ALAMEDA COUNTY
ASSESSMENT PRACTICES SURVEY

NOVEMBER 2016

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT
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November 30, 2016

TO COUNTY ASSESSORS:

No. 2016/047

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 BOE shall make surveys in specific counties 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 November through December 2014. 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.

Sincerely,

/s/ David Yeung for

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
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 selected county assessors' offices. This report reflects the BOE's findings in its current survey of the Alameda County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the 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.

OBJECTIVE

The survey shall "…show the extent to which assessment practices are consistent with or differ from state law and regulations."[1] The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

The objective of the survey program is to promote statewide uniformity and consistency in property tax assessment by reviewing each selected county's property assessment practices and procedures, and publishing an assessment practices survey report. Every assessor is required to identify and assess all properties located within the county – unless specifically exempt – and maintain a database or "roll" of the properties and their assessed values. If the assessor's roll meets state requirements, the county is allowed to recapture some administrative costs.

SCOPE AND METHODOLOGY

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.

Pursuant to Revenue and Taxation Code[2] 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.

This survey included an assessment sample of the 2014-15 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.[3]

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[1] Government Code section 15642.

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

[3] For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf.

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

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

We conducted reviews of the following areas:

Administration

> We reviewed the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, assessment appeals, disaster relief, and exemptions.

Assessment of Real Property

> We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, leasehold improvements, and certain properties subject to special assessment procedures, such as California Land Conservation Act (CLCA) property, taxable possessory interests, historical properties, and mineral property.

Assessment of Personal Property and Fixtures

> We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, aircraft assessments, and vessel assessments.

Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

EXECUTIVE SUMMARY

We examined the assessment practices of the Alameda County Assessor's Office for the 2014-15 assessment roll. 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.

In the area of administration, the assessor is effectively managing staffing and workload, assessment appeals, disaster relief, and exemptions programs.

In the area of real property assessment, the assessor has effective programs for changes in ownership, new construction, declines in value, and leasehold improvements. However, we made recommendations for improvement in the California Land Conservation Act (CLCA) property, taxable possessory interests, historical properties assessment programs, and mineral property.

In the area of personal property and fixtures assessment, the assessor has effective programs for business property statement processing, and for assessing aircraft and vessels. However, we made recommendations for improvement in the audit, business equipment valuation, and manufactured homes assessment programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly, and that the overall quality of the assessment roll meets state standards.

The Alameda County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2014-15 assessment roll indicated an average assessment ratio of 99.84 percent, and the sum of the absolute differences from the required assessment level was 0.48 percent. Accordingly, the BOE certifies that Alameda County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF ALAMEDA COUNTY

Alameda County is located in northwestern California, covering 739 square miles of land area. The county is bordered by San Francisco Bay to the west, Contra Costa County to the north, San Joaquin County to the east, and Santa Clara County to the south.

Alameda County was created in 1853 from the territories of Contra Costa County and Santa Clara County. Alameda County is the seventh most populous county in the state with a population of 1,610,921 within its 14 incorporated cities and 6 unincorporated communities. The county seat is the city of Oakland.

Alameda County's local assessment roll value ranks 6th among the 58 California counties for the 2014-2015 assessment year.[4]

During the periods reviewed, the Governor had proclaimed disasters due to wildfires in all 58 California counties in June and July 2015, and disasters due to drought in all 58 counties in January 2014.[5] As a result, those governor-proclaimed disasters that caused physical damage to assessed properties in Alameda County may have rendered them eligible for property tax relief.

[4] From the BOE Annual Report, Table 7, *Assessed Value of County-Assessed Property Subject to General Property Taxes, inclusive of the Homeowners' Exemption, by Class of Property and by County*, sorting the net total assessed value from highest to lowest.

[5] From the *Chronological List of Governor-Proclaimed Disasters for Property Tax Purposes*, available on BOE's website at www.boe.ca.gov/proptaxes/pdf/Disasterlist.pdf.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Alameda County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

ASSESSMENT OF REAL PROPERTY

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 CLCA 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, such as hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.[6]

For the 2014-15 roll year, Alameda County had a total of 1,111 parcels consisting of 145,721 acres under CLCA contract. The total count includes 66 parcels consisting of 4,521 acres in nonrenewal status. The total assessed value for CLCA properties in Alameda County for 2014-15 roll was $236,834,861. This included a restricted land value of $54,265,522, a living improvement value of $17,858,014, and an unrestricted improvement value of $164,711,325. The majority of the land under contract is rated non-prime and is used primarily for grazing or vineyards. Other acreage is used for orchards and row and field crops.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. Assessors' Handbook section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), at page II-51 provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite.

The valuation of CLCA properties is the responsibility of one real property appraiser and one supervising appraiser. Section 423(a)(1) requires the assessor to annually determine the restricted value of CLCA property by capitalizing current income derived from market rents. Current market rents are obtained through an annual questionnaire sent to CLCA participants.

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[6] For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/clca_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

Overall, the assessor has an effective program for the valuation of CLCA properties. However, we discovered one area in which the CLCA assessment program is in need of improvement.

RECOMMENDATION 1: Value and enroll newly created residential construction sites on restricted land in accordance with article XIIIA.

The assessor does not value newly created residential construction sites as unrestricted until the new construction is complete. Although the subject site under development is utilized for a purpose other than those allowed for restricted portions of properties, and the duration of construction extends beyond one or more lien date(s), the assessor allows the property owner to retain a restricted value until new construction is complete.

Section 428 precludes the valuation of any residential site as restricted property. Therefore, residential homesites are not subject to an enforceable restriction and shall be valued in accordance with article XIII A upon the first lien date following the commencement of new construction.

The practice of not enrolling newly created residential homesites until the completion of new construction on CLCA restricted lands results in these homesites being underassessed.

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.[7]

The assessor enrolled 3,571 taxable possessory interests totaling $2,252,436,621 on the unsecured roll. There are 5 taxable possessory interests enrolled on the secured roll with a total assessed value of $561,763. One real property appraiser is responsible for the assessment of all taxable possessory interests, under the supervision of a supervising appraiser and with the assistance of an assessor's technician.

Overall, the assessor has an effective program for the discovery and assessment of taxable possessory interests in Alameda County. However, we did note two areas in need of improvement.

[7] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

RECOMMENDATION 2: Improve the assessment of taxable possessory interests by: (1) including a property tax component when developing the capitalization rate when appropriate, and (2) properly issuing supplemental assessments for taxable possessory interests upon a change in ownership.

Include a property tax component when developing the capitalization rate when appropriate.

Section 104.13 of the Streets and Highways Code designates the State Department of Transportation (CalTrans) as agent for payment of possessory interest taxes due from lessees of CalTrans owned property. The county receives annually a listing from CalTrans designating those possessory interests in Alameda County on which CalTrans will pay the property taxes. We found a number of taxable possessory interests on the list where the assessed value was calculated without the inclusion of a property tax component in the capitalization rate.

Under the provisions of Rule 8, subdivision (f), the capitalization rate shall contain a component for property taxes where applicable. It is applicable because the landlord, in this case CalTrans, pays the property taxes.

Not including a property tax component in the capitalization rate when appropriate leads to erroneous values of these taxable possessory interests.

Properly issue supplemental assessments for taxable possessory interests upon a change in ownership.

Upon a change in ownership, due to renewal with the same tenant involving a taxable possessory interest, the assessor establishes a new base year value. However, we found that the assessor does not issue supplemental assessments on taxable possessory interests when there is a change in ownership resulting from a renewal of the possessory interest.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction.

The assessor's failure to issue supplemental assessments is contrary to statute and results in unequal treatment of taxpayers.

Restricted Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily prescribed capitalization of income method. Such contracts are commonly referred to as "Mills Act" contracts. For assessment purposes, qualified historical property under such a contract is referred to as "restricted historical property." Section 50280.1 provides that for a property to

qualify as historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.[8]

For the 2014-15 assessment roll, there were 86 historical properties under contract in Alameda County with a total taxable value of $57,592,058. A supervising appraiser is responsible for the valuation of restricted historical properties. There are currently no historical property contracts in nonrenewal status.

We reviewed several restricted historical property records. The appraisal records are well documented, and contain copies of contracts. Each record includes an annual valuation report showing a capitalization rate developed using the annual BOE provided interest rate and the appropriate risk rate. In general, we found the assessor properly calculated the restricted value in accordance with section 439.2, compared the restricted value to the property's current fair market value and its factored base year value, and enrolled the lowest of the three. However, we found one area in need of improvement.

RECOMMENDATION 3: Calculate separate income streams and properly apply the individual risk rate component as provided in sections 439.2(b)(2) and (c)(2) when determining the total restricted value of mixed use property.

We found the assessor applied the correct risk rate component in the capitalization rate when valuing enforceably restricted historical property as provided in section 439.2(b)(2) and (c)(2). However, when valuing "mixed used" restricted historical properties that are both owner occupied and non-owner occupied, the assessor calculates the restricted value using a single income stream and a capitalization rate that includes a 4% risk component. According to section 439.2(b), the 4% historical property risk component is reserved for use with owner-occupied single-family dwellings.

LTA 2005/35 provides an example of how to determine the restricted value of a "mixed use" property under contract. The income stream of the owner-occupied portion of the property is determined by capitalizing the income by a capitalization rate that includes the 4% risk component stated in section 439.2(b)(2). The income stream of the non-owner occupied portion of the property is capitalized using the 2% risk component stated in section 439.2(c)(2) in the capitalization rate. The two values are added together to arrive at the total restricted value of the property.

By failing to properly separate the income streams and to apply the correct risk component to the capitalization rate, the assessor has undervalued a portion of the "mixed use" restricted historical properties throughout the county.

[8] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Restricted Historical Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/historicalprop_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

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.[9]

Petroleum Property

There are three petroleum properties located in Alameda County. In our review of the petroleum property appraisals, we found an area in need of improvement.

RECOMMENDATION 4: Determine the current market value of the petroleum appraisal unit and adjust the base year value to account for depletion of petroleum reserves.

There were no indications in the records reviewed that the assessor makes a current estimate of market value of petroleum properties as required by Rule 468(c)(4)(A). Also, there was no adjustment to the base year value of the mineral rights to reflect annual production from the petroleum properties as required by Rule 468(c)(2). Petroleum properties are a depleting asset. As the petroleum is extracted, the mineral rights value will typically decrease to reflect the reduction in proved reserves. Furthermore, there are cases where increases in reserves can occur on a property and the current market value of the appraisal unit is necessary to determine what the base year value adjustment should be to reflect the increased value of reserves. Failure to determine the current market value of petroleum properties each year as required by Rule 468 can lead to incorrect assessments of the property.

[9] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.[10]

During the surveyed assessment year, audit responsibility in Alameda County rested upon 12 support staff, 17 auditor-appraisers, and four supervising auditor-appraisers, all of who report to a principal auditor-appraiser.

As noted above, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the statute requires the assessor to conduct 387 audits per year, with 193 audits of those audits performed on taxpayers selected from the pool of taxpayers with the largest assessments. During the surveyed roll year of 2014-15, the assessor is projected to meet the audit. However, audit production was not sufficient during other years within the survey period.

RECOMMENDATION 5: Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, and (2) enrolling all escape assessments discovered during the course of an audit.

Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found that the assessor failed to meet the "significant number of audits" thresholds in four of the most recent five years. The assessor is required to conduct 193 audits (194 in alternating years) from the pool of largest business property owners, but completed 182 audits during the 2012-2013 roll year, and 188 audits during the 2013-2014 roll year. Of the remaining 50 percent of required audits, the assessor completed 162 of 194 audits for the 2010-2011 roll year, and 187 for the 2014-2015 roll year. An audit program is an essential component of any equitably administered assessment program. The audit process is a powerful tool that provides the business property assessment program with the means of verifying the accuracy of taxpayer reporting and aids in correcting noncompliant reporting practices. Furthermore, experience shows that when

[10] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well-managed assessment program.

By failing to meet minimum audit production standards, the assessor is not in compliance with the provisions of section 469 and Rule 192 during the affected years and, as a result, may allow incorrect assessments of taxable business personal property to become permanent.

Enroll all escape assessments discovered during the course of an audit.

The assessor does not enroll escape assessments that amount to $5,000 or less. Section 531.9 allows a county board of supervisors to adopt an ordinance to prohibit the assessor from making an escape assessment of an appraisal unit where the assessment would result in an amount of taxes due which is less than the cost of assessing and collecting the tax. However, Alameda County does not have such an ordinance in place. Section 531 specifically states, "If any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment."

Thus, the assessor does not have the authority that would allow him to not enroll escaped property discovered by audit.

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.[11]

Overall, we found the assessor's business equipment valuation program to be properly administered in a consistent manner. However, we found areas in need of improvement.

[11] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

RECOMMENDATION 6: Improve business equipment valuation procedures by: (1) valuing taxable business property for non-filers by applying more accurate business specific valuation factors, (2) correctly classifying fixtures enrolled on service station assessments, and (3) using a maximum price index factor when valuing older equipment as prescribed in Assessors' Handbook section 581.

Value taxable business property for non-filers by applying more accurate business specific valuation factors.

We found that when a business property statement (BPS) is not returned, the assessor estimates the assessed value of the property based on information reported in prior years, then applies an 8.9 percent factor to account for an estimated increase in fixture value when making a value estimate under the provisions of section 501. The assessor has conducted a study that has yielded industry specific factors for various business property classifications. Rather than applying the appropriate factor by industry, the assessor uses a single trended factor of 8.9 percent to all previously enrolled values, regardless of the type of business property. The 10 percent late penalty is then added to this value.

By using and applying only one factor for different business property types, the assessor's value estimates are likely inaccurate. Based on the assessor's study, different business classifications have different valuation factors. Applying an industry-specific factor to the corresponding business property will significantly enhance the accuracy of the assessor's valuation.

The assessor's current enrollment methodology, as applied to non-filing accounts, likely leads to erroneous value conclusions.

Correctly classify fixtures enrolled on service station assessments.

We found the assessor is not accurately classifying fixtures associated with service station assessments. We observed instances where identified fixtures were enrolled as personal property and cases where machinery and equipment reported in bulk, likely including fixed equipment, were classified entirely as personal property. The majority of taxable business equipment associated with service stations is composed of fixtures. Service station related fixtures include underground tanks, fuel pumps, dispensers, piping, hoists, island curbing, and built-in freezers. *Letter to Assess*ors (LTA) 92/27 provides assessors guidance in making classifications decisions when enrolling service station business equipment.

Classification is an important element of the local assessment function for several reasons. Principally, it is important because property tax law requires the assessment roll to show separate values for land, improvements (including fixtures), and personal property. It is also significant because of the assessment differences between real property and personal property. Those differences include: (1) only real property receives special assessments, (2) personal property is appraised annually at market value, while fixtures are assessed at the lower of current market value or factored base year value, and (3) fixtures are a separate appraisal unit when measuring declines in value.

When enrolling taxable service station equipment, the assessor should keep in mind that fixtures represent a significant percentage of any service station assessment and the resulting classification determinations should be made accordingly.

Use a maximum price index factor when valuing older equipment as prescribed in Assessors' Handbook section 581.

We found that the longer service life business equipment valuation tables in use by the assessor do not reflect the correct establishment of a maximum equipment price index factor as prescribed in the Assessors' Handbook section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581). The BOE-recommended maximum price index factor is the factor for an equipment age equal to 125 percent of the equipment's estimated average service life. For example, equipment with an average service life of 12 years would have a maximum equipment index factor equal to the factor for such equipment at age 15 (12 x 1.25). By allowing the price indices to escalate beyond the BOE-recommended maximum price index factor, the assessor could be overstating the calculated value conclusions of older machinery and equipment.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes that are not permanently affixed to an approved foundation should be classified as personal property and enrolled on the secured roll.[12]

In Alameda County, for the 2014-15 assessment roll, there were 1,862 taxable manufactured homes, located in 41 mobile home parks, enrolled with a total assessed value of $79,425,457. There were also approximately 113 manufactured homes sited on lands other than mobile home parks with an assessed value of $4,391,688.

Overall, the assessor's manufactured home program is well administered. However, we found an area in need of improvement.

RECOMMENDATION 7: Provide evidence of the installation of a manufactured home on an approved foundation system.

We found instances where manufactured homes were classified as real property without proper documentation or confirmation in the assessor's records that the foundation system met the requirements of Health and Safety Code section 18551.

In order for a manufactured home to be classified as real property, it must be placed on a foundation that conforms to the requirements of Health and Safety Code section 18551. To

[12] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

comply with section 18551, the local permit issuing agency records California Department of Housing and Community Development's (HCD) form 433A, *Notice of Manufactured Home, Mobilehome or Commercial Modular-Installation on a Foundation System*, with the county recorder upon completion of the installation of a manufactured home on an approved foundation system. At the same time, the owner of the manufactured home is required to complete and submit HCD form 433B, *Notice to Assessor*, informing the assessor of the completion of the installation of the manufactured home on a foundation system. Notification from the recorder that HCD form 433A has been recorded and receipt of HCD form 433B from the owner allow the assessor to assess the manufactured home as real property and not as personal property. The provisions of section 5801 require that the manufactured home be classified as personal property, unless Health and Safety Code section 18551 requirements have been met.

For assessment purposes, the recording of the appropriate documents is an integral and necessary part of affixing a manufactured home to land on a permanent foundation. Until this necessary step is taken, the manufactured home would be classified as personal property.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2014-15 assessment roll:[13]

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	$68,554,112,391
	Improvements	$145,845,768,459
	Personal Property	$1,999,033,993
	Total Secured	$216,398,914,843
Unsecured Roll	Land	$1,116,643,960
	Improvements	$4,392,721,014
	Personal Property	$7,306,899,907
	Total Unsecured	$12,816,264,881
Exemptions [14]		($8,863,847,060)
	Total Assessment Roll	$220,351,332,664

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:[15]

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2014-15	$220,351,333,000	6.1%	6.2%
2013-14	$207,713,013,000	4.8%	4.3%
2012-13	$198,144,328,000	2.2%	1.4%
2011-12	$193,850,119,000	0.0%	0.1%
2010-11	$193,888,394,000	-1.6%	-1.9%

[13] Roll values are from BOE 822 Report, *Report of Assessed Values By City*.
[14] The value of the Homeowners' Exemption is excluded from the exemptions total.
[15] Roll Values and Statewide changes are from the California State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from $21,511,354 in 2010-11 to $23,235,814 in 2014-15.

As of the date of our survey, the assessor had 175.4 budgeted permanent staff. This included the assessor, chief deputy assessor, 2 chiefs, 5 managers, 57 real property appraisers, 22 business property auditor-appraisers, 7 cadastral draftspersons, 5 computer programmers, analysts, technicians; 16 technical/professional specialists, and 59.4 support staff.

The following table shows the assessor's total budget and staffing over recent years:[16]

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	BUDGETED STAFF
2014-15	$23,235,814	6.6%	175.4
2013-14	$22,686,420	2.5%	175.4
2012-13	$22,136,303	0.0%	175.4
2011-12	$22,126,482	2.9%	175.4
2010-11	$21,511,354	1.4%	175.4

Table 4: Assessment Appeals

The following table sets forth the assessment appeals workload in recent years:[17]

YEAR	ASSESSMENT APPEALS FILED
2014-15	3,736
2013-14	4,679
2012-13	6,928
2011-12	7,929
2010-11	7,270

[16] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*, Table A and Table B.
[17] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*, Table I.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:[18]

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2014-15	1,450	$7,428,227,327
2013-14	1,339	$6,028,429,627
2012-13	1,514	$5,378,417,743
2011-12	1,546	$5,080,042,339
2010-11	1,456	$4,385,721,064

Table 6: Exemptions – Disabled Veterans

The following table shows disabled veterans' exemption data for recent years:[19]

YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2014-15	739	$79,767,808
2013-14	690	$72,873,275
2012-13	651	$66,292,451
2011-12	650	$64,399,052
2010-11	643	$62,445,177

[18] Statistics provided by BOE-802, *Report on Exemptions*.
[19] Statistics provided by BOE-802, *Report on Exemptions*.

Table 7: Change in Ownership

The following table shows the total number of reappraisable events due to changes in ownership in Alameda County in recent years:[20]

ROLL YEAR	REAPPRAISABLE TRANSFERS
2014-15	24,209
2013-14	25,236
2012-13	28,623
2011-12	27,655
2010-11	27,767

Table 8: Section 63.1 Parent / Child Transfer Claims

The following table represents section 63.1 (Propositions 58 and 193) claims filed and granted in recent years:[21]

YEAR	SECTION 63.1 CLAIMS FILED	SECTION 63.1 CLAIMS GRANTED
2014-15	2,988	2,820
2013-14	3,302	3,262
2012-13	3,458	3,417
2011-12	2,925	2,895
2010-11	2,422	2,405

[20] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices,* Table F.
[21] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices,* Table F.

Table 9: Section 69.5 Base Year Value Transfer Claims

The following table represents section 69.5 (Propositions 60, 90, and 110) claims filed and granted in Alameda County in recent years:[22]

YEAR	SECTION 69.5 CLAIMS FILED	SECTION 69.5 CLAIMS GRANTED
2014-15	208	206
2013-14	231	226
2012-13	200	199
2011-12	132	130
2010-11	101	97

Table 10: New Construction

The following table exhibits the number of new construction assessments for the past five years:[23]

YEAR	NEW CONSTRUCTION ASSESSMENTS
2014-15	9,592
2013-14	8,938
2012-13	8,344
2011-12	7,274
2010-11	8,020

[22] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices,* Table F.
[23] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices,* Table F.

Table 11: Declines In Value

The following table shows the decline-in-value workload in recent years: [24]

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2014-2015	33,068
2013-2014	53,791
2012-2013	92,265
2011-2012	108,005
2010-2011	108,357

[24] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices,* Table F.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Alameda County

Chief

David Yeung

Survey Program Director:

Diane Yasui	Manager, Property Tax

Survey Team Supervisor:

Andrew Austin	Supervisor, Property Tax

Survey Team Leader:

Tammy Aguiar	Senior Specialist Property Appraiser

Survey Team:

James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Cheron Burns	Associate Property Appraiser
Robert Marr	Associate Property Appraiser
Debra Wilson	Associate Property Appraiser
Jeff Arthur	Associate Property Auditor-Appraiser
Jorge Torres	Assistant Property Appraiser
Cyrus Haze Ghazam	Assistant Property Auditor-Appraiser
Lisa Law	Junior Property Appraiser
Dany Lunetta	Associate Governmental Program Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Government Code	
§15640	**Survey by board of county assessment procedures.**
§15641	**Audit of records; appraisal data not public.**
§15642	**Research by board employees.**
§15643	**When surveys to be made.**
§15644	**Recommendations by board.**
§15645	**Survey report; final survey report; assessor s report.**
§15646	**Copies of final survey reports to be filed with local officials.**
Revenue and Taxation Code	
§75.60	**Allocation for administration.**
Title 18, California Code of Regulations	
Rule 370	**Random selection of counties for representative sampling.**
Rule 371	**Significant assessment problems.**

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The 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
1221 OAK STREET • OAKLAND, CALIFORNIA 94612-4288
(510) 272-3755

RON THOMSEN
ASSESSOR

November 1, 2016

Mr. David Yeung
Chief, County-Assessed Property Division
California State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

Dear Mr. Yeung:

Pursuant to section 15645 of the Government Code, please find enclosed my written response to the findings and recommendations contained in the October 2016 Alameda County Assessment Practices Survey. Please include my response in your final report.

I once again thank you and your entire team for their professionalism while conducting this survey. We are appreciative for the recommendations as we continually strive to improve our assessment program.

I also thank my staff for their commitment and dedication to an exceptional assessment program while providing outstanding public service. These qualities are instrumental in the continued success of our department.

Sincerely,

Ron Thomsen

Ron Thomsen
Assessor

RT:kv

Enclosure

RECOMMENDATION 1: *Value and enroll newly created residential construction sites on restricted land in accordance with Article XIIIA.*

We concur. We have changed our procedure to implement this recommendation. Home sites on CLCA property that have partially completed new construction will no longer be assessed as restricted land.

RECOMMENDATION 2: *Improve the assessment of taxable possessory interests by: (1) including a property tax component when developing the capitalization rate when appropriate, and (2) properly issuing supplemental assessments for taxable possessory interests upon a change in ownership.*

(1) We concur. It is our policy to include a tax component in the capitalization rate when like on this case, CalTrans pays the property taxes. Our policy in this case was not properly followed. Additional staff training in this area has been implemented.

(2) We concur. Our practice has been to not issue supplemental assessments upon a renewal of a possessory interest with the same tenant. We have changed our policy to conform with this recommendation.

RECOMMENDATION 3: *Calculate separate income streams and properly apply the individual risk rate component as provided in section 439.2(b)(2) and (c)(2) when determining the total restricted value of mixed use property.*

We concur. We have implemented this recommendation on the proper method of assessing "mixed use" historical properties.

RECOMMENDATION 4: *Determine the current market value of the petroleum appraisal unit and adjust the base year value to account for depletion of petroleum reserves.*

We concur. There are five such properties in Alameda County and will be assessed to conform with this recommendation.

RECOMMENDATION 5: *Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, and (2) enrolling all escape assessments discovered during the course of an audit.*

(1) We concur. We have either met or exceeded the annual number of completed audit requirements (387) over the latest five year period. However, we have not entirely complied with Section 469 by not completing 50% of those audits from a pool of our largest businesses in fiscal year 2012-13 and 2013-14. Where 194 audits of this category should have been completed each year, only 182 (94%) in 2012-13 and 188 (97%) were actually completed.

Similarly, for fiscal years 2010-11 and 2014-15, only 162 (84%) and 181 (93%) of the audits completed respectively were comprised from the smallest 50% of businesses. We have enhanced our audit program to effectively track and process the adequate category of audits in the future.

(2) We concur. Even though Alameda County has passed an ordinance to exclude from assessment property valued at $2,000 or less because the cost of assessing and collecting the tax is higher than the tax amount, the escape assessments in question would be amounts added to existing property with values in excess of $2,000 and should be enrolled.

RECOMMENDATION 6: *Improve business equipment valuation procedures by: (1) valuing taxable business property for non-filers by applying more accurate business specific valuation factors, (2) correctly classifying fixtures enrolled on service station assessments, and (3) using a maximum price index factor when valuing older equipment as prescribed in Assessors' Handbook Section 581.*

We concur. These recommendations will be implemented.

RECOMMENDATION 7: *Provide evidence of the installation of a manufactured home on an approved foundation system.*

We concur. We have implemented a procedure to obtain and retain copies of HCD form 433A from the county recorder, and retain HCD form 433B from owners prior to assessing manufactured homes as real property.