

ALAMEDA COUNTY ASSESSMENT PRACTICES SURVEY

AUGUST 2011

CALIFORNIA STATE BOARD OF EQUALIZATION

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August 9, 2011

TO COUNTY ASSESSORS:

No. 2011/029

ALAMEDA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Alameda 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 Board shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through December 2009. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

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

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

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

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Alameda County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Alameda County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2009 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

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

The assessor has improved his operation by embracing new technology. Following are a few examples:

- The assessor has developed and implemented a new assessment information management system.
- The assessor has developed a computer application to annually value all residential properties in decline-in-value status.
- The assessor has developed a new computer application to assist in the assessment of taxable possessory interests. The new application allows the assessor to track and decline terms of possession, and to review the income, expenses, and discount rates used in valuing taxable possessory interests.
- The assessor participated in the development and implementation of a computer application that enables electronic filing of business property statements.
- Building permits are now transmitted electronically to the assessor from the issuing jurisdictions; this allows the assessor to distribute and track the new construction workload more efficiently.
- The assessor has made enhancements to provide property owners better customer service by installing a call center answering system, installing computers at the public counters to assist the public in their data searches, and providing brochures on important property assessment topics at the public counters and on his website.

The assessor is effectively managing the administration programs for budget and staffing, appraiser certification, disaster relief, staff property procedures, exemptions and assessment forms. However, we noted a need for improvement in the assessor's assessment appeals program.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction and the valuation of property with declines in value. However, we noted a need for improvement in the assessor's programs for processing changes in ownership and assessing California Land Conservation Act properties, taxable possessory interests, leasehold improvements, and mining properties.

In the area of personal property and fixture assessment, the assessor has effective programs for the audit of business personal property, business equipment valuation, and the discovery and valuation of aircraft and vessels. In processing business property statements, however, we noted a need for improvement.

Despite the recommendations noted in this report, we found that most properties and property types were assessed correctly.

The Alameda County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2009-10 assessment roll indicated an average assessment ratio of 100.41 percent, and the sum of the absolute differences from the required assessment level was 0.64 percent. Accordingly, the BOE certifies that Alameda County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Improve the assessment appeals program by revising the procedures for processing assessment appeal applications and withdrawals.11

RECOMMENDATION 2: Apply appropriate penalties as required by section 482(b) if BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, is not filed timely.19

RECOMMENDATION 3: Classify and enroll living improvements as improvements.....27

RECOMMENDATION 4: Assess taxable possessory interests pursuant to section 61(b)(2).....29

RECOMMENDATION 5: Assess all leasehold improvements.....31

RECOMMENDATION 6: Improve the mineral property program by: (1) reviewing mineral properties for declines in value as provided in Rule 469(e)(2)(C), (2) adding new reserves at the current market value as described in Rule 469(e)(2)(A)(5), and (3) applying consistent valuation parameters to similar mineral properties.31

RECOMMENDATION 7: Value taxable business property in accordance with section 501, when a taxpayer fails to file a business property statement.....38

OVERVIEW OF ALAMEDA COUNTY

Alameda County was formed on March 25, 1853 from a large portion of Contra Costa County and a smaller portion of Santa Clara County. The county has a total area of 821 square miles. The county seat is the City of Oakland.

The county is bordered by San Francisco Bay to the west, Contra Costa County to the north, Santa Clara County to the south, and San Joaquin County to the east. As of the 2010 census, Alameda County was the seventh most populous county in the state with a population of 1,491,482. Alameda County has 14 incorporated cities along with 6 unincorporated communities.

The following table displays information pertinent to the 2009-10 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$61,225,377,877
	Improvements	\$127,126,936,943
	Personal Property	\$1,515,812,479
	Total Secured	\$189,868,127,299
Unsecured Roll	Land	\$737,687,243
	Improvements	\$3,914,775,239
	Personal Property	\$8,053,088,897
	Total Unsecured	\$12,705,551,379
Exemptions		(\$5,480,693,732)
	Total Assessment Roll	\$197,092,984,946

The next table illustrates the growth in assessed values over recent years:²

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2009-10	\$197,092,985,000	-2.5%	-2.4%
2008-09	\$202,091,767,000	4.9%	4.7%
2007-08	\$192,706,738,000	8.0%	9.6%
2006-07	\$178,497,975,000	9.6%	12.3%
2005-06	\$162,797,252,000	9.2%	11.1%

² State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

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

Budget and Staffing

The following table illustrates increased budget levels over recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2008-09	\$20,742,619	3.61%	187
2007-08	\$20,019,247	5.49%	187
2006-07	\$18,977,131	4.60%	187
2005-06	\$18,142,745	7.33%	187
2004-05	\$16,903,883	--	187

The number of permanent staff budgeted by the assessor's office has remained steady over the last several years. Presently, the number of budgeted positions totals 187 and includes 67 real property appraisers (including the assessor), 30 auditor-appraisers, 27 technical staff, and 63 support staff.

Workload

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

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

While the roll value (except 2009-10) and gross budget have increased each of the past five years as shown in the prior two tables, there has been a decline in the number of assessable changes in

ownership. The number of permits resulting in value changes has increased several of the past five years, but declined significantly this last year. The decline in assessable changes in ownership and permit work was replaced by significant workload increases in the areas of decline-in-value and assessment appeals.

The following table illustrates recent changes:

ROLL YEAR	ASSESSABLE CHANGES IN OWNERSHIP	PERMITS RESULTING IN VALUE CHANGE	DECLINE-IN-VALUE ASSESSMENTS	APPEALS
2009-10	27,812	19,969	98,668	13,115
2008-09	24,854	23,308	44,212	12,074
2007-08	30,172	22,613	6,135	4,787
2006-07	37,671	23,309	1,641	3,187
2005-06	39,476	21,768	1,489	3,157

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 86 certified appraisers on staff, including the assessor; 40 hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

It is the responsibility of the training officer to ensure that the certified appraisal staff meet their annual training requirements. Some of the duties performed by the training officer include:

- Tracking staff training hours to ensure they have the requisite training each year to maintain their appraisal certification.
- Arranging for staff to attend a variety of training opportunities each year.
- Tracking the progress of newly hired appraisal staff to ensure they complete the BOE's certification program within the one-year timeframe.

We found no problems with the assessor's appraiser certification and training program.

Staff Property Procedures

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

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

In the administrative procedures manual, the assessor has a specific policy regarding the reporting requirements for employee-owned properties and businesses. When an appraisal is required on an employee-owned property, the assignment is given to an appraiser or auditor-appraiser other than the owner of the property. Once the employee-owned property appraisal is complete, it is forwarded to a supervising appraiser, assistant assessor, or assessor for review and approval.

We reviewed a number of employee-owned properties and found no problems with their valuation.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted Rules 301 through 326 to regulate the assessment appeals process.

Alameda County Ordinance No. 99-44, effective February 2, 1999, provides for the establishment and defines the duties of the county's assessment appeals board (AAB). In addition, the AAB has adopted local rules regarding its duties. Appeals are typically scheduled twice a week, on Mondays and Wednesdays, as needed. The regular filing period for applications for reduced assessment is July 2 through September 15.

Currently, the AAB consists of fifteen members who sit on a rotating basis as a three-member panel. All of the AAB members have completed the mandatory training as required by section 1624.01. The three-member panel hears cases for changes in value affecting properties on both the unsecured and secured rolls. The county also uses the services of two hearing officers. Hearing officers conduct hearings on applications related to single-family residences and condominiums, regardless of value; multi-family dwellings of four-units or less, regardless of value; and other applications where the assessed value is \$500,000 or less. Hearing officers are also used for administrative protest hearings.

The following table illustrates the assessment appeals workload for recent years:

ASSESSMENT ROLL	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	12,074	4,787	3,187	3,157	3,397
Appeals Carried Over From Prior Year	4,322	3,406	3,796	4,810	6,698
Total Appeals Workload	16,396	8,193	6,983	7,967	10,095
Resolution:					
Withdrawn	2,106	1,768	1,879	2,408	2,123
Stipulation	1,525	1,118	968	1,008	774
Appeals Reduced	102	73	153	138	135
Appeals Upheld	86	49	67	72	42
Appeals Increased	0	0	0	0	0
Other Determination*	2,601	863	510	545	2,211
Total Resolved	4,695	3,871	3,577	4,171	5,285
To Be Carried Over**	9,976	4,322	3,406	3,796	4,810

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

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

Applications are received by the clerk of the assessment appeals board, where they are date-stamped, reviewed, and validated. Valid applications are scanned into the computer system and all of the tracking data is entered into the clerk of the board's computer database. (The assessor has "read only" access to this database.) The original application and any other documents are sent to the assessor. The assessor's staff date-stamps the documents, screens the application a second time, and then prepares an appeal folder. All real property assessment appeals are assigned to appraisers based on geographic location through the IMPROVE computer database system. All personal property assessment appeals are assigned manually based on assessment value and assignee expertise. Real property assessment appeals are monitored and tracked electronically through the database, and most correspondence is generated by the system and documented in the computer. Personal property assessment appeals are tracked manually using a monthly activity log of business property cases. No appeal in the last five years has gone unresolved for more than two years.

Once a case is with an appraiser, the appraiser reviews the case and determines the issues. The appraiser then contacts the applicant for any additional information pertinent to the property and attempts to resolve the appeal informally. If an agreement is reached, the applicant may decide to withdraw the appeal or agree to a stipulated value. Applicants deciding to withdraw the appeal are requested to send a letter to the clerk of the board or the assessor requesting the withdrawal. If the applicant agrees to a stipulated value, a letter is drafted and approved by a supervisor before being sent to the applicant for a signature. Once the signed letter is received, the assessor

forwards the letter to the AAB for approval. If no agreement is reached, the hearing process continues. The assessor's representative and the assessment appeals unit supervisor represent the assessor's office at AAB hearings.

We reviewed several assessment appeals prepared by the assessor's staff, and found them well documented and complete. However, we found one area in need of improvement.

RECOMMENDATION 1: Improve the assessment appeals program by revising the procedures for processing assessment appeal applications and withdrawals.

According to procedures for filing and processing appeal applications, once the clerk of the board has received and approved an application, the application and any supporting documentation received is scanned into the system and the original application, along with any supporting documentation received, is forwarded to the assessor. It is also current procedure when filing a withdrawal that the applicant may write to either the clerk of the board or to the assessor to withdraw an appeal. If the applicant writes to the assessor to withdraw the appeal, the assessor sends a copy of the withdrawal letter received to the clerk of the board and retains the original. If the applicant contacts the assessor and verbally expresses to withdraw the appeal, the assessor sends the applicant a withdrawal form, which requests the applicant sign and return the form to the assessor. Again, the assessor forwards a copy of the withdrawal form to the clerk of the board and retains the original.

The assessor should work with the clerk of the board and revise the procedure for processing the appeal application. Rule 306 provides that the clerk shall transmit to the assessor a *copy* of each application for a change in assessment and each written request for amendment or correction that is received. Rule 305(g) provides that the clerk may destroy records consisting of assessment appeal applications when five years have elapsed since the final action on the application or three years after if the records have been microfilmed, microfiched, imaged, or otherwise preserved on a medium that provides access to the documents.

The assessor should also revise the procedure for processing withdrawals. The Alameda County Assessment Appeals Board is an independent entity, whose function is to resolve value disputes between taxpayers and the assessor. Therefore, it is inappropriate for the assessor to act as an intermediary between this board and taxpayers by requesting taxpayers to submit withdrawal forms to the assessor. The assessor's procedure could give an appearance that the assessor is intervening in the independent third-party review to which every appellant has the right. The assessor should revise the procedure to have applicants withdraw their appeal directly with the clerk of the board and the assessor should also revise the withdrawal form letter to instruct the applicant to submit the request for withdrawal directly to the clerk of the board rather than the assessor's office. The clerk of the board should then timely forward a copy of the withdrawal form to the assessor.

By receiving and retaining original copies of assessment appeals applications and withdrawal forms, the assessor is not following regulations and the procedure may be considered a conflict of interest when the assessment appeals board should be the intermediary between the assessor and the taxpayer.

Disaster Relief

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

To obtain relief under section 170, assesseees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

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

The Alameda County Board of Supervisors has adopted a disaster relief ordinance that covers any taxable property that is damaged or destroyed by misfortune or calamity. The ordinance was last updated March 12, 2002, and conforms to all of the current statutory provisions of section 170.

The assessor is actively engaged in the discovery of properties that may qualify for relief under the ordinance. The assessor processes approximately 80 applications annually for disaster relief. Instances of disaster or calamity are discovered by reviewing local newspaper articles, building permits issued for repairs, field canvassing, and taxpayer-initiated contacts. In addition, the assessor regularly receives fire reports from fire protection agencies in the county.

When the assessor becomes aware of property damaged or destroyed by misfortune or calamity, the assessor sends the affected taxpayer an application for disaster relief. The application used by the assessor conforms to all of the requirements of section 170. When an application is received by the assessor, it is date-stamped and given to an appraisal information assessment supervisor to review for timeliness and completeness. The claim, along with the appraisal file, is then given to an appraiser or auditor to determine the value of the property before and after the damage or destruction, and to determine if it qualifies for relief under section 170.

In each case of disaster relief that we reviewed, we found that the assessor verified the damage had occurred, noted the damage amount on the records, compared the market value before and after the damage, reduced the assessment when appropriate, and properly restored the factored base year value when repairs were completed. We found no problems with the assessor's program for granting disaster relief.

Exemptions

Church and Religious Exemptions

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

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

The assessor processed 293 church exemption claims and 429 religious exemption claims for the 2009-10 assessment roll. The following table illustrates religious and church exemption data for recent years:

ROLL YEAR	CHURCH		RELIGIOUS	
	Number	Exempted Value	Number	Exempted Value
2009-10	293	\$213,740,573	429	\$399,223,142
2008-09	313	\$188,344,668	451	\$484,779,842
2007-08	270	\$168,138,114	452	\$436,630,506
2006-07	306	\$122,851,329	452	\$386,620,683
2005-06	317	\$141,228,389	464	\$318,497,913

Our current review indicates that the assessor properly processed church and religious exemption claims. We found no problems with the assessor's church and religious exemption program.

Welfare Exemption

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

Both the organizational and property use requirements must be met for the exemption to be granted.

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

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

The following table illustrates welfare exemption data for recent years:

ROLL YEAR	WELFARE	
	Number	Exempted Value
2009-10	1,423	\$4,249,787,320
2008-09	1,410	\$3,727,466,090
2007-08	1,334	\$3,602,928,952
2006-07	1,558	\$3,551,640,771
2005-06	1,572	\$3,480,938,907

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We inspected claims for hospitals and for low-income housing properties, including properties owned by limited partnerships. Our review indicated that the assessor is properly administering the welfare exemption. Accordingly, we have no recommendations in this area.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.³ Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

³ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

To enforce the use of prescribed forms, the BOE annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

Review of the forms used by the Alameda County Assessor's Office for the year 2009 revealed the following:

- The assessor used 71 Board-prescribed forms.
- Of the 71 forms used, the assessor rearranged five.
- The assessor has timely provided the BOE with copies of rearranged forms, final prints, and form checklists.

We have no recommendations for this program.

ASSESSMENT OF REAL PROPERTY

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

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

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

Change in Ownership

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

County Specific Programs

The assessor has taken a proactive approach in notifying property owners of potential change in ownership exclusions. When answers to certain questions on BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, or BOE-502-AH, *Change of Ownership Statement (COS)*, indicate a potential exclusion under section 63.1 or 69.5, the assessor will send claim forms and informational pamphlets to property owners. The informational pamphlets, which are also available at the public counter and online, offer detailed explanations of the filing process and provide answers to frequently asked questions. We commend the assessor for being proactive in bringing these programs to the attention of the public.

Document Processing

Alameda County maintains detailed policies and procedures for staff that process changes in ownership.

The following table shows the total number of documents processed, as well as the total number of reappraisable transfers for recent years:

ROLL YEAR	DOCUMENTS PROCESSED	REAPPRAISABLE TRANSFERS
2009-10	55,375	27,812
2008-09	60,128	24,854
2007-08	69,692	30,172
2006-07	84,009	37,671
2005-06	86,600	39,476

The assessor's primary source of discovering properties that have changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires that a PCOR accompany documents submitted for recordation for the transfer of ownership of real property unless exempt from the requirement. If a transfer document is received without a PCOR, the recorder's office will apply a \$20 charge to the recording fee. PCORs are available at the assessor's and recorder's offices and on the county website. A local ordinance requires that the APN be present on all transfer documents.

The recorder scans all recorded documents into their system. Documents that match predetermined criteria for a change in ownership are printed and forwarded to the assessor. Once the documents have been forwarded to the assessor, they are examined by an assessor technician (AT) in the Assessment Roll Unit. The AT verifies that the information on the deed matches the parcel information in the assessor's system and then inputs the sales information into the assessor's database. When available, property information, such as the APN, transferee, transferor, and document type, will be automatically retrieved once the AT enters the document number. Simple transfers are handled by an AT I. If an AT I feels the transfer is too complicated for them to process, they can forward the information to an AT II for processing. More complex transactions, such as exclusions and fractional interest transfers, are processed by AT IIIs or supervisors. Once the documents have been processed, they are reexamined by a more advanced AT or supervisor for potential errors. Any errors found will be returned to Quality Assurance for correction. The transfer is then forwarded to the Appraisal Division to be valued.

Penalties

When a recorded document is received without a PCOR, the system generates BOE-502-AH, *Change of Ownership Statement* (COS), and mails it to the property owner. If the COS is not returned within 45 days, the penalty as prescribed by section 482 is applied. A second COS, accompanied by a letter notifying the property owner of the penalty, is then mailed requesting a response within 60 days. The section 482 penalty is automatically abated if the assessee files the second COS within 60 days of the date of the notice of penalty. The mailings are tracked through a computer database. If the second COS is not returned by the deadline, the property is reappraised.

Transfer Lists

Pursuant to section 408.1, the assessor has a two-year transfer list that is available to the public to review on computers at the public counter. There is no charge for this service. The information in the list is updated on a continuous basis. All required information is present and no confidential information is disclosed.

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 45 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 45 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

The chief appraiser reviews monthly LEOP reports to determine if any property listed is owned by an entity in Alameda County. Supervising appraisers search both the secured and unsecured systems for other properties owned by the entities on the list. The assessor also reviews the LEOP non-response list in an effort to obtain information from the entities that did not respond to the BOE's request to file BOE-100-B. The county is proactive in discovery of potential changes in control or ownership of legal entities through review of newspaper articles, local business journals and magazines, and annual business property statements; it refers such changes to the BOE.

Our review of several records shows the county does a thorough job reviewing the LEOP reports received from the BOE and reassessing all property interests identified on BOE-100-B, as well

as property interests that were inadvertently not reported on the form. However, we did find one area of concern.

RECOMMENDATION 2: Apply appropriate penalties as required by section 482(b) if BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, is not filed timely.

The BOE generated report titled, *Questionnaire Due Dates and Filing Dates for Entities Indicating a Change in Control or Change in Ownership – By Company*, lists legal entities which have undergone a change in control or ownership and identifies due dates and actual filing dates of BOE-100-B for each entity. When the county reviews this report and discovers a late filing by a legal entity, a penalty is not always applied.

Sections 480.1 and 480.2 require the filing of a signed BOE-100-B whenever a legal entity has undergone a change in control or ownership. Section 482 (b) provides that if a person or legal entity fails to file BOE-100-B within 45 days of the BOE's written request, they are subject to a 10 percent penalty.⁴

The information received on BOE-100-B assists the assessor in determining if a change in ownership or change in control has occurred and in making an accurate assessment of a property. Forms filed beyond the due date are considered late and, therefore, are subject to a penalty.

By applying the required penalty of section 482(b) to some taxpayers and not others, the assessor is not treating all taxpayers equally.

Change in Ownership Exclusions – Section 63.1

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

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

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

⁴ Effective January 1, 2010, the penalty provisions changed due to the passage of SB 816. As of January 1, 2010, a penalty applies if BOE-100-B is not filed within 45 days of the earlier of the event date or the BOE request. Prior to January 1, 2010, the penalty only applied if a person or entity did not respond timely to the BOE's written request to file.

The following table represents section 63.1 claims filed and granted in recent years:

ROLL YEAR	SECTION 63.1 CLAIMS FILED	SECTION 63.1 CLAIMS GRANTED
2009-10	2,715	2,683
2008-09	2,876	2,838
2007-08	3,364	3,313
2006-07	3,294	3,220

If a PCOR or COS indicates a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren), the assessor sends interested parties a claim form and a letter of explanation. If there has been no reply after 20 days, the property is reappraised. Applications and information regarding exclusions are also available to the public at the assessor's office and on the county website. All section 63.1 applications are reviewed by an AT III, who determines if the exclusion will be accepted or denied, and sends a letter to the property owner accordingly.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the county receives the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property in Alameda County has exceeded the limit. If multiple properties are transferred, the county allows the property owner or their representative to determine which properties to exclude and which to reassess. If no response is received, the assessor will determine which properties to reassess. If parcels exceeding the limit are also located in counties other than Alameda, the assessor will first contact the property owner to determine how they would like to have the excess allocated and reassessed before contacting any other counties to confirm how each will handle the excess.

Pursuant to section 63.1(i), the assessor keeps all claim forms in a secure, locked cabinet. The information is not accessible to the public.

Change in Ownership Exclusions – Section 69.5

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

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

The following table represents section 69.5 claims filed and granted in recent years:

ROLL YEAR	SECTION 69.5 CLAIMS FILED	SECTION 69.5 CLAIMS GRANTED
2009-10	216	192
2008-09	317	283
2007-08	362	321
2006-07	435	376

Alameda County accepts base year value transfers from other counties. If a PCOR or COS indicates a transferee may qualify for the base year value transfer exclusion, the county sends the transferee a claim form and a letter of explanation. Applications and information regarding exclusions are also available to the public at the assessor's office and on the assessor's website.

All section 69.5 claims are reviewed by an AT III. Appraisers determine the fair market value of both the replacement and original properties, and return the values to the technician to apply the appropriate value comparison percentage based on the date the replacement property was purchased or construction completed. If the original property is located in another county, the AT sends a Value Certification form to the assessor in that county. The form requests that the assessor in the other county confirm the sale date, sale price, FBV, and market value at the time of sale. An assessment supervisor performs a final review to determine if the claim will be accepted or denied, and sends a letter to the property owner accordingly.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. The assessor reviews the quarterly *Duplicate SSN Report* from the BOE to determine if any claims made in Alameda County duplicate any claims made previously.

Pursuant to section 69.5(n), the county keeps all claim forms in a secure, locked cabinet. The information is not accessible to the public.

Change in Ownership Exclusions – Registered Domestic Partners

As of January 1, 2006, Alameda County processes changes in ownership of registered domestic partners similar to the way interspousal transfers are processed. Before an exclusion is granted, the assessor requires confirmation that the partnership is registered with the California Secretary of State. Pursuant to section 62(p), Alameda County provides retrospective relief on a prospective basis for any reappraisal, between January 1, 2000 and January 1, 2006, involving a registered domestic partnership. The assessor requires BOE-62-DP, *Claim for Reassessment Reversal For Registered Domestic Partners*, be filed to be considered for the relief. The assessor is aware a property owner must have filed a claim form by June 30, 2009, to receive a reversal of reassessment.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraisal involvement. In Alameda County, only residential properties up to four units which have a confirmed sale price from a returned PCOR or COS are candidates for direct enrollment. The transfer must be for 100 percent of the interest in a single parcel. Additional criteria include, but are not limited to, a confirmed sale price greater than zero, but less than \$3 million, and a PCOR or COS condition rating other than "poor." These criteria may be updated to account for changes in market conditions if necessary. The following table represents the number of direct enrollments processed each year, the percentage of reappraisable transfers that are direct enrollments, and the percentage of the total roll value that are direct enrollments in recent years:

ROLL YEAR	NUMBER OF DIRECT ENROLLMENTS	PERCENTAGE OF REAPPRAISABLE TRANSFERS	PERCENTAGE OF ROLL VALUE
2009-10	8,268	29.7%	2.1%
2008-09	8,501	34.2%	2.9%
2007-08	12,349	40.9%	4.4%
2006-07	17,100	45.4%	6.5%
2005-06	18,875	47.8%	6.7%

The number of direct enrollments have slowly declined over the last five years, possibly due to an increase in the number of foreclosures in recent years.

The assessor has two types of direct enrollment. The first is called Potential Direct Enrollment (PDE). In order to qualify for PDE, the sale must meet certain criteria. The PDE work queue displays a list of several transfers, at any one time, for the appraiser to examine. The appraiser may select to have all sales that appear to be within market range enrolled without further review, select some for enrollment, or reject all. Transfers not selected for direct enrollment are moved to the Sales and Transfer (S/T) queue, which allows for a more in depth review and appraisal.

The second type of direct enrollment is called Auto-Enroll (AE). AE properties not only must meet the same criteria as PDE properties, but also must meet at least one of the following four qualifying conditions:

- There is a current year appraisal that is prior to the event where the total of the land and the improvements is greater than the indicated purchase price;
- The indicated purchase price is less than the current roll year assessment;
- There is a significant difference between the value derived from the documentary transfer tax and the indicated purchase price; or
- There is an indication on the PCOR or COS that personal property is included as part of the purchase price.

The AE work queue displays one transfer at a time, allowing the appraiser to review the sale in more detail than transfers in the PDE queue. If the appraiser decides the sale price is within market range, they can select to enroll without further review. If the sale requires further review, it is moved to the S/T work queue.

Sales that do not meet the PDE or AE review criteria are automatically sent to the S/T work queue. An appraiser is required to review each of these sales in detail, as many lack an indicated sale price or other required information.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements, such as sewers, sidewalks, lighting, and water lines, which generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for repayment of the construction loan.

Section 110(b) provides there is a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration.

Alameda County has approximately 12 active bond assessment districts. In accordance with section 163, the assessor receives annual reports that provide the required information on parcels encumbered by assessment bonds. It is the assessor's policy not to add for improvement bonds unless the market indicates otherwise. We found no problems with the assessor's treatment of improvement bonds.

Overall, we found the assessor's change in ownership program to be efficient and well managed.

New Construction

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

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

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

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from 16 permit-issuing agencies. Most of the permits are accompanied by a building plan, and all permits received are forwarded to the property appraisers for review and valuation. The appraisal support staff automatically mails new construction questionnaires for all permits indicating an appraisable event. Cost information is obtained from building permits and from taxpayers.

The following table shows the permit workload of the assessor for recent years:

ROLL YEAR	PERMITS RECEIVED	PERMITS GENERATING VALUE	TOTAL VALUE ADDED
2009-10	49,203	19,969	\$1,608,990,397
2008-09	53,433	23,308	\$ 1,625,434,104
2007-08	55,625	22,613	\$ 1,555,953,971
2006-07	53,988	23,309	\$ 1,159,300,448
2005-06	56,588	21,768	\$ 1,313,837,154

Methods used for the discovery of unpermitted new construction include field inspections, reviewing newspaper articles, reports from taxpayers, and BOE-571-L, *Business Property Statement* (BPS). When new construction of more than \$50,000 is noted on schedule B of the BPS, the Business Property Division forwards a copy of the BPS to the realty division for assessment; this process is discussed in greater detail in the Leasehold Improvements section of the survey.

Permit Processing

All permit issuing agencies in Alameda County transmit copies of all building permits to the assessor electronically. As the permits are received by the assessor, the permit information is loaded onto the IMPROVE assessment management system for tracking.

A list, by city, of permits with a description of the work being done is generated by IMPROVE and is forwarded to a supervisor for review. The supervisor culls those permits that are determined to be for non-assessable new construction. Permits that are culled are typically for repair and replacement of plumbing, mechanical, and electrical components, as well as roof repairs and dry rot repairs.

For those permits determined to be for assessable new construction, the appraisal services division creates a permit worksheet, pulls the appraisal file, and forwards the packet to the assigned appraiser for review and valuation. The appraiser field inspects the property and makes a value determination. Once completed, the appraisal file is forwarded to the supervisor for review. If approved, the value is input into the system and a supplemental assessment is automatically generated.

The assessor follows specific procedures to ensure proper processing of all permits. The processing procedures are thorough and provide for effective retrieval of information by the appraisers.

Valuation

The assessor values new construction by estimating its full value as of the date of completion. The appraiser determines the completion status of new construction from an on-site review, a notice of completion from the building department, or from the taxpayer. Several cost sources are used in valuing new construction, including Assessors' Handbook Section 531, *Residential Building Costs*, the owner's actual cost, and *Marshall Valuation Service* for commercial and industrial properties. All permits not previously determined to be maintenance or replacement are field reviewed. We reviewed several new construction appraisal records and found no problems with the assessor's program for the assessment of new construction.

Construction in Progress

Section 71 requires the assessor to enroll construction in progress at its fair market value on each lien date. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value upon completion and a base year value is assigned.

We found no problems with the assessor's valuation of construction in progress.

Declines in Value

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

Over the last two years, the local real estate market in Alameda County has weakened and the number of properties with market values lower than their FBYV has increased dramatically.

The following table shows the number of decline-in-value properties for recent years:

ROLL YEAR	DECLINES-IN-VALUE PROPERTIES	REDUCTION FROM PROP 13 VALUE
2009-10	98,668	-\$14,517,580,031
2008-09	44,212	-\$3,110,348,271
2007-08	6,135	-\$346,182,304
2006-07	1,641	-\$350,129,246
2005-06	1,489	-\$318,915,337

Discovery of value declines in commercial, industrial, residential, and agricultural properties is accomplished through several means. The assessor relies on his knowledge of markets trends affecting real estate in the county, as well as his appraisers' familiarity with their assigned geographic areas and specialties. In addition, taxpayer requests for review and assessment appeals trigger reviews for value declines in properties surrounding the subject properties.

The assessor also uses the assessment management system, IMPROVE, to assist in identifying properties in the county that need to be reviewed for possible decline-in-value assessments. Using IMPROVE, the assessor is able to identify all residential properties that have sold or transferred between a specified time period. The identified parcels are distributed for review to the appraiser assigned to appraise that parcel mapbook. Also provided with the list are a number of comparable sales showing an estimated current market value for the identified parcel. The appraisers, upon review, may accept the estimated value or arrive at a different value using comparables sales they feel are more representative of the subject property. Once the appraisal is complete, it is forwarded to the supervisor for review.

Since the prior survey, the assessor has developed a new tool, the Property Value System (PVS), to annually value all residential properties in decline-in-value status. PVS is an integrated application within IMPROVE. PVS is designed to address declines in value on an ongoing basis. Parcels that were previously provided decline-in-value relief or that are identified as warranting review for a possible decline in value are coded and tracked. These properties are assigned to an appraiser for review and analysis. PVS allows the appraiser to choose between the FBYV and the indicated current market value. All values are subsequently reviewed by a supervisor before being enrolled.

In reviewing a number of decline-in-value assessments, we found that the records were well documented and the values were well supported. All properties lowered to reflect a decline in value are reviewed annually pursuant to section 51(e).

The assessor's decline-in-value program is effective and well administered.

California Land Conservation Act Property

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

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

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

For the 2009-10 roll year, Alameda County had approximately 1,075 parcels encumbered by CLCA contracts with a total of 142,434 acres and an assessed value of \$60,075,687. The total number of acres under contract includes approximately 921 acres in nonrenewal status. The majority of the land under contract is rated non-prime and used primarily for grazing.

Income and expenses are derived from a market study, which utilizes data from the Alameda County Crop Report, questionnaires from property owners, and other published data. CLCA questionnaires are mailed out periodically. Information from these questionnaires is input in the assessor's computer valuation program for CLCA properties. Using the computer program, each year the assessor calculates restricted land values in accordance with section 423. The assessor enrolls the lower of the restricted value, the factored base year value, or the current market value. In our review of the Alameda County CLCA program, we found that the assessor correctly estimates the income stream for living improvements by utilizing an inclining-stable-declining approach. We also found that parcels in non-renewal status are correctly assessed.

Homesites are correctly valued according to section 428 and supplemental tax bills are issued on unrestricted portions of CLCA properties when appropriate. In developing the capitalization rate used in the valuation of CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE, and includes a risk component and a tax rate component. The assessor uses a risk component that ranges from 0.75 percent to 1.25 percent, depending on land use.

Overall, the assessor has an effective program for the valuation of CLCA properties; however, we found one area in need of improvement.

RECOMMENDATION 3: Classify and enroll living improvements as improvements.

We reviewed a number of vineyard properties under CLCA contracts. We found that the assessor was classifying and enrolling the living improvements, grapevines, as land and not as improvements.

Section 105 provides that improvements include all fruit, nut bearing, or ornamental trees and vines. Further, Rule 122 provides that improvements consist of planted fruit, nut trees, and vines that are taxable.

Misclassification of living improvements can have significant consequences. For example, special assessments may be imposed on land only. Special assessments are levies upon real property for the purpose of paying for various improvements and services within a district. Enrolling living improvements as land may result in the improper levy of special assessments on living improvements.

Taxable Possessory Interests

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

The assessor has a supervising appraiser, an appraiser, and an assessor technician involved in the discovery and assessment of taxable possessory interests. The types of taxable possessory interests being assessed include cable television franchises, employee housing, grazing permits, public marinas, and fairground concessions.

For the 2009-10 assessment roll, the assessor enrolled 3,485 taxable possessory interests with a total assessed value of \$1,617,049,806. Taxable possessory interests are enrolled on the unsecured roll.

The following table lists the distribution of possessory interest assessments for recent years:

ROLL YEAR	ASSESSMENTS	ROLL VALUE
2009-10	3,485	\$1,617,049,806
2008-09	3,448	\$1,529,019,838
2007-08	3,429	\$1,448,962,431
2006-07	3,689	\$1,512,244,855
2005-06	3,932	\$1,475,346,772

To assist in the discovery of taxable possessory interests, the assessor sends BOE-502-P, *Possessory Interests Annual Usage Report*, annually to the 73 public agencies owning property in the county. The form requests updated listings of tenants and the terms of their leases. Other methods of discovery are reviewing recorded leases and construction permits. The information received, such as term of contract, rent, and expenses, is logged and tracked on the computer system. We reviewed the assessor's written taxable possessory interest procedures and a number of taxable possessory interest records. The assessor uses market rents, and deducts for vacancy and operating expenses in the valuation process of taxable possessory interests.

Since our last survey, the assessor has developed and implemented a new computer program to assist in the valuation of taxable possessory interests. The new program allows the assessor to annually review all taxable possessory interests with stated terms of possession for declines in value pursuant to section 51. Each year, the possessory interest appraiser, assisted by the assessor technician, inputs data into the computer system, such as market rents, expenses, lease term, and capitalization rates; the assessment program uses this data to calculate the market value of each taxable possessory interest. The computer program automatically declines the term of possession for each taxable possessory interest by one year after the roll has closed. The program also alerts the possessory interest appraiser when a term of possession has one year remaining. The appraiser compares the current market value on the lien date (based on the stated term of possession) with the factored base year value, and enrolls the lower of the two values.

Overall, the assessor has an effective program for the assessment of taxable possessory interests. However, we noted one area in need of improvement.

RECOMMENDATION 4: Assess taxable possessory interests pursuant to section 61(b)(2).

The assessor revalues month-to-month taxable possessory interests on an annual basis rather than at the end of the reasonably anticipated term of possession used to establish the initial value. The assessor is treating these interests as if they had stated terms of possession and revaluing these interests each year for a possible decline in value due to a declining term of possession.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), provides that if the reasonably anticipated term of possession is based on the stated term of possession, the term of possession will decline each lien date, which may cause a decline in value and, therefore, should be periodically reviewed for decline in value and reviewed annually once in decline in value status. However, according to Rule 21(d)(3), certain taxable possessory interests are deemed to not have a stated term of possession, such as month-to-month taxable possessory interests. For taxable possessory interests without a stated term of possession, the assessor should determine a term of possession to use on each valuation date, using the criteria as provided for in Rule 21(d)(2).

Section 61(b)(2) provides that any renewal or extension of a possessory interest during the reasonably anticipated term of possession used by the assessor to value that interest does not cause a change in ownership until the end of that reasonably anticipated term. Taxable possessory interests without stated terms of possession should not be revalued annually. They should be revalued only on the valuation date and, therefore, the assessor's computer system should not automatically decline the term of possession each year on possessory interests without stated terms of possession.

The assessor's practice of annually re-valuing month-to-month taxable possessory interests has resulted in incorrect assessments.

Leasehold Improvements

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

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

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

Coordination between the business property and real property divisions is essential for proper assessment of leasehold improvements. Procedures should be designed to ensure that all newly constructed improvements are valued at the appropriate amount and such improvements are assessed to the proper person. The assessor has formal written procedures for the discovery and assessment of leasehold improvements.

Schedule B of the BPS deals specifically with real property owned or improved by the owner or tenants of premises housing business enterprises. Taxpayers are required to annually list additions, alterations, or deletions of real property improvements by reporting costs detailing changes to land, land improvements, and structures. In this way, taxpayers report costs of additions or alterations to tenant improvements. These changes must, by law, be reviewed and reflected in the property assessment if they qualify as new construction.

The primary discovery tools for leasehold improvements are BPSs and building permits. Other discovery tools include surveys of tenants in commercial buildings, review of leases, field observation, and audits of business records.

The assessor properly classifies structural improvements, also known as tenant improvements, reported on Schedule B on the secured roll and reported fixtures on the unsecured roll. Tenant improvements that are classified as structures with a reported cost of \$50,000 or more are reviewed and assessed by the real property section. Tenant improvements classified as fixtures are assessed by the business personal property section.

The assessor's policy is for the business property section to refer expenditures reported on Schedule B, columns 1 and 4, which exceed \$50,000 to the real property section for review. The business property statements are flagged for referral by a check mark in box 2 of the BPS transmittal form. This check directs the support staff to forward a copy of Schedule B to the real property section. However, any reported structural expenditures less than \$50,000 are not

assessed by either the business personal property section or the real property section. Therefore, we have one recommendation for the leasehold improvement program.

RECOMMENDATION 5: Assess all leasehold improvements.

When there are newly reported costs of \$50,000 or less on Schedule B for structural improvements, the assessor is not forwarding these schedules to the real property section to review. The costs reported on this schedule may represent expenditures for assessable new structural improvements or may represent expenditures for non-assessable structural improvements, such as alterations or remodels to the building.

According to section 155.20(e)(1), a county board of supervisors cannot exempt new construction unless the new total base year value of the property, including this new construction, is \$10,000 or less.⁵ When part of a larger structure, low-value new construction should be valued and enrolled.

By excluding reported costs of \$50,000 or less from review, the assessor has established an arbitrary low-value threshold that is contrary to statute. Without verifying these reported costs, these properties may have escaped assessment or may be underassessed.

Mineral Property

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

Alameda County has no high temperature geothermal properties and only a small number of petroleum properties. The petroleum properties were not reviewed for this survey.

Mining Property

Alameda County has several sand and gravel producers. The mineral rights for the producers' properties are valued by the real property division, while the equipment associated with the mining operations is valued by the business property division. The mineral rights are valued using the royalty method. In our review of the assessor's assessment program for mining properties, we noted a number of areas in need of improvement.

RECOMMENDATION 6: Improve the mineral property program by: (1) reviewing mineral properties for declines in value as provided in Rule 469(e)(2)(C), (2) adding new reserves at the current market value as described in Rule 469(e)(2)(A)(5), and (3) applying consistent valuation parameters to similar mineral properties.

⁵ Effective January 1, 2010, section 155.20 was amended to increase the amount from \$5,000 to \$10,000.

Review mineral properties for declines in value as provided in Rule 469(e)(2)(C).

When comparing the current market value of a mineral property to its FBYV for determining declines in value, the assessor is not including the value of any assessable fixtures as part of the appraisal unit. To make the proper value determination, the adjusted base year value of the fixtures must be tracked each year, so this value can be combined with the adjusted base year value of the land and mineral rights. This aggregated value is then compared to the current market value of the land, improvements including fixtures, and reserves to determine the value to enroll. The assessor does not track the FBYV of the fixtures for mineral properties.

Rule 469 requires that mineral properties be appraised as a single appraisal unit for purposes of determining declines in value. Furthermore, Rule 469(e)(2)(C) provides that the appraisal unit of a mineral property is defined as land, improvements including fixtures, and reserves.

Add new reserves at the current market value as described in Rule 469(e)(2)(A)(5).

When adding value for the discovery of new reserves for mining properties, the assessor is not enrolling their current market value. Instead, the assessor uses the FBYV on the assessment roll as the basis for calculating the value added by the new reserves.

Rule 469(e)(2)(A)(5) requires that added proved reserves be valued by determining the current market value of all of the proved reserves less the current market value of proved reserves existing prior to adding new proved reserves.

Reserves on mining properties can change over time due to changes in economic conditions, new permits, improved recovery processes, replenishment from stream sources, or capacity expansion of the original mining plan. When new reserves are identified, they should be added to the existing base at their current market value.

The assessor's method of calculating the value of new reserves may lead to the underassessment of these properties.

Apply consistent valuation parameters to similar mineral properties.

We found, with one exception, that the assessor uses one standard discount rate to value all mining properties in the county. In this one exception, the assessor used a discount rate that was significantly higher than the one used to value all other mining properties in the county. The owner of this one mining property provided the assessor with information that the appropriate discount rate should be significantly higher than what the assessor originally used to value the property. This higher rate was based upon a study done by a large accounting firm for the California Mining Association.

Appraisal theory requires that similar properties be valued using similar parameters. For example, similar office buildings with the same functionality would be evaluated using the same rent per square foot.

When using an income approach to valuation, the discount rate represents the anticipated return on investment for a property. If the assessor determined that the rate was applicable to this one property, it should have been applicable to all similar properties in the county. A properly developed discount rate includes the risk of operating a property, as well as the risk of returning the investment in a property.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

The assessor's staff assigned to the business property program consists of 1 principal auditor-appraiser, 4 supervising auditor-appraisers, 17 auditor-appraisers, 1 assessor's representative, 1 assessment supervisor, 9 assessor technicians, 1 specialist clerk, 1 clerk, 3 retired annuitants, and 1 real property appraiser. The real property appraiser works in conjunction with the auditor-appraisers to ensure the correct classification and allocation of real and personal property items are assessed to businesses. This staffing mix facilitates the coordination of real property and business property assessments.

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

Audit

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

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

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was

required to have conducted from the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

The following table indicates the total number of audits completed over recent years:

DESCRIPTION	2008-09	2007-08	2006-07	2005-06
AUDITS SCHEDULED				
Mandatory	502	505	452	438
Nonmandatory	0	7	10	26
Contract Audits (CCCASE)	143	45	64	61
Total Audits Scheduled	645	557	526	525
Unfinished from Prior Years	10 ⁶	7	19	0
Total Audit Workload	655	564	545	525
AUDITS COMPLETED				
Mandatory	649	547	521	487
Nonmandatory	0	6	17	19
Total Audits Completed	649	553	538	506
Audits Carried Forward	N/A	11	7	19

In Alameda County, audit responsibility falls upon 17 auditor-appraisers, an assessor's representative, and 5 supervisors, all of whom are under the direction of a principal auditor-appraiser.

As noted above, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. We reviewed the assessor's calculations, which establish future audit workloads, as well as recent audit production, and found that the assessor will likely meet his newly established production obligation. During the 2008-09 assessment year, the assessor completed 649 mandatory audits. According to the assessor's calculations, the amended statute requires the assessor to complete 387 audits per year going forward. Therefore, it appears that the assessor will complete the newly defined number of audits required pursuant to section 469.

⁶ The single incomplete nonmandatory audit from the 2007-08 assessment year was dropped. Therefore, the number (11) indicated in the "Audits Carried Forward" row for 2007-08 is one less than that indicated in the "Unfinished from Prior Year" row (10) for 2008-09.

Statute of Limitations

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

The assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. We reviewed a number of waivers on record and found them to be adequately prepared and well managed.

Audit Quality

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

We sampled several recently completed audits and found that in all cases mandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. We found the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. Furthermore, we reviewed the assessor's application of roll corrections to reflect audit findings. We found that when correcting for multiple-year audit findings, the assessor is enrolling roll corrections for each year in which the escape assessment took place pursuant to section 531.

Overall, the assessor's audit program is effectively managed. We have no recommendations regarding this topic.

Business Property Statement

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

Workload

The following table displays the assessor's workload of secured and unsecured business property assessments for the 2009-10 roll year:

CATEGORY	NUMBER OF SECURED	NUMBER OF UNSECURED	TOTAL
General Business	8,025	42,755	50,780
Agricultural	19	27	46
Vessels	0	9,714	9,714
4% Vessels	0	35	35
General Aircraft	0	1,104	1,104
Certificated Aircraft	0	36	36
TOTAL	8,044	53,671	61,715

The Business Personal Property (BPP) Section is composed of 38 permanent staff. During processing season, additional staff are borrowed from the assessor's real property section. The BPP section's principal auditor-appraiser, along with an assessor representative, 4 supervising auditor-appraisers, 17 auditor-appraisers, 1 assessment supervisor, 9 assessor technicians, 1 specialist clerk, 1 clerk, and 3 retired annuitants combine their efforts in conducting the duties related to personal property appraisals.

General Statement Processing

Upon submission, assessor technicians begin the processing of business property statements by date-stamping and screening the statements for completeness and the inclusion of an authorized signature. Assessor's personnel scan the bar code on the statement to update the account in the mainframe to reflect the submittal. Sufficiently completed statements are then batched for valuation. Incomplete or un-signed statements are returned to the property owner for completion. A copy of the incomplete statement is held in a filing cabinet pending the return of the completed original.

To expedite valuation, screened statements are classified and sorted by type, and assigned to certified appraisal staff. Auditors make the appropriate value judgments and forward the statements to the assessor technicians for data input. A value difference report indicates material variances from the previous year's enrolled values. The records of those business accounts with the widest variations are pulled and reviewed by certified business property staff to ensure the accuracy of the current year's value conclusions. We reviewed all major aspects of the business property statement program, including processing procedures, use of Board-prescribed forms, application of penalties, real property division coordination, and record storage and retention. In addition, we reviewed several recently processed business property statements. The statements

we reviewed demonstrated that Board-prescribed forms were properly used, were completed in sufficient detail, and were properly signed.

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. In addition to taxpayer self-reporting, the assessor reviews fictitious business name filings, city and county business licenses, real property appraiser referrals, landlord reports of tenants, business directory services, and BOE notifications. We found the assessor employs effective methods for discovering business personal property.

Filing Procedures

Pursuant to section 441.5, in lieu of completing the property statement, information required of the taxpayer may be furnished to the assessor as attachments to the property statement provided that the attachments are in a format specified by the assessor and a copy of the actual property statement is signed by the taxpayer and carries appropriate reference to the data attached. The assessor allows taxpayers to submit attachments in lieu of completing business property statements as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits the signed original of the statement. We reviewed several business property statements and found that the taxpayer or an authorized agent appropriately signed the statements, even when a rendition was attached to an original of the business property statement.

Our review also included verifying the assessor's procedures for processing late and non-filed statements. We found that the assessor applies the late filing penalty as required by section 463 and habitual non-filers are flagged for a field review after failing to file a property statement for three consecutive years. However, we found, in certain circumstances, the current market value of business property is incorrectly determined.

RECOMMENDATION 7: Value taxable business property in accordance with section 501, when a taxpayer fails to file a business property statement.

When a completed business property statement is submitted late, the assessor correctly calculates the current market value of known taxable business property owned and controlled by the property owner, and applies the statutorily defined penalty of 10 percent. However, in cases where the property statement is not returned, the assessor first escalates the previous year's enrollment by 10 percent and then applies an additional 10 percent penalty. This practice constitutes a 10 percent punitive assessment in addition to the legally supported 10 percent penalty for late or non-filing.

If an assessee does not file a property statement by May 7, section 501 provides that the assessor shall estimate a value based on available information and section 463 provides for a 10 percent penalty to that estimated assessed value. By escalating the previous year's enrollment by a pre-determined rate, the assessor is enrolling an arbitrarily determined value with no supporting basis. Any estimated assessment should be supported by available information in conformance with section 501.

The assessor's current calculation methodology likely leads to erroneous value conclusions and leads to improper application of the late or non-filing penalty provided for in section 463.

Direct Billing

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

The direct billing program is beneficial for both taxpayers and the assessor. It reduces paperwork for taxpayers and frees assessor's staff to perform other required duties.

The assessor maintains a significant direct billing program, with 4,771 accounts during the 2009-10 roll year. The program is well regulated and appropriate controls are in place to reduce the chance of escape assessments. One such control is the assessor's requirement that participating businesses file a property statement every four years in order to update taxable equipment information.

Business Equipment Valuation

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

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

The assessor uses Standardized Industry Codes (SIC codes) to classify business property accounts by industry type in the computer system. We reviewed the written procedures and standardized valuation policies related to business property valuation and found them to be current and sufficiently detailed.

Application of BOE Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended by the CAA. The price indices parallel the indices published in AH 581, with the exception of specific types of equipment (such as pagers, facsimile equipment, high tech medical equipment, and photocopiers) that the CAA recommends should not be trended. We found the assessor consistently and accurately applies the BOE-recommended valuation tables.

Mobile Construction and Agricultural Equipment Valuation Factors

The assessor currently utilizes separate and appropriate factor tables for new and used construction and agricultural mobile equipment in accordance with the instructions on Table 5 and Table 6 in the AH 581. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile agricultural and mobile construction equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. Where the condition is indicated, the assessor should use the "new" or "used" table. We reviewed the assessor's factor tables related to this issue and found the BOE-recommended cost index and depreciation tables to be correctly compiled.

Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. In order to ensure consistent pro-ration of reported machinery and equipment to fixtures and personal property, the assessor applies pre-determined fixed equipment allocations tied to the established SIC codes. We found no problems either in the processing of the statements or the prescribed classifications of enrolled machinery and equipment.

Aircraft

General Aircraft

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

For the 2009-10 assessment roll, the assessor enrolled 986 aircraft assessments with a total assessed value of \$858,978,757.

An assessor technician and a supervising auditor appraiser are responsible for general aircraft valuation. The assessor discovers aircraft through airport operators' reports, other county referrals, BOE sales tax inquiries, media reports, internally generated questionnaires, section 469 audits, and the CAA aircraft subcommittee meetings.

Each year the assessor mails an aircraft property statement to the known owner of each aircraft in the county. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The aircraft statement indicates a filing due date of April 1, and accompanies an official request containing penalty language pursuant to section 5367.

Upon receipt of the completed aircraft property statements, an assessor technician scans the bar code on the statement to update the account in the mainframe and reflect the submittal. The technician then reviews the statements for completeness and the inclusion of authorized signatures. Submitted statements are batched in order of submission date and readied for processing. An assessor technician uses the computerized version of the *Aircraft Bluebook-Price Digest* to prepare a valuation worksheet for each aircraft to be appraised. The statements and valuation worksheets are then forwarded to a supervising auditor appraiser for review and enrollment.

We reviewed several general aircraft records for valuation methodology, legal signatures, and the application of late or non-filing penalties pursuant to section 5367. We found that the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines set forth in the Assessors' Handbook 577, *Assessment of General Aircraft*, and LTA 97/03.

Fractionally Owned Aircraft

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

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

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

For the 2009-10 assessment roll, the assessor enrolled four fractional aircraft assessments with a total assessed value of \$54,525,110. We reviewed the assessor's procedures for the valuation of fractionally owned aircraft. We reviewed two of the four fractionally owned aircraft statements filed in the county and found that the allocated value was accurately calculated on the basis of arrivals and departures in the county in accordance with section 1161.

Certificated Aircraft

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

Thirty-two commercial air carriers flew in and out of Oakland International Airport during the 2008 calendar year. For the 2009-10 assessment roll, the assessor enrolled 32 certificated assessments with an assessed value of \$645,398,004. The auditor-appraiser responsible for certificated aircraft appraisal functions processes the annual business property statements and calculates the pro-rated value according to the methodology set forth by the CAA's Aircraft Subcommittee. Appraisals of this type are predicated upon the reported costs indicated on the air carrier business property statements and indicated wholesale values from the *Airline Price Guide*. The auditor-appraiser applies the percentage of time the aircraft is situated in Alameda County based on a one week sample, including both ground time and air time, to the airline's total audited fleet estimate of value to derive a pro rata estimate of the certificated aircraft value.

We reviewed the assessor's certificated aircraft appraisal procedures, in addition to a sample of processed air carrier property statements, and found the program to be correctly administered and the estimates of values to be accurately calculated pursuant to section 401.17.

Historical Aircraft

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

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

There were 118 historical aircraft assessed on the 2009-10 roll with a total value of \$7,417,300. The assessor properly obtains signed affidavits, in the format prescribed by the BOE, and certification of attendance for historical aircraft exemptions claimed within the county pursuant to section 220.5(c). We reviewed several historical aircraft assessments and exemption claims. We found that the assessor has properly granted the exemption when the legal conditions are met. We also were able to confirm that the assessor correctly denied the exemption when the statutory requirements were not met and allowed the partial exemption when merited in accordance with section 276.5.

Vessels

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

Alameda County is a coastal community with an active pleasure boat and commercial fishing industry. The assessor enrolled 9,749 vessels on the 2009-10 assessment roll with a total assessed value of \$280,656,080. The assessor utilizes DMV reports, marina reports, BOE sales tax division inquiries, published information from media reports, and referrals from other counties as methods of discovery.

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. For the purposes of California property taxation, vessels are valued at their fair market value every year as of the January 1 lien date. Sections 401 and 401.3 require the assessor to assess boats at market value each year. The assessor appraises vessels upon transfer or when newly enrolled in the county. The assessor then applies a market derived depreciation rate to arrive at values for subsequent lien dates. Alameda County has a low value ordinance exempting personal property with a full value of \$2,000 or less. Therefore, vessel enrollments with values that fall below the low value ordinance are exempted.

The following table shows the number and value of vessels assessed during recent years:

ROLL YEAR	NUMBER OF PLEASURE VESSELS	ASSESSED VALUE	NUMBER OF DOCUMENTED VESSELS	ASSESSED VALUE
2009-10	7,946	\$101,642,320	1,803	\$179,013,760
2008-09	8,899	\$130,886,792	1,770	\$200,633,299
2007-08	8,907	\$132,781,733	1,678	\$188,708,515
2006-07	9,229	\$133,490,523	1,663	\$208,565,951

Two assessor technicians and a certified appraiser, under the direction of a supervising auditor appraiser, administer the assessor's vessel program. The assessor values newly enrolled vessels with the aid of the *National Automobile Dealers' Association Marine Appraisal Guide*, (NADA) and the *BUC Used Boat Price Guide*. However, the assessor will utilize other sources of market evidence when appropriate. The assessor correctly adds a sales tax component of value, makes adjustments for vessel condition, motor and motor condition, accessories, and deducts for trailers as appropriate. Alameda County utilizes an automated process whereby the monthly computer tape provided by the DMV is downloaded into the mainframe to enable the newly acquired registration data to be cross-referenced with enrolled vessel information. This process enables the assessor to update ownership records and identify vessels entering or leaving the county.

Vessel Property Statements

The assessor sends a *Vessel Owner's Report* to the registered owner of each vessel that is either newly enrolled in the county or has undergone a change of ownership. BOE 576-D, *Vessel Property Statement*, is used to annually solicit information from owners of registered vessels costing in excess of \$100,000, in compliance with section 441.

When a property statement is received, an assessor technician scans the bar code to update account information in the mainframe database. The technician then reviews the statements for completeness and the inclusion of authorized signatures. Submitted statements are batched by receipt date and processed by either a certified appraiser or an assessor technician. All values calculated by non-certified personnel are reviewed by a supervising auditor appraiser. The supervising auditor appraiser reviews a sampling of all other processed statements. We reviewed a number of assessments where vessel owners were required to submit vessel property statements pursuant to section 441(a). We found when a timely submission was not made, the assessor correctly applied a 10 percent penalty in accordance with section 463.

Vessels Qualifying for the 96 Percent Exemption

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements as specified in section 227. In order for vessel owners to qualify for the exemption, they must file an *Affidavit For 4 Percent Assessment Of Certain Vessels* (BOE-576-E). If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent (80 percent of the 96 percent exemption). However, no exemption may be granted for those taxpayers filing an affidavit after August 1.⁷

During the 2009-10 assessment year, 35 commercial vessels qualified for the 96 percent exemption provided in section 227. We reviewed several partially exempt vessels and found that the exemption forms were sufficiently completed and exemptions were appropriately granted when the qualifications stipulated in section 227 were met.

Findings

We reviewed several vessel assessments in detail. Our sampling included vessels whose values were in excess of \$100,000, those that were subject to the assessor's application of an annual depreciation rate, and vessels that were appraised. We found that the assessor's depreciation schedule is supported by a market study and that vessels are being properly assessed.

⁷ Sections 260 and 275.5.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Alameda County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

David Dodson

Supervising Property Appraiser

Survey Team Leader:

Ronald Louie

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Michael Ash

Associate Property Appraiser

Paula Jean Eagleman

Associate Property Appraiser

Ardeshir Noroozkhani

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Bryan Bagood

Associate Property Appraiser

Jennifer Prince

Associate Property Appraiser

Paul Stueber

Tax Technician II

B. Assessment Sampling

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁸ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁹

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

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

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

⁸ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁹ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

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 survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Alameda County Assessor's response begins on the next page. The BOE has no comments on the response.



OFFICE OF ASSESSOR

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RECEIVED

MAR 30 2011

County-Assessor Properties Division
State Board of Equalization

RON THOMSEN
ASSESSOR

March 28, 2011

Mr. Dean Kinnee
Chief, County-Assessed Properties Division
California State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

Dear Mr. Kinnee:

Pursuant to section 15645(b) of the Government Code, please find enclosed my written response to the findings and recommendations contained in the March 2011 Alameda County Assessment Practices Survey. Please include my response in your final report.

I am thankful and proud of your recognition of the many technological enhancements my department has been able to achieve since the publication of your last assessment practice survey of my office. These enhancements have been achieved through the forward thinking, the "can do" attitude, and the dedication of my entire staff. Their commitment to an exceptional assessment program and outstanding public service is the key to the success of the Alameda County Assessor's office.

I thank your entire survey team for their professionalism during this survey process. Their constructive comments and recommendations for the improvement of my department are truly appreciated.

Sincerely,

Ron Thomsen,
Assessor

Encl: (1)

Recommendation 1- Improve the assessment appeals program by revising the procedures for processing appeal applications and withdrawals.

We agree. We will advise the Clerk, Assessment Appeals Board to retain original applications and to supply a copy to our department. Also, that we should not be an intermediary between the applicant and the Assessment Appeals Board during the withdrawal process.

Recommendation 2- Apply appropriate penalties as required by section 482 (b) if BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities* is not filed timely.

We agree. Beginning with the enactment of the provisions of SB 816 we are applying the appropriate penalties.

Recommendation 3- Classify and enroll living improvements as improvements.

We agree. We will classify and enroll all fruit, nut bearing, or ornamental trees and vines as improvements pursuant to Section 105.

Recommendation 4- Assess taxable possessory interest pursuant to section 61 (b) (2).

We agree. We will no longer automatically decline the term of possession each year on accounts that do not have stated terms of possession.

Recommendation 5- Assess all leasehold improvements

We agree. The Business Personal Property Division will copy and forward all 571Ls indicating structural improvements to the Real Property Division.

Recommendation 6- Improve the mineral property program by: (1) reviewing mineral properties for declines in value as provided in Rule 469 (e)(2)(C), (2) adding new reserves at the current market value as described in rule 469(e)(2)(A)(5), and (3) applying consistent valuation parameters to similar mineral properties.

We agree. We will include assessable fixtures as part of the appraisal unit when comparing the current market value to its FBV for determining declines in value. Added proved reserves will be valued by determining the current market value of all proved reserves less the current market value of proved reserves existing prior to adding new proved reserves.

Recommendation 7: Value taxable business property in accordance with section 501, when a taxpayer fails to file a business property statement.

We agree. An estimate of value will be determined and supported by available information in our possession.