vessels.

For this portion of our survey report, we reviewed the audit program; property statement processing; and the valuation of business and other personal property, including computers, apartment personal property, service station property, manufactured homes, aircraft, vessels, and leased equipment.

Audit Program

The audit program is one of the most important functions of an assessor’s business property assessment program. A property tax audit is a means of collecting data relevant to determination of taxability, situs, and value of business property. Audits ensure that taxable property has been reported accurately by the taxpayer and assessed properly by the assessor. Audits also allow investigation and resolution of reporting and appraisal problems.

Mandatory Audits

Section 469 and rule 192 require an audit of the books and records of a business at least once each four years when its locally assessable trade fixtures and business tangible personal property have a full value of $400,000 or more for four consecutive years.

We reviewed several recently completed audits for completeness and to investigate the assessor’s techniques and procedures. Of note, we reviewed whether the assessor (1) performed change in control (ownership) reviews, (2) verified leased equipment, (3) enrolled construction in progress, (4) accounted for supplies, and (5) properly classified equipment. In all cases, the completed audits we reviewed were accurate and well documented.

Currently, the business division has 12 auditor-appraisers and two principal appraisers split equally between the audit and the personal property sections. The following table shows the total number of mandatory audits completed over the last five years.
<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>Mandatory Audits</th>
<th>Escapes</th>
<th>Refunds</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>126</td>
<td>$40,149,840</td>
<td>$18,052,660</td>
<td>$22,097,180</td>
</tr>
<tr>
<td>1999-00</td>
<td>116</td>
<td>$70,120,400</td>
<td>$34,120,160</td>
<td>$36,000,240</td>
</tr>
<tr>
<td>1998-99</td>
<td>96</td>
<td>$26,279,617</td>
<td>$8,918,980</td>
<td>$17,360,637</td>
</tr>
<tr>
<td>1997-98</td>
<td>160</td>
<td>$51,709,360</td>
<td>$29,815,280</td>
<td>$21,894,080</td>
</tr>
<tr>
<td>1996-97</td>
<td>177</td>
<td>$43,722,214</td>
<td>$17,645,400</td>
<td>$26,076,814</td>
</tr>
</tbody>
</table>

**RECOMMENDATION 16:** Bring the mandatory audit program to current status.

Since our last survey, the assessor has increased audit staff, utilized the California Counties Cooperative Audit Services Exchange (CCCASE), used PTAP funds, and increased the number of mail (desk) audits. However, we found that the assessor still fails to perform the number of audits necessary for timely completion of the mandatory audit workload. For the 2001-02 assessment year, there were 647 accounts that met the four-year mandatory audit requirement. To complete all of those mandatory audits timely, the assessor would have to complete at least 160 mandatory audits annually; however, only 126 audits were completed that year. The assessor attributed this low rate of production to budget cutbacks in the audit section and other management issues. We found that there is an accumulated backlog of approximately 340 accounts that were due by law to be audited in previous years but have not yet been audited.

The following table shows how actual audit production compares to level annualized production based on a total mandatory audit workload of 647 accounts:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>AUDITS COMPLETED</th>
<th>AUDITS REQUIRED</th>
<th>OVER/(UNDER)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>126</td>
<td>162</td>
<td>(36)</td>
</tr>
<tr>
<td>1999-00</td>
<td>116</td>
<td>162</td>
<td>(46)</td>
</tr>
<tr>
<td>1998-99</td>
<td>96</td>
<td>162</td>
<td>(66)</td>
</tr>
<tr>
<td>1997-98</td>
<td>160</td>
<td>162</td>
<td>--</td>
</tr>
<tr>
<td>1996-97</td>
<td>177</td>
<td>162</td>
<td>15</td>
</tr>
</tbody>
</table>

Pursuant to section 469 and rule 192, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at $400,000 or more for four consecutive lien dates. By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to permanently escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

We recommend that the assessor bring the mandatory audit program to current status.
Waiver of the Statute of Limitations

Section 532 requires the assessor to enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. As authorized by section 532.1, if the assessor cannot complete an audit within the prescribed time, the assessor may request a waiver of the statute of limitations from the taxpayer to avoid possible loss of revenue and to ensure refunds of overassessments when applicable.

RECOMMENDATION 17: Seek a waiver of the statute of limitations when a mandatory audit will not be completed timely.

Prior to March 22, 2000, the assessor did obtain waivers of the statute of limitations on the mandatory audits that were postponed. However, even then the backlog was increasing and the assessor could not complete the waived audits within the extended time period. The assessor directed his auditor-appraisers to temporarily suspend sending waiver letters for older years until the backlog of mandatory audits was reduced to a manageable level.

Section 532.1 authorizes the use of a waiver executed by assessor and property owner to extend the audit period beyond the statutory four-year period. The use of a waiver can protect the owner's right to a refund of taxes paid for additional years, and also allows the assessor to enroll escape assessments if appropriate.

We recommend that the assessor seek waivers of the statute of limitations in all situations where the mandatory audit will not be completed on time.

RECOMMENDATION 18: Perform all mandatory audits, including those where the statute of limitations has expired.

We found various years not audited because the statute of limitations had expired.

The BOE's legal department issued an opinion in March 2001 identifying the assessor's mandatory duty to perform audits even when the statute of limitations has expired. The opinion stated that the expiration of the statute of limitations for enrolling escapes (sections 532 and 532.1) and filing claims for refund (section 5097) has no effect on the assessor's duty to complete the audit. Allowing the statute to expire merely precludes the enrollment of escape assessments.

Under existing law, financial distress is no defense to a mandamus action to compel a public official to perform a clear legal duty. (May v. Board of Directors (1949) 34 C.2d 125.) We recommend that the assessor review his responsibility to perform all mandatory audits, even those where the statute of limitations has expired.

Property Statement Processing

Section 441 requires that every person owning taxable personal property with an aggregate cost of $100,000 or more for any assessment year file a signed property statement with the assessor. Section 441 also provides that every person owning personal property that does not require the filing of a property statement shall, upon request of the assessor, file a property statement. If a
taxpayer fails to file the property statement, section 501 authorizes the assessor to estimate the value of the unreported property, based upon information in the assessor's possession.

Most business property assessments are based upon the data submitted by taxpayers on the annual property statements. The more accurate the data on the statements, the more accurate the assessment roll.

In our prior survey, we recommended that the assessor expand his efforts to discover changes in control noted on Form BOE-571-L, Business Property Statement. We found that the assessor complied, in part, with this recommendation. When a taxpayer reports a change in ownership on the property statement, the business property division forwards a copy of the statement to the transfer unit for processing.

RECOMMENDATION 19: Accept only complete business property statements.

We found several accounts where Part I of the business property statement was not completed. This section contains questions that alert the assessor to possible changes in ownership, new leasehold improvements, remodeling, or a taxpayer's change in location.

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. The assessor needs this information and has a right to require it. Section 441(g) allows the assessor to refuse to accept any property statement he or she determines to be in error. Unanswered questions could certainly be considered an error.

Accepting incomplete business property statements increases the possibility of an erroneous assessment. We recommend the assessor accept only business property statements that are properly completed.

Valuation of Business Machinery and Equipment

Full Value Factors

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

Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to audited historical cost produces an estimate of taxable value.
The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581. Except for older equipment, the percent good factors also parallel the AH 581 factors.

**RECOMMENDATION 20:** Discontinue using arbitrary minimum valuation factors.

The CAA tables employed by the assessor use the AH 581 percent good factors except that they employ arbitrary minimum valuation factors for older equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service left.

Percent good factors in AH 581 are based on the assumption that as business equipment ages, it gradually loses its ability to earn a profit for its owner. In some cases equipment wears out physically to the point where it is not economic to repair it. In other cases, the equipment may be in excellent condition physically but new technology, a changing market relative to the type of equipment, and other factors render the equipment functionally obsolete.

Some equipment, when no longer economic to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal. The AH 581 factors assume that on the average equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to 1 percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment but is still in use.

There is no question that some older equipment is worth much more than 1 percent of replacement cost new, just as some newer equipment is worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to find fair market value.

However, when using a mass appraisal tool such as the AH 581 tables, it is important to use the tables as presented. Use of arbitrary minimum valuation factors may value some equipment correctly but will substantially overvalue most items of older equipment. Accordingly, we recommend the assessor use the AH 581 as intended in order to avoid overvaluations.

**RECOMMENDATION 21:** Use the appropriate percent good factors for new and used agricultural equipment.

While the assessor uses the percent good factors published in AH 581 to calculate the value of agricultural equipment, he averages the percent good factors from Table 5 for new and used equipment to compute the RCNLD for agricultural mobile equipment (non-harvesters). Two columns of percent good figures, "New" and "Used," are listed for each type of equipment in AH 581, Table 5.

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7 Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner (AB 2714, Ch. 299, Stats. 2002, adding section 401.16 to the Revenue and Taxation Code).
Accurate assessments depend on the proper choice and application of these factors. Averaging "New" and "Used" categories again sacrifices accuracy for convenience. Some equipment will be overassessed and some will be underassessed.

We recommend the assessor select the appropriate percent good factors for new and used agricultural equipment.\(^8\)

**Computer Valuation**

To promote uniformity in appraisal practices and assessed values, and to comply with the requirements of section 401.5, the BOE issues valuation factors for computer equipment in special tables found in AH 581. We reviewed the assessor’s computer valuation program and found that the proper factors had been used without modification. Accordingly, we have no recommendation in this area.

**Leased Equipment**

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

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

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

We found that the leased equipment program is well managed and the assessor does an excellent job in the discovery, processing, tracking, assessing, and associated interoffice communications pertaining to leased equipment and related issues.

**Manufactured Homes**

Assessment of manufactured homes differs from the assessment of other types of property in California. Manufactured homes have been taxable on local assessment rolls since July 1, 1980. Prior to this date, manufactured homes were subject to license fees paid through the Department of Motor Vehicles. A manufactured home is subject to local property taxes if it was first sold new on or after July 1, 1980, or the owner has requested conversion from vehicle license fees to local property taxes. Most requests for conversion from license fees occur when a manufactured

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\(^8\) Beginning with the 2003 lien date, assessors are prohibited from averaging BOE-supplied factors for equipment acquired new and equipment acquired used (AB 2714, Ch. 299, Stats. 2002, added section 401.16 to the Revenue and Taxation Code).
home is sold, since sales or use tax is not due for manufactured homes subject to local assessment. Conversion also allows the owners to qualify for the homeowners’ exemption, provided the manufactured home is their primary residence.

Generally, manufactured homes must be classified as personal property. However, manufactured homes are treated differently than other personal property. Sections 5800 through 5842 govern how manufactured homes subject to local property taxation are valued and assessed. Unlike other personal property assessments, manufactured home assessments are entered on the secured roll. The taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments upon a change in ownership or new construction. The taxable value of a manufactured home is the lesser of its factored base year value or its current market value on the lien date.

The assessment of manufactured homes located within rental and resident-owned parks in Ventura County is currently the responsibility of a principal property appraiser and one appraiser technician in the business property division. The rural property appraisal staff is responsible for valuation of manufactured homes outside these parks.

There are 102 rental and resident-owned parks and approximately 10,200 manufactured homes in the county. The majority of the manufactured homes are licensed through the Department of Housing and Community Development (HCD) and subject to the vehicle license fee in lieu of property taxation. Of the 10,200 manufactured homes, about 2,250 were assessed on the 2001-02 property tax roll at $59,554,857. In addition, accessories such as carports, porches, and sheds appurtenant to 1,230 licensed manufactured homes were assessed in the amount of $3,080,464.

Discovery

The assessor receives monthly printouts from HCD informing him of any change in ownership or voluntary conversion. These printouts list the grantor's and grantee's names, date of purchase, purchase price, decal number, date of manufacture, and manufacturer's name. Other discovery sources utilized by the assessor are the dealer reports of sale, contact from previous or current owner(s), tax clearance certificates, building permits, and field inspections.

The manufactured home assessment program is well organized, and much recent effort has been expended on improving documentation and other aspects of the program. In our 1997 survey, we recommended that the assessor (1) place greater emphasis on the use of recognized value guides and (2) annually review manufactured homes for declines in value. We found that the assessor now uses and documents the use of value guides. Beginning with the 1997-98 assessment year, the assessor uses both the National Automobile Dealer Association's (NADA) Manufactured Housing Appraisal Guide and dealer's reports of sale as value indicators for manufactured homes. He has also reviewed most assessable manufactured homes for declines in value. Using the assistance of a limited-term appraiser hired in 1997 under the PTAP loan program, the assessor reviewed all manufactured home values for possible declines. He also conducted a subsequent review of manufactured home values for the 2000-01 roll. The assessor has stated that an annual review for declines in value is not possible due to a lack of resources.

We noted two aspects of the assessor's procedures that should be revised.
RECOMMENDATION 22: Enroll manufactured homes as personal property.

We found that the assessor properly enrolls manufactured homes on the secured roll, but they are classified as real property instead of personal property. Section 5801 provides that, with few exceptions, manufactured homes shall not be classified as real property.

We recommend that the assessor classify manufactured homes as personal property.

Declines in Value

RECOMMENDATION 23: Annually review manufactured home assessments for possible declines in value.

The assessor has not conducted annual reviews of manufactured home assessments for declines-in-value. However, the assessor did review manufactured homes assessments for both the 1997-98 and 2000-01 rolls.

Section 5802 requires the assessor to determine the base year value of a manufactured home on the date the manufactured home is purchased or changes ownership. After the assessor establishes the base year value of a manufactured home, section 5813 provides that its taxable value for each succeeding lien date is the lesser of its base year value, compounded annually by the inflation factor, or its current market value.

The appraiser technician assigned to value manufactured homes has had access to the N.A.D.A. Manufactured Housing Appraisal Guide PC program since May 1999. This guide could be utilized to expedite an annual review for decline-in-value.

By failing to review manufactured home assessments, the assessor may overassess some manufactured homes. We recommend the assessor annually review manufactured homes for decline-in-value status.

Aircraft

On January 8, 1997, the BOE approved the Aircraft Bluebook Price Digest (Bluebook) as the primary guide for valuing aircraft, with the Vref Aircraft Value Reference as an alternate for aircraft not listed in the Bluebook. As stated in LTA 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate value for the local market.

The 2001-02 assessment roll included 872 general aircraft with a total assessed value of $60,471,550. Sources of aircraft discovery include reports from airport managers, referrals from other counties, and aircraft owners. The assessor relies primarily on the listing of aircraft as provided by the county airport manager. This listing, which shows aircraft present as of January 1, is submitted annually to the assessor. The listing is compared to the prior year's listing and changes are noted.
In our prior survey report, we recommended that the assessor annually mail aircraft questionnaires, make engine-hour adjustments, and appraise aircraft at market value. We found that the assessor now uses the *Aircraft Bluebook Price Digest* and the *Vref Aircraft Value Reference* guide to appraise general aircraft. The value is calculated by reducing the list price by 10 percent. In addition, appropriate adjustments are made for engine hours, extra equipment, and general aircraft condition as reported by the aircraft owner on the assessor’s annual property statement.

**RECOMMENDATION 24:** Apply the 10 percent penalty for failure to file aircraft property statements.

To request the information necessary for aircraft assessments, the assessor's staff mails an *Annual Aircraft Property Statement* to aircraft owners. When a property owner fails to return the statement within the time specified, the assessor does not apply the required 10 percent penalty.

Section 5367 provides part 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. We recommend that the assessor apply the penalty to all aircraft assessments when the owner fails to file or to timely file a property statement.

**Commercial Aircraft**

The assessor values certificated aircraft for each of the three commercial airlines having an allocable period of time in Ventura County. The auditor-appraiser in charge of aircraft assessment bases his appraisals of these aircraft on the audited costs reported in the business property statements filed by the airlines. He then applies the percentage of time the aircraft was situated in Ventura County based on a one week sample (including factors for both ground time, air time, aircraft arrivals and departures) to the airline’s total audited estimate of fleet value, in order to derive a pro rata estimate of the portion of value allocable to Ventura County. We reviewed the certificated aircraft appraisals and found the procedures to be correctly administered and the audited estimates of values to be properly calculated.

**Historical Aircraft**

Aircraft of historical significance may be exempt from property taxation. As defined by section 220.5(d), historical aircraft means any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older, or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide. To receive an exemption, the owner of a historical aircraft must meet certain criteria and submit a claim for exemption between the lien date and 5 p.m. on February 15.

Section 220.5 (g) provides that, to receive the exemption, an assessee (1) must be an individual owner who does not hold the aircraft primarily for purposes of sale; (2) may not use the aircraft for commercial purposes or general transportation; (3) must make the aircraft available for display to the public at least 12 days during the 12-month period immediately proceeding the lien
date for the year for which exemption is claimed; and (4) must sign and swear to the accuracy of the contents of the affidavit before either a notary public or the assessor or his or her designee, at the claimant's option.

We reviewed the filings and declarations of historical aircraft claimants and found no problems with the administration of the historical aircraft exemption.

**Vessels**

Assessors in California are required to annually appraise boats at market value, except as provided in section 228 (no more than one vessel owned claimed or controlled by an assessee on the lien date, not used for commercial purposes, and having a market value of $400 or less, may be free from taxation) and section 155.20 (low-value property exemption). Ventura County has a resolution pursuant to section 155.20 that exempts property valued at less than $2,000.

The assessor enrolled 29,263 boats and documented vessels for the 2001-02 tax roll, with a total assessed value of $230,198,577. This amount included 89 commercial vessels, with an assessed value of $6,850,900, that qualified for the 4 percent assessment provided by section 227.

The main methods of discovering vessels are harbormaster reports, dock walks, referrals from other counties, and Department of Motor Vehicles (DMV) reports. The assessor's office has a computer terminal with a direct link to DMV boat registration records, which provide sales data and descriptive information about registered owners.

In our prior survey report, we recommended that the assessor upgrade the boat appraisal procedures by annually appraising pleasure boats at market value. We also recommended that the assessor mail out vessel property statements to the owners of all boats with an aggregate cost of $100,000 or more. We found that the assessor's practices have not changed. Therefore, we repeat those prior recommendations.

**RECOMMENDATION 25:** Annually appraise all boats at market value.

The assessor does not annually value each boat at market value. Instead, he determines the current market value of the boat in the first year, reduces it by a fixed percentage in subsequent years, and assesses the boat at that reduced value for three successive roll years. At the end of three years, the assessor repeats this cycle. The assessor employs this three-year reappraisal cycle to minimize staff time. For the 2001 lien date, this cycle adjustment was 11 percent for used boats, 21 percent for new boats, and 15 percent for personal watercraft.

Sections 401 and 401.3 require the assessor to assess boats at market value each year. The current policy does not comply with that requirement. The current methodology applied to boat assessments each year seldom reflects actual boat values. While this valuation procedure is expedient, it is also inaccurate and results in over- and under-assessments of boats in Ventura County.

We repeat our prior recommendation that the assessor appraise pleasure boats annually at market value.
RECOMMENDATION 26: Require vessel owners to file annual vessel property statements for boats costing $100,000 or more.

We found that the assessor does not send Form BOE-576-D, Vessel Property Statement, to the owners of those vessels that the assessor classifies as non-commercial vessels, regardless of the cost of those vessels.

Section 441 requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of $100,000 or more for any assessment year, to file a signed annual property statement with the assessor. This provision also applies to all vessels, including non-commercial vessels. This information will provide the assessor with current and accurate information regarding replacement engines and new accessories when making vessel appraisals.

Failing to require property statement filings from owners of such vessels increases the risk of inaccurate assessments based on insufficient information. We repeat our prior recommendation that the assessor mail Vessel Property Statements annually to all owners of boats costing $100,000 or more.

RECOMMENDATION 27: Require a current certificate of inspection for documented vessels, as provided by section 227.

Ventura County has over 80 vessels that qualify for the four percent assessment under section 227. Section 227(c) applies to sport fishing vessels carrying or transporting seven or more people for commercial passenger fishing. To qualify for the four percent assessment under section 227(c), a vessel must hold a current certificate of inspection by the U.S. Coast Guard.

The assessor requires certificates of inspection only for the initial exemption claim. He does not require the vessel owner to submit a current certificate of inspection with each subsequent claim.

The assessor's failure to require a current inspection certificate decreases his certainty that the vessel is still used for purposes qualifying for the four percent assessment, and does not comply with statutory eligibility requirements. We recommend that the assessor require vessel owners to submit a current certificate of inspection with the documented vessel affidavit.
APPENDICES

A: County Property Tax Division Survey Group

Ventura County Assessment Practices Survey

Chief, County Property Tax Division:
Charles Knudsen

Survey Program Manager:
Michael Lebeau Principal Property Appraiser

Survey Team Supervisor:
Peter Gaffney Supervising Property Appraiser

Survey Team Leader:
Dale Peterson Senior Specialist Property Auditor Appraiser

Survey Team:
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Bob Curry Associate Property Appraiser
Glenn Danley Associate Property Appraiser
Jody Henning Associate Property Appraiser
Dave Barbeiro Associate Property Auditor Appraiser
Pam Bowens Associate Property Auditor Appraiser
Mike Shannon Associate Property Auditor Appraiser
Kim Trotto Assistant Property Appraiser
Marilyn Jones Tax Technician II
B: Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

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

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

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

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

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.
15642. **Research by board employees.**

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

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

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

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

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

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

15644. **Recommendations by board.**

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

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

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

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

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

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

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

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

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

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

(3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.
Title 18, California Code of Regulations
Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

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

Section 15645 also allows the BOE to include in the report comments regarding the assessor's response. However, the BOE's staff has no comment regarding the assessor's response.
February 4, 2003

Ms. Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94379-0062

Dear Ms. Stuckey:

Re: Assessor’s Response – Assessment Practices Survey

In accordance with Government Code section 15645, enclosed is our response to the findings and recommendations in the latest State Board of Equalization Assessment Practice Survey of Ventura County. I would like to express my appreciation to the Board’s Survey Team for the professional and conscientious manner in which the survey was conducted. Their positive acknowledgements and constructive comments regarding how my office works are appreciated. We agreed with most of their recommendations and have already implemented many of them. We welcome the State’s survey function as an excellent tool for promoting uniform, effective, and efficient assessment practices throughout California.

Effective administration of the assessment function is a key component to maintaining financial stability in local government. The Assessor’s Office maintains records and tracks changes to over 300,000 assessments in Ventura County, which had a combined full cash value for assessment purposes of over $65.7 billion last year. The Ventura County assessment roll’s annual increases represent a growth of nearly $5 billion per year over each of the past few years, which demonstrates the diligent efforts of our staff to identify and assess all taxable property during this recent period of a strong market. Therefore, I would like to commend the employees of my office for their outstanding work. In addition, I would like to thank those members of the Ventura County Assessor’s Office who provided information during this assessment practices survey for their excellent cooperation as evidenced by the many positive comments made by the auditing staff. My management team’s continuing dedication to improving the office efficiency is greatly appreciated.
In an economic climate where financial resources and support for government at all levels continue to decline, it is important that public officials think more like a business and less like a bureaucracy. In these critical times, we must prepare to operate on the thinnest of budgetary margins as we prioritize our responsibilities and resources toward meeting the Assessor's many mandated responsibilities. It is anticipated the pressure upon our limited financial resources will continue to require the most efficient decision-making processes be applied to our workload for the most beneficial services for our clients, the taxpaying public. As a result, you will note in my responses to your recommendations attached that in some cases we agree, but simply cannot do it all each year, given these limitations on resources.

Sincerely,

DAN GOODWIN, MAI
Assessor of Ventura County
RECOMMENDATION 1: Complete and update the Assessor's Operations Manual.

Response to Recommendation 1:

We agree with this recommendation and have allocated additional resources to this important area with responsibility for its timely completion assigned to a Deputy Assessor. The survey team's observations of the Assessor's Operations Manual are a direct result of budget cuts during the 1990's.

RECOMMENDATION 2: Submit rearranged and final prints of all BOE-prescribed forms for approval.

Response to Recommendation 2:

We agree and will comply with the recommendation.

RECOMMENDATION 3: Maintain only current BOE-prescribed forms on the county's website.

Response to Recommendation 3:

We agree and will comply with the recommendation.

RECOMMENDATION 4: Obtain fire reports from local fire departments to improve the discovery of properties eligible for disaster relief.

Response to Recommendation 4:

We agree and have begun the process of receiving this information from the county and city districts.
RECOMMENDATION 5: Include the notation required by section 533 when enrolling escape assessments.

Response to Recommendation 5: We agree and will comply with the recommendation.

RECOMMENDATION 6: Follow statutory procedures governing the approval of all newly filed welfare exemptions claims.

Response to Recommendation 6: We agree and will comply with the recommendation.

RECOMMENDATION 7: Follow statutory guidelines when administering the racehorse tax.

Response to Recommendation 7: We agree and will comply with the recommendation.

RECOMMENDATION 8: Annually review all parcels that have experienced a decline in value, as required by section 51(e).

Response to Recommendation 8: We agree with this recommendation. Unfortunately, due to budgetary constraints, the past few years were most efficiently and fairly administered by creating a division of work and cyclical assessments, given a starting point of about 70,000 parcels. We have now fully restored the majority of these reduced assessments with a fair and systematic approach. We now anticipate being able to review all but approximately 7% of the remaining section 51 (e) properties for the 2003 Roll Year (93% will be reviewed this year). We anticipate reviewing all section 51 (e) properties for the 2004 Roll.
RECOMMENDATION 9: Revise the irrigation labor costs imputed to CLCA properties.

Response to Recommendation 9:
We agree with this recommendation. For the 2002 Roll appropriate labor charges were derived from a survey of Ventura County ranch owners.

RECOMMENDATION 10: Timberland Production Zone” or “T.P.Z.” properties on the assessment roll for TPZ properties as required by section 433.

Response to Recommendation 10:
We agree and will comply with the recommendation.

RECOMMENDATION 11: Recognize lessor expenses when valuing taxable possessory interests by the income approach.

Response to Recommendation 11:
We agree that lessor expenses should be recognized when valuing taxable possessory interests by the income approach. Beginning with the 2002 Roll, our procedures were reviewed and strengthened to emphasize this important value consideration.

RECOMMENDATION 12: Review all mutual water company assessments for possible double assessments.

Response to Recommendation 12:
We agree and will comply with the recommendation. A letter will be mailed annually to ensure that double assessments do not occur.
RECOMMENDATION 13: Value petroleum-producing properties in accordance with Rules 8 and 468.

Response to Recommendation 13:

We disagree with the BOE survey team's opinion on this recommendation. The statewide Memorandum of Understanding, which was established as the result of consultation between all affected County Assessors and industry associations, follows Rules 8 and 468, in our opinion. In addition, as the current chair of the California Association's Petroleum Standards Advisory Committee, I have begun the process of multi-county review and consensus building toward future techniques for estimating oil prices as a component of petroleum property assessments. BOE staff, along with industry, has been invited to two formal meetings to date.

RECOMMENDATION 14: Reflect oil well abandonment costs in the year they occur or establish a sinking fund allocation.

Response to Recommendation 14:

We account for abandonment costs when they are anticipated to occur. This is consistent with the requirements of Board Rule 8 (c) and the decision in Dominguez Energy, L.P. vs. County of Los Angeles. If the history of the operation of a petroleum producing property indicates that an ongoing abandonment program is reasonably anticipated, then that is incorporated into the calculation of the discounted cash flow. This is most typical in the larger properties with a large number of idle wells. In the cases of medium to smaller size properties history has shown that wells will remain shut-in for several years after the economic life of a lease before being abandoned.

RECOMMENDATION 15: Determine declines in value based on the full appraisal unit of mineral properties in accordance with rule 469(e)(1)(c).

Response to Recommendation 15:

We agree and will comply with the recommendation.
RECOMMENDATION 16: Bring the mandatory audit program to current status.

Response to Recommendation 16:

We agree and have made a concentrated effort to accomplish this goal. We are confident that we will be able to bring our mandatory audit program to current status.

RECOMMENDATION 17: Seek a waiver of the statute of limitations when a mandatory audit will not be completed timely.

Response to Recommendation 17:

We agree and plan to re-institute this procedure once our backlog of mandatory audits is at a manageable level. However, a general policy of reliance upon “waivers” tends to have a counter-productive consequence.

RECOMMENDATION 18: Perform all mandatory audits, including those where the statute of limitations has expired.

Response to Recommendation 18:

This recommendation has been respectfully noted.

RECOMMENDATION 19: Accept only complete business property statements.

Response to Recommendation 19:

Due to staffing limitations we are unable to return business property statements where Part I was not fully completed. Fortunately, we have other assessment procedures that help alert staff to possible changes in ownership, new leasehold improvements, remodeling, or changes in the location of taxpayers. We are pleased to note that the SBE survey team confirmed that our office is properly forwarding to the appropriate section those business property statements indicating that a change-in-ownership had occurred.
RECOMMENDATION 20: Discontinue using arbitrary minimum valuation factors.

Response to Recommendation 20:

The California Assessor's Association (CAA) recommends a specific minimum percent good for several classes of property, which we have adopted. We disagree with the SBE position that the recommended CAA tables are arbitrary. Based upon consolidated recommendations from senior management and appraisal staff from most of the counties (including all the mid and large size counties in California), the CAA tables were established to promote uniformity and are now in use statewide. This also helps to promote fair and equalized assessment practices throughout the State. It is important to note that the minimums are supported as being at or below salvage value, as established by Marshall Valuation Service. We support the contention that most equipment has scrap or salvage value at the time that it is removed from service.

RECOMMENDATION 21: Use the appropriate percent good factors for new and used agricultural equipment.

Response to Recommendation 21:

We are now in the process of changing the form sent to owners of agricultural equipment that will enable us to implement this recommendation.

RECOMMENDATION 22: Enroll manufactured homes as personal property.

Response to Recommendation 22:

Substantial changes would have to be made to our computer system to allow supplemental assessments of personal property. Mobile home assessments are correctly identified to ensure that special assessments are not charged. Even though our classification of manufactured homes may not conform to the letter of the law, our treatment does conform to the intent of the law. We agree and will implement as staffing permits.
RECOMMENDATION 23: Annually review manufactured home assessments for possible declines in value.

Response to Recommendation 23:
We agree this should be done; however, due to budget constraints we are not currently able to comply with this recommendation. To establish an annual appraisal cycle would require budget resources beyond our present ability. We will implement as staffing permits.

RECOMMENDATION 24: Apply the 10 percent penalty for failure to file aircraft property statements.

Response to Recommendation 24:
We agree and will comply with the recommendation.

RECOMMENDATION 25: Annually appraise all boats at market value.

Response to Recommendation 25:
We agree this should be done. One part-time appraiser performs this function with the assistance of an appraisal technician. To establish an annual appraisal cycle would require budget resources beyond our present ability. We will implement as staffing permits.

RECOMMENDATION 26: Require vessel owners to file annual vessel property statements for boats costing $100,000 or more.

Response to Recommendation 26:
We agree and will comply with the recommendation.

RECOMMENDATION 27: Require a current certificate of inspection for documented vessels, as provided by section 227.

We agree and will comply with the recommendation.