

KINGS COUNTY ASSESSMENT PRACTICES SURVEY

SEPTEMBER 2013

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2013/049

September 30, 2013

TO COUNTY ASSESSORS:

**KINGS COUNTY
ASSESSMENT PRACTICES SURVEY**

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

The Honorable Ken Baird, Kings County Assessor-Clerk/Recorder-Registrar of Voters, 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 Kings County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2011. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Baird 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: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 every county assessor's office. This report reflects the BOE's findings in its current survey of the Kings County Assessor-Clerk/Recorder-Registrar of Voters' Office.¹

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 Kings County Board of Supervisors and Grand Jury. 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 Ken Baird, Kings County Assessor-Clerk/Recorder-Registrar of Voters, 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.

¹ This review covers only the assessment functions of the office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, a 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 Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. In addition, this report revisits recommendations made during our prior survey of Kings County, which was conducted in 2006 and published in 2008. 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.

Government Code section 15643 requires the BOE to repeat or supplement each survey of a county's assessment practices at least once in five years. Our last full survey of Kings County was conducted in 2006, and published in 2008. The current survey will serve to supplement the work done during the last survey by: (1) revisiting the issues about which we then made recommendations for improvement, (2) evaluating anew certain major areas of the assessor's operation, and (3) determining, for purposes of Revenue and Taxation Code section 75.60, whether Kings County continues to be eligible to recover the costs associated with administering supplemental assessments.

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.

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.

Like most of California, Kings County has experienced challenging economic conditions with regard to real estate values and property taxation over the last several years. The Kings County Assessor has done a commendable job in using his limited resources to fulfill the requirements of the office and provide excellent customer service, especially with regard to decline-in-value assessments.

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

In the area of administration, we noted that the assessor is effectively managing the staffing, workload, staff property and activities, assessment appeals, and tax rate area mapping programs.

In the area of real property assessment, the assessor has effective programs for new construction and declines in value. However, we found that improvement is needed in the change in ownership and California Land Conservation Act (CLCA) property programs.

In the area of personal property and fixtures assessment, the assessor has effective programs for business property statements and business equipment valuation. However, we found improvement is needed in the audit program.

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

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

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

RECOMMENDATION 1:	Revise the assessor's procedures and notice of penalty letter to reflect the correct penalty abatement process in accordance with section 483(a).....	19
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- RECOMMENDATION 2:** Improve the valuation of CLCA properties by: (1) valuing compatible commercial use sites utilizing an economic rent, and (2) properly calculating the restricted unit in the determination of the enrolled value for living improvements. ...28

- RECOMMENDATION 3:** Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.....31

- RECOMMENDATION 4:** Send a *Notice of Enrollment of Escape Assessment* as required by section 534.....32

PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our June 2008 Assessment Practices Survey Report and the assessor's response to each recommendation. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our survey fieldwork.

Disaster Relief

RECOMMENDATION 1: Revise the disaster relief procedures by: (1) requesting the board of supervisors to revise the county's disaster relief ordinance to reflect the new requirement of section 170, and (2) revising the Notice of Proposed Reassessment to conform to the provisions of section 170(c).

Assessor's Response:

We agree with this recommendation and are in the process of revising the disaster relief ordinance and notice.

Current Status:

The assessor has implemented this recommendation. The board of supervisors has amended the disaster relief ordinance to reflect changes to section 170. The assessor has revised the *Notice of Proposed Reassessment* to conform to the provisions of section 170(c).

Assessment Roll Changes

RECOMMENDATION 2: Improve assessment roll change procedures by: (1) enrolling all roll changes, and (2) providing taxpayers with the required Notice of Enrollment of Escaped Assessment.

Assessor's Response:

(1) We agree with the recommendation and are in the process of drafting a county ordinance pursuant to Section 531.9 of the Revenue and Taxation Code.

(2) When an escaped assessment is pending enrollment the assessor notifies the tax payer, ten days prior to enrollment, by sending a Notice of Proposed Escape Assessment pursuant to Revenue and Taxation Codes Section 531.8. In the past we have let the tax bill serve as the notice although the board of supervisors has not adopted a resolution pursuant to section 1605(c). We are researching the possibility of including the required notice with the tax bill to reduce possible confusion to the tax payer.

Current Status:

The assessor has not implemented this recommendation. The board of supervisors has not adopted a low-value ordinance and, therefore, the assessor must enroll all roll changes. In addition, the assessor does not send a *Notice of Enrollment of Escape Assessment* to notify the taxpayer of an escaped assessment. The board of supervisors has not adopted a resolution to allow the tax bill to serve as the notice of enrollment, so the assessor must send proper notification of enrollment to the taxpayer.

Declines in Value

RECOMMENDATION 3: Improve the decline-in-value assessment program by: (1) reviewing the assessment of all decline-in-value properties each lien date pursuant to section 51(e), and (2) revising the notice, informing Assesseees of an increase in a property's full value, to include the information required by section 619(c).

Assessor's Response:

- (1) We agree all Section 51 enrolled properties should be reviewed and have reprioritized our workload to insure these properties are reviewed annually.*
- (2) Our system does not currently provide an automated way to process value notices for Section 51 properties. We are currently developing a data base system that will generate the required notice as well as track each Section 51 property to insure that it is properly valued and noticed each year.*

Current Status:

The assessor has implemented this recommendation. The assessor is now reviewing all decline-in-value assessments each lien date. The assessor is now providing a *Section 51 Value Review Notice* that meets the requirements of section 619(c).

California Land Conservation Act (CLCA) Property

RECOMMENDATION 4: Revise the CLCA program by: (1) enrolling supplemental assessments for residential home sites, and (2) documenting capitalization rates, expenses, and other factors used in the valuation program.

Assessor's Response:

- (1) We agree with this recommendation and have been enrolling supplemental assessments for residential home sites on CLCA properties since January of 2008.*
- (2) We agree with this recommendation and will implement the recommended documentation.*

Current Status:

The assessor has implemented this recommendation. The assessor is now enrolling supplemental assessments for residential homesites. Capitalization rates, expenses, and other information are now documented in the assessor's records.

Taxable Possessory Interests

RECOMMENDATION 5: Improve the taxable possessory interest program by:
(1) enrolling supplemental assessments for statutory changes in ownership, (2) following the guidelines set forth in Rule 21, and
(3) deducting allowed expenses from gross income in the income approach.

Assessor's Response:

- (1) We respectfully disagree with this finding and believe that the assessment of a right of possession that no longer exists is contrary to all other standard assessment practices.*
- (2) We agree and have already implemented this change.*
- (3) We agree and have already implemented this change.*

Current Status:

The assessor has implemented parts 2 and 3 of the recommendation. The assessor is now valuing taxable possessory interests using the stated term of possession and deducting the appropriate expenses from the gross income. However, the assessor has not implemented part 1 of this recommendation and continues to issue negative supplemental assessments for taxable possessory interests that have been terminated during an assessment year. It is the assessor's policy that if the assessment was subject to a supplemental assessment upon placement on the assessment roll, it will be subject to supplemental assessment coming off the assessment roll as of the date of termination of the lease.

Audit Program

RECOMMENDATION 6: Revise the audit assessment program by: (1) timely auditing the books and records of professions, trades, and businesses pursuant to section 469, and (2) obtaining waivers of the statute of limitations pursuant to section 532.1 when a mandatory audit will not be completed timely.

Assessor's Response:

(1) The failure to complete the mandatory audits was because we lost our only auditor position when he took a better paying position with the State. Subsequently we were approved for two auditor positions and should once again be able to complete all mandatory audits.

(2) While we believe that the additional auditor position will result in completion of all mandatory audits. We will obtain waivers should we not be able to complete all audits timely.

Current Status:

The assessor is timely completing the required number of audits in accordance with the changes to section 469. However, the assessor is not obtaining all waivers of the statute of limitations when audits will not be completed timely. We are repeating this part of the recommendation as part of our current review of personal property and fixtures assessments.

Manufactured Homes

RECOMMENDATION 7: Enroll supplemental assessment for changes in ownership and new construction of manufactured homes.

Assessor's Response:

Our current automated system which was originally initiated in 1984 is not capable of generating supplemental assessments for manufactured homes without a substantial rewrite of the system. We are exploring ways to address this issue procedurally as time and resources allow.

Current Status:

The assessor has not implemented this recommendation. The assessor's current computer system does not have the ability to generate supplemental assessments for manufactured homes and the assessor does not have the needed resources to program their existing system to produce supplemental assessments for manufactured homes.

Aircraft

RECOMMENDATION 8: Annually appraise aircraft at market value.

Assessor's Response:

The notice sent by the Assessor states the proposed value to be enrolled. This value is based on the bluebook value of a typical aircraft of the make and model owned. The notice then provides the owner with an opportunity to provide additional information such as modification of the motor, hull, or frame, and engine hours since last major overhaul. This information is reviewed

and may result in the enrollment of a revised value based on the information provided. We will review our notice of proposed assessment to determine if we need to request more specific information from the owner.

Current Status:

The assessor has not implemented this recommendation. Aircraft property statements are sent only upon initial discovery of the aircraft. The assessor does not send the annual BOE-577, *Aircraft Property Statement*, to aircraft owners and, thus, is not penalizing owners for failure to respond. The assessor reviews and values aircraft on an annual basis, but does not send out annual property statements requesting information from aircraft owners. The assessor is basing his annual valuation on normal working order and mid-range engine hours. The aircraft owners are then provided a *Notice of Proposed Assessment* and have an opportunity to contact the assessor to request modification of the assessment based on any information that varies from the assessor's assumptions.

OVERVIEW OF KINGS COUNTY

Kings County is located in a rich agricultural region of California's Central Valley. The county encompasses 1,391.5 square miles, of which 1,389.4 square miles is land and 2.1 square miles is water. Kings County is bordered on the north and northwest by Fresno County, on the east by Tulare County, on the south by Kern County and a small portion of San Luis Obispo County, and on the west by Monterey County.

Kings County was formed in 1893. In 1928, oil was discovered in the Kettleman Hills, which is located in the southwestern part of Kings County. Today, Kings County remains primarily an agricultural area. There are four incorporated cities in Kings County: Avenal, Corcoran, Hanford, and Lemoore. The county seat is Hanford. Kings County is home to the Lemoore Naval Air Station and to three California State Correctional facilities. As of 2011, the population of Kings County was 153,765.



The following table displays information pertinent to the 2011-12 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$2,611,328,373
	Improvements	\$5,774,221,501
	Personal Property	\$375,902,093
	Total Secured	\$8,761,451,967
Unsecured Roll	Land	\$14,870,023
	Improvements	\$129,106,641
	Personal Property	\$250,039,770
	Total Unsecured	\$394,016,434
Exemptions³		(\$349,401,079)
	Total Assessment Roll	\$8,806,067,322

The next table summarizes the change in assessed values over recent years:⁴

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2011-12	\$8,806,067,000	1.0%	0.1%
2010-11	\$8,719,666,000	1.9%	-1.9%
2009-10	\$8,553,888,000	-0.4%	-2.4%
2008-09	\$8,587,844,000	12.7%	4.7%
2007-08	\$7,621,929,000	12.9%	9.6%

³ The value of the Homeowners' Exemption is excluded from the exemptions total.

⁴ 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, staff property and activities, assessment appeals, and tax rate area mapping.

Budget and Staffing

The following table shows the assessor's budget and staffing for recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2011-12	\$2,179,082	4.7%	25.55
2010-11	\$2,080,504	-2.0%	25.55
2009-10	\$2,122,738	-5.2%	25.55
2008-09	\$2,240,159	-1.9%	27.55
2007-08	\$2,284,012	9.6%	27.35

The number of assessor's staff has remained relatively stable over the last five years. Currently, the number of budgeted permanent positions totals 25.55, and includes the assessor, the chief appraiser, 1 management analyst, 1 senior appraiser, 8.75 appraisers, 2 auditor-appraisers, 1 supervising appraisal aide, 6.8 appraisal aides, 1 cadastral GIS technician, 1 support services specialist, and 1 executive secretary.

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.

According to the prior two tables, the roll value has increased four of the past five years, while the gross budget has decreased three of the past five years. During this same time period, the assessor's workload has been fluctuating. The number of reappraisable transfers due to changes

in ownership was constantly changing, showing a decrease one year and then an increase the next year, most recently showing an increase. The number of new construction assessments has decreased each of the past four years, while the number of decline-in-value assessments and the number of assessment appeals filed showed increases three of the past four years.

These trends are shown in the following table:

WORKLOAD DESCRIPTION	2011-12	2010-11	2009-10	2008-09	2007-08
Reappraisable Transfers	2,830	1,171	5,792	4,351	5,434
New Construction Assessments	1,311	1,693	1,939	2,091	3,001
Decline-In-Value Assessments	7,971	5,091	5,371	4,538	778
Assessment Appeals Filed	147	235	160	105	33

Staff Property and Activities

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

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

Employees of the Kings County Assessor's Office are not allowed to appraise their own property. All assessable events are tracked, and assessments involving staff-owned property are referred to the chief appraiser for assignment and review. We reviewed a significant number of staff-owned property assessments and found no problems.

Newly hired staff receive training on the assessor's conflict of interest policy. The Kings County Human Resources Department has a written employee handbook containing the county's code of ethics policy. Employees receive training and are given examples of the types of activities that are considered unacceptable. Employees must sign an acknowledgement of understanding regarding the county's conflict of interest policy. Additionally, employees are referred to the assessor's procedures manual, which reiterates the conflict of interest policy. Newly hired staff are informed that they cannot engage in the appraisal of property within the county that is not part of their official duties or engage in other conflicts of interest. If employees accept work outside of the assessor's office, they must notify the assessor and obtain approval. Employees are made aware that violations of the policy can lead to disciplinary action, including dismissal. While the assessor's office does not have additional procedures for tracking the outside activity of staff, the business licensing and sales permit systems do provide methods for discovering the

activity. Our review of the assessor's procedures for addressing conflicts of interest found adequate safeguards in place to ensure employee activities are monitored and remedied.

As required by section 672, all certified staff must annually file disclosures of their financial interests. The assessor provides, collects, files, and maintains Form 700 for all certified staff. Currently, Kings County does not have any contract appraisers. The assessor annually certifies with the BOE that the requirements of section 672 have been fulfilled with regard to financial disclosure by employees.

Assessment Appeals

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

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

In Kings County, the five elected members of the board of supervisors sit as the local board of equalization for assessment appeals. There are no hearing officers. While training is not required for members of local boards of equalization who are also members of the board of supervisors, the Kings County Board of Supervisors receive assessment appeals training from county council.

Assessment appeal applications are filed with the clerk. The clerk confirms that appeal applications are complete and timely filed. Copies of the applications are sent to the assessor's office. The assessor notifies the clerk and the tax collector by April 1 of each year as to whether notices of assessed value of real property on the secured roll will be sent by August 1, as required by section 1603(b)(3)(A). The filing period for assessment appeals in Kings County is July 2 through September 15.

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

YEAR	2011-12	2010-11	2009-10	2008-09	2007-08
Appeals Filed	147	235	160	105	33
Appeals Carried Over From Prior Year	173 ⁵	26	89	20	28
Total Appeals Workload	320	261	249	125	61
Resolution:					
Withdrawn	36	16	63	7	12
Stipulation	14	23	79	10	14
Appeals Reduced	0	1	1	0	1
Appeals Upheld	0	1	69	2	0
Appeals Increased	0	0	0	0	0
Other Determination*	10	4	11	17	14
Total Resolved	60	45	223	36	41
To Be Carried Over**	260	216	26	89	20

* 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.

Appeals are tracked using a computer spreadsheet. The chief appraiser represents the assessor and attends every hearing. Assessment appeals are prepared and presented by the appraiser assigned to the area in which the property being appealed is located, with guidance from team leaders and the chief appraiser. As shown in the table, approximately 23 percent of the assessment appeals resolved in 2011-12 were stipulated, while 60 percent were withdrawn.

Our review of stipulations and board rulings indicated that the assessor's opinions and value conclusions were reasonable, well documented, and organized in a professional manner. We have no recommendations for this program.

Tax Rate Area Mapping

Article XIII, section 14 of the California Constitution provides that all property taxed by local government shall be assessed in the county, city, and district in which it is situated. Section 95(g) provides for the definition of "tax rate area" as a specific geographic area all of which is within the jurisdiction of the same combination of local agencies and school entities for the current fiscal year.

⁵ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" for 2011-12 as 173. However, according to the numbers the assessor reported for 2010-11, the number of appeals "To Be Carried Over" from 2010-11 was 216, not 173.

The BOE's tax rate area system facilitates compliance with the constitutional requirement that all taxable property be assessed according to situs. The tax rate area system assigns a unique tax rate area number to every geographical area in the state that corresponds to a unique combination of overlapping tax levies made by local revenue districts, such as cities, school districts, and special districts. A general, countywide tax rate area number is also part of the system.

The tax rate area system is used for the assessment of property, and the collection and distribution of property tax revenue. The Tax Area Services Section (TASS) of the BOE is responsible for maintaining all property tax rate area maps and for maintaining special revenue district boundaries. TASS processes changes of jurisdictional boundaries based on the documents filed with BOE pursuant to Government Code sections 54900-54905, and issues change notices to the local taxing authorities. The tax rate area system does not reflect administrative boundaries of local, state, or federal government.

The assessor has written procedures, policies, and forms for processing tax rate area change notifications, parcel splits, and assemblages. Approximately four times a year, the Kings County Planning Division of the Community Development Department receives tax rate area change notices and maps from BOE's TASS section and forwards this information to the assessor. The information provided shows the project for which the change is required, the principle district involved, the existing and revised tax rate area numbers, and the APN(s) affected.

The cadastral GIS technician (technician) is responsible for processing any necessary changes to the maps. The technician reviews the tax rate area change notices for updates and/or proposed changes, and verifies legal descriptions. A document will be recorded finalizing any changes. The technician makes changes to the maps, including parcel splits. Any newly assigned APN(s) are forwarded to the clerical staff to be created and entered into the computer system. Pertinent property records are subsequently forwarded to the appraisal team leader to be worked by the appraisers. Changes to APNs are forwarded to the supervising appraisal aide to be updated on the assessment roll. To ensure that changes made to the assessment roll are made correctly, all changes are reviewed by the property tax manager of the Kings County Finance Department, as well as the assessor.

We reviewed several tax rate area changes that were recently processed and found that all tax rate area changes were processed timely, prior to the close of the assessment roll. Parcels of land that are situated in two or more revenue districts are being separately assessed and are each assigned their own separate APN. In addition, the assessor does not combine parcels into a single assessment when those parcels have been declared tax defaulted for delinquent taxes. We also found the tax rate areas to be current and accurate on the assessor's maps. We found no problems with the processing of tax rate area change notices obtained from the TASS section.

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.

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

Change in Ownership

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

Document Processing

The assessor's primary means of discovering properties that have changed ownership is through the analysis of deeds and other recorded documents at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents transferring ownership of real property that are submitted for recordation. If a transfer document is received without a PCOR, a \$20 charge is applied to the recording fee. PCORs are available to the public at the assessor's and recorder's offices, as well as on the county's website. Kings County has a local ordinance that requires the assessor's parcel number (APN) to be included on all recorded documents involving real property.

In Kings County, the assessor also functions as the county clerk/recorder. Staff in the recorder's office initially screen all recorded documents. Recorded documents pertaining to changes in ownership are selected based upon a set of established parameters given by the assessor's office. These documents are imaged, scanned, and sent to the assessor on a daily basis. The assessor also receives the original PCORs from the recorder's office, along with the daily recordings. Data from scanned images of the recorded documents and PCORs are imported into the assessor's computer system. PCORs are reviewed for applicable exclusions or exemptions.

An appraisal aide reviews the documents and PCORs received from the recorder's office. If a PCOR indicates that a possible exclusion may apply, an appraisal aide sends the appropriate form and cover letter to the property owner. Once the appraisal aide determines that a transfer

has resulted in a reappraisable event, the transfer document is forwarded to the appropriate appraiser for valuation.

The following table sets forth the total number of recorded documents received and the total number of reappraisable transfers processed in recent years:

YEAR	RECORDED DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2011-12	7,823	2,830
2010-11	9,375	1,171
2009-10	8,592	5,792
2008-09	6,929	4,351
2007-08	N/A	5,434

We reviewed a number of recent transfers and found no problems with transfer documents, processing, or enrollment of changes in ownership.

Penalties

When a recorded document is received without a PCOR, or the PCOR is incomplete, the appraisal aide mails BOE-502-AH, *Change in Ownership Statement (COS)*, and a cover letter giving the property owner 45 days to respond to this request.⁶ This serves as the first written correspondence to the property owner. A hold is placed on the transfer and it is entered into the computer system for tracking. If the property owner returns the COS within 45 days, it is reviewed for completeness and accuracy. The hold on the transfer is removed and the status of the transfer is automatically updated in the computer system. However, if the COS is not returned within the 45-day time period, the transfer is automatically updated in the system as subject to penalty for non-compliance and a penalty is computed in accordance with section 482. A notice of penalty letter is mailed to the property owner notifying them of the penalty to be applied and of the penalty abatement process, along with a second COS and a *Request for Penalty Abatement* form.

If a response is not received within 60 days of the notice of penalty, the transfer is updated in the computer system as subject to penalty enrollment. At that time, a roll correction is prepared for direct assessment of the penalty. The hold on the transfer is removed and the database is updated with the roll correction number and date. Although the assessor is attempting to be proactive in obtaining a COS, we found an area in need of improvement.

⁶ During the time of our survey, section 482(a) allowed property owners 45 days to return a completed COS when requested by the assessor before penalties were applicable. Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

RECOMMENDATION 1: Revise the assessor's procedures and notice of penalty letter to reflect the correct penalty abatement process in accordance with section 483(a).

When a property owner fails to file a COS within 45 days of a written request by the assessor, a notice of penalty letter is sent to the property owner. The letter notifies the property owner that a specific penalty is being applied as a result of the property owner's failure to file the COS as requested within 45 days. In addition, the notice of penalty letter tells the property owner that after filing the COS with the assessor, if they feel that the failure to file the COS was due to reasonable cause, the property owner may apply for abatement of the penalty with the assessor's office within 30 days of the date of the notice of penalty letter and to return the penalty abatement form to the assessor's office. The assessor's procedures indicate that the property owner has 60 days from the date of the notice of penalty letter to file for an abatement and that the assessor determines if the abatement will be granted. Since Kings County does not have a resolution in place giving the assessor authority to automatically abate the penalties as provided in section 483(b), this practice is incorrect.

At the time of our survey, section 482(a) provided that if a person or legal entity required to file a statement described in section 480 failed to do so within 45 days (90 days as of 1/1/12) from the date of a written request by the assessor, a specific penalty shall be added to the assessment made on the roll.⁷ Section 483(a) states that if a property owner establishes to the county board of supervisors that the failure to file the COS within the time required by section 482(a) was due to reasonable cause and not due to willful neglect, and the property owner has filed the COS with the assessor, the county board of supervisors may order the penalty abated, provided that the property owner has filed with the county board of supervisors a written application for abatement of the penalty no later than 60 days after the date on which the property owner was notified of the penalty.

In Kings County, the assessor does not have the authority to allow the penalty to be abated. Without a resolution in place granting the assessor the authority, only the board of supervisors may grant the penalty abatement. Therefore, the assessor should revise their practice and procedures, as well as their notice of penalty letter, to reflect the correct penalty abatement process as provided by section 483(a) in order to avoid conflicting or incorrect information being given, which may lead to unequal treatment of taxpayers, and improper application of statute.

Transfer Lists

Pursuant to section 408.1(a), the assessor is required to maintain a two-year transfer list for public use. The list must contain specific information and be available for public inspection as outlined in section 408.1. The assessor does not continuously maintain a printed two-year list of transfers at the public counter due to cost effectiveness, as the list is seldom requested by taxpayers. However, the assessor has a CD-ROM disc containing a two-year transfer list that is available to the public for review at a charge of \$10.

⁷ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

As required by section 408.1(b), the transfer list is divided into geographical areas by APN and is updated quarterly. Pursuant to section 408.1(c), the transfer list contains the transferor and transferee, APN, address of the property, date of recording, recording reference number, and consideration paid.

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 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 a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.⁸ 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 assessor discovers potential changes in control or ownership of legal entities from newspaper articles, business property statements, fictitious business names, and monthly LEOP reports from the BOE.

When the assessor receives the monthly LEOP reports, an appraisal aide reviews the effective date and what change occurred. Parcels located within the county are identified and reviewed. The appraisal aide also performs a name search in an effort to ensure that all of the entity's real property is reassessed. We reviewed several property records of legal entities having undergone a change in control or ownership and found the assessor's LEOP program to be well administered.

⁸ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

Change in Ownership Exclusions – Section 63.1

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

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

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

Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website. The following table sets forth section 63.1 claims filed and granted in recent years:

YEAR	SECTION 63.1 CLAIMS FILED	SECTION 63.1 CLAIMS GRANTED
2011-12	319	319
2010-11	291	291
2009-10	481	481
2008-09	N/A	260
2007-08	334	N/A

If a PCOR or COS indicates a transfer may be eligible for a section 63.1 exclusion and a claim form was not submitted, an appraisal aide sends a claim form to the property owner, along with a cover letter advising them of a possible exclusion from reassessment. The appraisal aide maintains a tracking spreadsheet for the claim forms mailed to property owners. The appraisal aide reviews all section 63.1 applications and determines whether the exclusion will be accepted or denied. If a claim is denied, the property owner is notified.

The assessor submits quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the report is reviewed by an appraisal aide to determine if property in Kings County has exceeded the limit. The appraisal aide notifies the property owner when a reassessment is warranted.

Pursuant to section 63.1(i), the assessor ensures that all claim forms are held confidential by keeping the claims, as well as any corresponding transfer information, in a secure area not accessible to the public.

We reviewed several files involving section 63.1 claims and found that the assessor properly reviews and processes these claims.

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.

Kings County does not accept base year value transfers from other counties. Applications and information regarding the exclusion are available to the public at the assessor's office and on the assessor's website.

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

YEAR	SECTION 69.5 CLAIMS FILED	SECTION 69.5 CLAIMS GRANTED
2011-12	0	0
2010-11	0	0
2009-10	1	1
2008-09	N/A	2
2007-08	4	N/A

If a PCOR or COS indicates that a transfer may involve a base year value exclusion, an appraisal aide sends interested parties a claim form. Appraisers are responsible for estimating the fair market value of both the replacement and original properties to determine if the claim is valid and what the base year value is to be transferred. The taxpayer is notified when a claim is accepted or denied.

The assessor submits quarterly reports to the BOE listing approved section 69.5 exclusions. The assessor reviews the BOE's *Duplicate SSN Report* to ensure that prior section 69.5 exclusion claims have not been granted.

Pursuant to section 69.5(n), the assessor ensures that all claim forms are held confidential by keeping the claims in a secure area not accessible to the public.

We found no problems with the assessor's processing of section 69.5 claims.

Valuation

Once a transfer has been determined to be a reappraisable event, the information collected is sent to an appraiser for valuation. Reappraisable transfers are reviewed to confirm that the reported sale price accurately reflects market value; the sale price is not automatically enrolled. Residential properties experiencing a change in ownership are typically valued using the comparative sales approach, while commercial properties are valued using the income approach. The assessor maintains a residential and commercial sales database, and it is updated daily. Field inspections are typically conducted on properties listed in poor condition and on properties where the reported sale price does not fall within market value range.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraisal involvement. The assessor uses a non-automated direct enrollment program for enrolling transfers of newly constructed single-family residences located in subdivisions and some of the less complex commercial properties. To meet the criteria for direct enrollment, the transfer must involve a 100 percent change in ownership of the property, the property must be located within certain designated neighborhoods, the deed must show a documentary transfer tax based on the full sale price as reported on the PCOR, and the reported sale price must exceed the current assessed value. Reappraisable transfers meeting the criteria for direct enrollment are given to an appraiser to conduct a desk review and make a final determination on whether to directly enroll the sale price. This program allows for efficient processing of simple transfers of single-family residences and commercial properties.

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.

Discovery

Most new construction activity is discovered by reviewing building permits. Currently, the assessor receives building permits from five permit-issuing agencies: Kings County Building Division of the Community Development Agency, City of Avenal Code Enforcement-Planning & Community Development Department, City of Corcoran Building Division of the Community Development Department, City of Hanford Building Division of the Community Development Department, and City of Lemoore Public Works Building Department. Other methods used to discover new construction include business property statements and appraisers' knowledge of their assigned geographic areas of responsibility.

The following table shows the number of building permits received and the number of new construction assessments processed in recent years.

YEAR	PERMITS RECEIVED	NEW CONSTRUCTION ASSESSMENTS
2011-12	3,480	1,311
2010-11	3,714	1,693
2009-10	3,976	1,939
2008-09	4,673	2,091
2007-08	5,812	3,001

Permit Processing

The assessor receives permits from the permit issuing agencies on a weekly or monthly basis, depending on the agency. Permits, plans, and notices of completion are submitted to the assessor in hard copy format.

All permits received by the assessor are entered into the computer system, even if the permits will not result in a value change. This allows appraisers to see a complete history of all new construction performed on a property. Once the permit information is entered into the system, a report can be generated listing all new construction to be worked. The workload is assigned to appraisers based on the property type and the appraiser's geographic area of responsibility.

Depending on the type of permit issued, the assessor's computer system may automatically generate and send a cost questionnaire to the property owner. This letter requests that property owners provide the costs, construction details, and a sketch of the new construction being performed. The assessor estimates that approximately 50 percent of the questionnaires are

returned. Completed questionnaires that are returned to the assessor are filed in the property record for use by the appraisal staff.

Construction in Progress

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For construction in progress, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. Our review showed that the assessor is currently valuing new construction in progress pursuant to section 71.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The appraiser determines the completion status of new construction through field checks, notices of completion from the building departments, or from information provided by the taxpayer. Several cost sources are used in valuing new construction, including Assessors' Handbook Section 531, *Residential Building Costs*, local costs, reported historical costs, and *Marshall Valuation Service*. The majority of permits are field reviewed, unless the appraiser determines that sufficient information was provided on the cost questionnaire, or that the permit was issued for new construction that was for repair or replacement of existing construction and determined not to be assessable.

We reviewed several new construction files and found the assessor's program to be efficient and well administered. The assessor is in compliance with all relevant statutes and we have no recommendations for the new construction program.

Declines in Value

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

Due to unfavorable economic conditions, property values in many areas of California have either declined or become stagnant. As a result, assessors have reduced taxable values below properties' FBYVs, and Kings County is no exception.

The following table shows the number of decline-in-value assessments in Kings County in recent years:

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2011-12	7,971
2010-11	5,091
2009-10	5,371
2008-09	4,538
2007-08	778

Property owners may call, write, or visit the assessor to request an informal review of their assessed value. The assessor does not require property owners to provide comparable sales information with their requests for review. In the event the property owner disagrees with the results of the assessor's informal review, the property owner may obtain an *Application for Changed Assessment*, BOE-305-AH, from the Kings County Clerk of the Board and file a formal assessment appeal.

The assessor discovers properties that have declined in value through taxpayer requests for review, appraisers' familiarity and knowledge of value trends within their assigned areas, and assessment appeals. In addition, the assessor has conducted a market study to discover and analyze decline-in-value properties, which included a review of all residential property transfers in the county since 2005.

When a decline in value is discovered, the appraiser will review the property and lower the value as warranted. If other properties in the area have similar characteristics and dates of sale, the appraiser will review their assessments, as well, in order to determine if other declines in value have occurred to those surrounding properties. If it is apparent that a downward value adjustment is warranted, such adjustments are made by the assessor without requiring the taxpayer to request an informal review of the property.

For each property being reviewed for a possible decline in value, the appraiser compares the property's current market value to its FBV, and enrolls the lower of the two values. To determine current market values for comparison purposes, the assessor relies primarily on the comparative sales approach and income approach to value commercial properties, and the comparative sales approach and the cost approach to value residential or rural properties. Each property that receives a reduction in value is coded with a taxability code of "800" in the computer system, so it is easily identified for annual reviews and so the inflation factor is not applied.

All property owners in Kings County receive an annual *Notification of Assessment*. This notice includes the property owner's current assessed value and the notification of hearings by the appeals board, including the appeals filing period, the stipulation process, and the location of the clerk of the board. In addition, the assessor sends a *Value Review Notice* to those property owners whose assessed value has changed due to a decline in value, whose previous decline-in-value assessment remains unchanged for the current assessment year, or whose

decline-in-value assessment has been partially or fully restored to its FBYV. The value notice includes the property's FBYV, current assessed value, and refers the property owner to their annual *Notification of Assessment* for information on their appeal rights.

We reviewed several properties experiencing a decline in value and found that the assessor's value estimates were well documented and appeared reasonable. The assessor has an effective program in place for annually reviewing and adjusting properties in decline-in-value status, and we have no recommendations for this program.

California Land Conservation Act Property

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

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

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

For the 2011-12 roll year, Kings County had 4,130 parcels totaling 355,683 acres encumbered by CLCA contracts, and 1,749 parcels totaling 321,450 acres restricted under Farmland Security Zone (FSZ) contracts, a more restrictive form of the standard CLCA contract. The total assessed value for restricted land and living improvements for the 2011-12 roll year was approximately \$844 million. Approximately 8,500 acres of the total restricted acreage was in nonrenewal status; no contracts had been cancelled since our prior survey. Our review of CLCA nonrenewal procedures found them compliant with recommended practices. Kings County has not adopted the provisions of section 423.3 that allow for assessment at the value determined under section 423, at a uniformly-applied percentage of factored base year value, or at current market value, whichever is lowest.

Most of the agricultural property in Kings County consists of irrigated cropland, fruit and nut orchards, and land used for livestock production. In terms of production value, the top commodity in the county for 2010 was milk, followed by cotton, tomatoes, livestock, pistachios, alfalfa, almonds, walnuts, corn silage, and grapes. Kings County surpassed \$1.7 billion in gross production value of agricultural commodities in 2010, an increase of approximately 30 percent from the 2009 production value. The increased agricultural revenues can be attributed to both higher production and higher commodity prices.

The assessor utilizes an automated computer system to value restricted properties. One appraiser is responsible for entering the final production, price, and expense figures into the computer

system. The appraiser collects income and expense data for the crop types grown in the county from a variety of sources, including returned open-space questionnaires, the annual crop and crush reports, interviews with farm managers and operators, and input from other appraisal staff. We found restricted values are determined using the correct capitalization rate, including components for property taxes and risk. Real property staff is responsible for explaining the open-space valuation program to taxpayers within their region. The assessor sends out annual questionnaires for open-space properties.

The assessor treats homesites and homesite improvements as a separate appraisal unit when reviewing for declines in value and enrolls the lower of the unit's factored base year value or current market value. Homesites are correctly valued as unrestricted property in accordance with section 428.

The assessor correctly issues supplemental assessments on the unrestricted portions of open-space properties upon a change in ownership or completion of new construction. Pursuant to section 75.14 and section 52(a), supplemental assessments are not issued for restricted land or living improvements.

We reviewed several CLCA and FSZ properties and found that the assessor's procedures comply with most applicable statutes; however, we found several areas where improvement is needed.

RECOMMENDATION 2: Improve the valuation of CLCA properties by: (1) valuing compatible commercial use sites utilizing an economic rent, and (2) properly calculating the restricted unit in the determination of the enrolled value for living improvements.

Value compatible commercial use sites utilizing an economic commercial rent.

We found that the assessor values compatible commercial use sites using a capitalized agricultural land rent per acre.

Kings County's CLCA and FSZ contracts permit agricultural facilities for the processing of food, feed, fiber, fertilizer, and other similar activities as a compatible use. Other compatible uses include agricultural commercial sales, rental or repair of agricultural machinery or equipment, commercial agricultural storage facilities, and commercial hunting. In general, pursuant to Government Code sections 51238.1, 51238.2, and 51238.3, the assessor must assume that any use allowed by a contract approved by the county or city is a compatible use.

If a portion of a restricted property is used by the property owner for a permitted compatible use, the appropriate method of valuation is the capitalization of an economic site rent using the open-space capitalization rate. The estimate of the economic site rent can be based on actual rents of comparable commercial sites or by multiplying the estimated market value of comparable commercial land by a market-derived capitalization rate.

When income generated by a permissible compatible use is attributable to the land, it must be capitalized in the manner specified for restricted properties. The assessor's practice of using agricultural land rents instead of typically higher commercial site rents to value the land on which compatible uses are occurring may have resulted in underassessments.

Properly calculate the restricted unit in the determination of the enrolled value for living improvements.

In determining the value of restricted property improved with living improvements, we found examples in which the assessor erroneously compared the factored base year value of the land and living improvements to the restricted value of the land and the current market value of the living improvements.

The proper method to determine the taxable value of the restricted portion of the CLCA property is to make a three-way comparison among the restricted property's total restricted section 423 value, total current market value, and total factored base year value, enrolling the lowest of the three total values. In situations where the property is improved with living improvements, the restricted unit consists of both the land and living improvements.

Section 423(d) states, "Unless a party to an instrument which creates an enforceable restriction expressly prohibits such a valuation, the valuation resulting from the capitalization of income method described in this section shall not exceed the lesser of either the valuation that would have resulted by calculation under Section 110, or the valuation that would have resulted by calculation under Section 110.1, as though the property was not subject to an enforceable restriction in the base year."

The assessor's practice may have caused incorrect assessments to be enrolled.

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.

As of September 2011, the assessor's staff assigned to the business property program consisted of two auditor-appraisers working under the direction of the chief appraiser.

In this section of the survey report, we review the assessor's audit, business property statement, and business equipment valuation programs.

Audit Program

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

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

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

As noted previously, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 25 audits per year. The assessor completed 35 audits for 2009-10 roll year and 64 audits for the 2010-11 roll year. Given recent and current audit production levels, it appears the assessor has exceeded the minimum number of audits required pursuant to section 469.

Statute of Limitations

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

RECOMMENDATION 3: Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.

We reviewed several audits, as well as the assessor's policies and procedures for enforcement of section 532, and found numerous instances where the assessor did not obtain a waiver of the statute of limitations when an audit could not be completed within the statutory period as defined by section 532.

As stated previously, section 532 provides that assessments must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment, and if the assessor cannot complete an audit within that time, the assessor may request a waiver of the statute of limitations from the taxpayer to allow for an extension.

A waiver of this nature protects the taxpayer during the audit process should an overassessment be discovered and allows the assessor to enroll an escape assessment if a reporting deficiency is found. By failing to obtain waivers, the assessor may allow taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit, resulting in a loss of revenue. Conversely, if the audit finds overassessments, refunds may not be processed.

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 audit determinations were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. We found that the assessor performs change in control or ownership reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. Lastly, we reviewed the assessor's processing of roll corrections upon completion of an audit. We found that there is a problem with the way the assessor notifies taxpayers of his intent to enroll escaped assessments discovered during the audit process.

RECOMMENDATION 4: Send a *Notice of Enrollment of Escape Assessment* as required by section 534.

The assessor does not properly notify taxpayers when enrolling an escape assessment. The only notice taxpayers receive from the assessor related to escape assessments is the *Notice of Proposed Escape Assessment*. The *Notice of Proposed Escape Assessment* informs the recipient that the escape assessment will be enrolled no sooner than 10 days after the date of the notice. The notice also informs them of their right to file an assessment appeal within 60 days after they receive a second notice of escape assessment, or the tax bill if they don't receive a second notice. Subsequently, the property tax bill further states that appeals may be filed between July 2 and September 15. Appeal language specific to the enrollment of escaped assessments is not indicated on the tax bill.

Before an escape assessment can be enrolled, taxpayers must first receive a *Notice of Proposed Escape Assessment*. According to section 531.8, no escape assessment shall be enrolled before ten days after the assessor has mailed or otherwise delivered to the affected taxpayer a *Notice of Proposed Escape Assessment*. The notice must contain (1) the heading "NOTICE OF PROPOSED ESCAPE ASSESSMENT" prominently displayed, (2) the amount of the proposed escape assessment for each tax year involved, and (3) the telephone number of the assessor's office to allow the taxpayer to contact the office regarding the proposed escape assessment.

Once the minimum ten-day delay period prior to enrollment of the escape assessment has passed, the assessor may enroll the escape assessment. However, section 534 states that no assessment shall be effective until the assessee has been notified of the escape assessment personally or by mail. The notice of enrollment must include the following information: (1) the date of mailing, (2) information regarding the assessee's right to an informal review and the right to appeal the assessment, and (3) that the assessment appeal must be filed within 60 days of the date of mailing printed on the notice or the postmark date, whichever is later. Section 534(d)(2) expressly provides that the *Notice of Proposed Escape Assessment* required by section 531.8 does not satisfy the notice requirements of section 534.

The assessor's practice of not sending a *Notice of Enrollment of Escape Assessment* as required by section 534 does not adequately inform taxpayers of the right to an informal review of the escape assessment and the right to file an appeal contesting the escape assessment.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business

property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

General Statement Processing

BPSs are date stamped upon receipt and then forwarded to the auditor appraisers. The auditor appraisers review the statements for completeness and the inclusion of an authorized signature. During the preliminary screening, all BPSs with current cost data reported on schedule B in columns 1, 3, and 4 are routinely forwarded to the real property section for further review. Currently, the assessor does not have a direct billing program in place.

Discovery

The assessor utilizes various tools for discovering taxable business property. Taxpayer self-reporting and periodic field canvassing are important means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing fictitious business name filings, sales tax permits, real property appraiser referrals, city and county business licenses, newspaper articles, telephone directories, landlord report of tenants, and the internet. We found that the assessor employs effective methods for discovering business personal property.

Summary

We reviewed several recently processed BPSs and found that the assessor has an effectively managed business property statement program in place and we have no recommendations.

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

We have no recommendations for the assessor's business equipment valuation program.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Kings County

Chief

Dean Kinnee

Survey Program Director:

Mike Harris

Manager, Property Taxes

Survey Team Supervisor:

David Dodson

Supervisor, Property Taxes

Survey Team Leader:

Paula Jean Eagleman

Senior Specialist Property Appraiser

Survey Team:

Michael Ash

Associate Property Appraiser

Jennifer Prince

Associate Property Appraiser

Ardeshir Noroozkhani

Associate Property Auditor-Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

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 audits in accordance with Revenue and Taxation Code section 469.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.

- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



KEN BAIRD

KINGS COUNTY GOVERNMENT CENTER
1400 WEST LACEY BLVD
HANFORD, CALIFORNIA 93230-6905

ASSESSOR – CLERK – RECORDER REGISTRAR OF VOTERS

PHONE (559) 582-3211 EXT. 2486
FAX – ASSESSOR (559) 582-2794
FAX – CLERK/RECORDER (559) 582-6639
FAX – ELECTIONS (559) 586-8453

August 28, 2013

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

RECEIVED

SEP 06 2013

County-Assessed Properties Division
State Board of Equalization

Dear Mr. Kinnee:

Pursuant to Section 15645 of the California Government Code I am submitting my response to the Board of Equalization Assessment Practices Survey dated June 2013. Please include this letter and the attached responses to the final survey.

I would like to take this opportunity to thank Mr. David Dodson and his team for the professional manner in which they conducted themselves during the survey. I believe the way in which this survey was conducted greatly benefited me and my staff.

I am particularly pleased with the survey's recognition of our effective procedures to manage conflict of interest, processing of deeds and permits, our Legal Entity Ownership Program, the processing of Section 63.1 & 69.5 claims, the direct enrollment program, our decline in value program, our accurate and well documented audits, and our business property statement processes. The success of these programs and processes are largely due to Mr. Mike Loya, Chief Appraiser and Ms. Datha Ivie, our retired Supervising Appraisal Aide. As I stated in our last survey, "As a team they daily represent the best in County Government and I commend them for their hard work and dedication to the citizens of Kings County."

Finally I am constantly reminded of how fortunate I am to have a staff whose mission is to provide the best possible service to the citizens of Kings County. I greatly appreciate the respect shown to them by your survey team and I believe this has been a thoughtful and beneficial process for our office.

Sincerely,

Ken Baird
Kings County Assessor, Clerk/Recorder,
Registrar of Voters



KEN BAIRD

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1400 WEST LACEY BLVD
HANFORD, CALIFORNIA 93230-5905

ASSESSOR – CLERK – RECORDER REGISTRAR OF VOTERS

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Response to Recommendations

Recommendation 1: Revise the assessor's procedures and notice of penalty letter to reflect the correct penalty abatement process in accordance with section 483(a).

Reply: We agree and will pursue obtaining the required resolution from the Board and revise our letter to reflect the proper appeal process for penalty abatement.

Recommendation 2: Improve the valuation of CLCA properties by: (1) valuing compatible commercial use sites utilizing an economic rent, and (2) properly calculating the restricted unit in the determination of the enrolled value for living improvements.

Reply: (1) We respectfully disagree. Improvements such as dairies & packing sheds are designated as compatible use on CLCA land and are usually a small portion of a larger parcel that is primarily used for crops and other agricultural use. Without the improvements the land's highest and best use would be agricultural and we believe that the appropriate economic rent is also agricultural.

(2) Again, we respectfully disagree. In some years we have recognized that strictly applying the restricted calculation to growing improvements generates a value for that component that far exceeds the market value. We have chosen to apply a market cap in order to insure that the restricted value of growing improvements is fair and reasonable to the property owner.

Recommendation 3: Obtain waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.

Reply: We will implement this recommendation.

Recommendation 4: Send a Notice of Enrollment of Escape Assessment as required by section 534.

Reply: We agree and have been working on this. We expect to be able to send the appropriate notice in the near future.

Prior Survey Repeated Recommendations

Recommendation 2: Improve assessment roll change procedures by: (1) enrolling all roll changes, and (2) providing taxpayers with the required Notice of Enrollment of Escaped Assessment.

Reply: For the past 35 years the County's low value policy has been administered through the Tax Collector's Office, Now known as the Finance Department. The policy is to not collect assessments that generate a tax bill of \$5.00 or less. We will attempt to engage the new Finance Director & Board of Supervisors in an effort to bring the county's low value ordinance into compliance with section 531.9.

Recommendation 5: Improve the taxable possessory interest program by: (1) enrolling supplemental assessments for statutory changes in ownership, (2) following the guidelines set forth in Rule 21, and (3) deducting allowed expenses from gross income in the income approach.

Reply: As your survey noted, our office implemented parts (2) & (3). Regarding findings under part (1) Possessory interest assessments that are month to month (no stated term of possession) with an assessed value of \$50,000 or less are excluded from supplemental assessment and are enrolled as of the subsequent lien date. When the lease is terminated the assessment is inactivated as of the lien date; no supplemental assessment is issued at the termination of the lease.

For Possessory Interest assessments with a stated term of possession; a supplemental assessment is generated as of the date of the lease (date of possession) and subsequently as of the date of termination. It is the position of the Kings County Assessor that the taxpayer should be assessed for only that period during which the taxpayer possesses or controls the property. We have therefore adopted a policy that if the assessment was subject to a supplemental assessment on the tax roll; it will subsequently be subject to a supplemental assessment off the tax roll as of the date of termination of the lease.

Recommendation 6: Revise the audit assessment program by: (1) timely auditing the books and records of professions, trades, and business pursuant to section 469, and (2) obtaining waivers of the statute of limitations pursuant to section 532.1 when a mandatory audit will not be completed timely.

Reply: (1) As noted in your survey, the assessor is exceeding the timely completion of the required number of audits. (2) We will implement this recommendation.

Recommendation 7: Enroll Supplemental assessment for changes in ownership and new construction of manufactured homes.

Reply: We are embarking on the implementation of a new property system in January of 2014. When completed, that system will allow us to enroll supplemental assessments on manufactured Homes.

Recommendation 8: Annually appraise aircraft at market value.

Reply: The survey correctly states that on initial discovery of an aircraft in Kings County the Assessor sends form BOE-577. We agree with the remainder of the recommendation and will annually send BOE-577.