

LOS ANGELES COUNTY ASSESSMENT PRACTICES SURVEY

AUGUST 2002

CALIFORNIA STATE BOARD OF EQUALIZATION

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August 15, 2002

TO COUNTY ASSESSORS:

No. 2002/050

LOS ANGELES COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Los Angeles 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 Rick Auerbach, the Los Angeles County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response and the BOE staff's comments on that response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Los Angeles County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from January through June 2001. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Auerbach 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:jm
 Enclosure

TABLE OF CONTENTS

| | |
|--|-----------|
| INTRODUCTION..... | 1 |
| SCOPE OF ASSESSMENT PRACTICES SURVEYS..... | 2 |
| EXECUTIVE SUMMARY | 3 |
| OVERVIEW OF THE LOS ANGELES COUNTY ASSESSOR'S OFFICE..... | 10 |
| RESULTS OF THE 1996 SURVEY | 13 |
| ADMINISTRATION | 18 |
| STATE-COUNTY PROPERTY TAX ADMINISTRATION LOAN PROGRAM | 18 |
| APPRAISER CERTIFICATION..... | 19 |
| RE-ENGINEERING PROJECT | 19 |
| COMPUTER SYSTEMS | 20 |
| STANDARDS AND QUALITY CONTROL..... | 20 |
| EXEMPTIONS | 22 |
| DISASTER RELIEF..... | 24 |
| ASSESSMENT ROLL CHANGES..... | 25 |
| ASSESSMENT APPEALS..... | 27 |
| ASSESSMENT OF REAL PROPERTY..... | 28 |
| CHANGE IN OWNERSHIP..... | 28 |
| NEW CONSTRUCTION..... | 32 |
| SUPPLEMENTAL ASSESSMENTS | 36 |
| DECLINE IN VALUE | 37 |
| CALIFORNIA LAND CONSERVATION ACT AND RURAL PROPERTY | 39 |
| MAJOR PROPERTY | 40 |
| TAXABLE GOVERNMENT-OWNED PROPERTY..... | 43 |
| TAXABLE POSSESSORY INTERESTS..... | 43 |
| HISTORICAL PROPERTY..... | 47 |
| LEASEHOLD IMPROVEMENTS | 48 |
| WATER COMPANY PROPERTY | 49 |
| PIPELINE RIGHTS-OF-WAY..... | 50 |
| MINERAL PROPERTY | 50 |
| MANUFACTURED HOMES AND MANUFACTURED HOME PARKS | 53 |
| ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY | 57 |
| AUDIT PROGRAM | 57 |
| PROPERTY STATEMENT PROCESSING | 58 |
| BUSINESS EQUIPMENT VALUATION | 59 |
| LEASED EQUIPMENT | 61 |
| AIRCRAFT | 61 |
| VESSELS..... | 62 |
| ANNUAL RACEHORSE IN-LIEU TAX..... | 63 |

| | |
|--|-----------|
| APPENDICES | 64 |
| A. COUNTY PROPERTY TAX DIVISION SURVEY GROUP | 64 |
| B. ASSESSMENT SAMPLING PROGRAM..... | 65 |
| C. RELEVANT STATUTES AND REGULATIONS | 68 |
| ASSESSOR'S RESPONSE TO BOE'S FINDINGS..... | 74 |
| BOARD'S COMMENTS ON ASSESSOR'S RESPONSE | 75 |

INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address those 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 (surveys) every county assessor's office and publishes a report of its findings. This report reflects the BOE's findings in its periodic survey of the Los Angeles County Assessor's Office.

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

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

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, Revenue and Taxation Code section 75.60¹ requires the BOE to certify whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Los Angeles County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Los Angeles County with information relevant to its property tax assessment program.

This survey also included an assessment sample of the 2000 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative costs of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

¹ All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

EXECUTIVE SUMMARY

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

- In our 1996 Assessment Practices Survey of Los Angeles County, we made 24 recommendations that addressed problems found in the assessor's policies and procedures. The assessor fully implemented nine of these, partially implemented three, and did not implement 12. Three of the 12 recommendations the assessor did not implement no longer apply. Most of the recommendations that were not implemented, or implemented only in part, are repeated in this report.
- For fiscal year 2000-01, the assessor had a staff of 1,532 and a total budget of \$108 million. In addition to offices at the Kenneth Hahn Hall of Administration in downtown Los Angeles, the assessor has full-service regional offices in Culver City, Long Beach, Norwalk, Lomita, South El Monte, and Sylmar. A satellite office located in Lancaster serves the Antelope Valley.
- We found no problems in the assessor's administration of assessment appeals, nonmandatory audit program, processing of business property statements, and the annual racehorse in-lieu tax procedures.
- The assessor correctly values properties experiencing changes in ownership and declines in value, lands restricted under California Land Conservation Act contracts, rural properties, leasehold improvements, and pipeline rights-of-way.
- Conducting an annual field canvass of every business location within the county, the assessor has an aggressive business property discovery program. This effective program has proven to be the best solution for tracking the county's sizeable business turnover.
- The assessor continues to operate a comprehensive one-year training program for new appraisers.
- Los Angeles County has participated in the State-County Property Tax Administration Loan Program (PTAP) since 1995-96. The county auditor-controller has certified to the State Department of Finance that the assessor met the contractual requirements for loan repayment.
- The assessor's process re-engineering project, initiated in 1997, continues its ongoing effort to discover ways to improve processes and systems related to property assessment and to facilitate collaboration between county departments.

- A total of 36 different information technology systems are used in the assessor's office. Building records and appraisal data remain paper-based, but technological improvements have been made since our last survey. For example, electronic images of deeds are now available from the recorder's office.
- We found consistency among the regional offices in work assignments and appraisal review. Supervising appraisers review all appraisals upon completion. Additional reviews and approvals are required for assessments meeting certain criteria.
- With regard to exemptions, we recommend that first-time religious exemption claimants be sent the *Religious Exemption Claim Form* rather than the *Church Exemption Claim Form*, and that the mandatory 25 percent penalty be applied to late-filed homeowners' exemption terminations in accordance with section 531.6.
- We make three recommendations pertaining to disaster relief. Based on an opinion from the BOE's Legal Division, we recommend the assessor grant all qualifying claims for disaster relief base year value transfers. To improve discovery of properties eligible for disaster relief, we recommend the assessor obtain fire reports from all fire departments in Los Angeles County. Lastly, we recommend the assessor use reasonable land and improvement value allocations when enrolling real property.
- The assessor's roll change program operates effectively. However, the reasons for, patterns of, and number of roll changes provide an indication of the quality of the work performed by the assessor's staff. We again recommend that the assessor develop a management report summarizing roll changes to discover potential quality control problems.
- There have been a number of improvements in the processing of changes in ownership since our last survey. Problems connected with the transmittal of data between the assessor, recorder, and tax collector and the resulting inefficiencies have been mostly resolved.
- Two recommendations address the assessor's processing of change in ownership events. First, we recommend the assessor apply the penalty for failure to file a *Change in Ownership Statement* within the time prescribed by section 482. Second, we recommend the assessor treat long-term leases of manufactured home sites as reassessable changes in ownership.
- Building permit processing is the subject of two recommendations. All building permits should be obtained from permit-issuing agencies and procedures for handling discarded building permits should be revised.
- With regards to new construction, we recommend that appraisers use accurate completion dates when enrolling new construction; that the assessor use only certified appraisers to value new construction; and that assessment procedures for substantially remodeled or renovated residences and newly constructed additions be revised.

- We recommend the assessor update the *Claim for Seismic Safety Construction Exclusion from Assessment* form.
- Section 75.30 provides that the assessor shall notify the county auditor-controller of pending supplemental assessments. We repeat our recommendation that the assessor provide such notification.
- Contracts with the California Pollution Control Financing Authority may create taxable possessory interests in personal property; we recommend the assessor review all such contracts for potential assessment. We also recommend the assessor improve maintenance of possessory interest and Section 11 appraisal records, properly assess possessory interests in Section 11 land, and revise his procedures for processing possessory interest value changes.
- When valuing historical properties using the assessment procedures prescribed by sections 439 through 439.4, we recommend the assessor consider their current market values, calculate correct factored base year values, and develop procedures to promote uniform review of these properties among his regional offices.
- In our previous survey we recommended the assessor implement a positive response system to ensure coordination between the personal property and real property staff. During our current survey, we found that the assessor's leasehold improvement assessment procedures prevent the problems we identified in our prior survey. Thus, that recommendation no longer applies.
- We recommend the assessor enroll zero or minimum values for properties owned by mutual water companies.
- Assessment procedures for mineral properties are the topic of four recommendations. First, we recommend the assessor allow for the return of working capital at the end of a project's life. Second, we recommend the assessor enroll the lower of those properties' factored base year values or current market values. Next, we recommend the assessor use the current market value of land to determine the residual current market value of its mineral rights. Lastly, we recommend the assessor value petroleum properties in accordance with rules 8 and 468.²
- We make five recommendations concerning the assessment of manufactured homes and manufactured home parks: (1) manufactured homes on permanent foundations should be classified as real property; (2) transfers of shares in resident-owned manufactured home park cooperatives should be processed as changes in ownership; (3) interests in resident-owned manufactured home parks should be valued using the residual approach described in Letter To Assessors (LTA) No. 99/87; (4) supplemental assessments should be issued for all reassessable manufactured home events; and (5) individual supplemental assessments should be issued for each change in ownership of an interest in resident-owned manufactured home parks.

² All rule references are to the Property Tax Rules, Title 18, Public Revenues, California Code of Regulations, unless otherwise indicated.

- More than 12,000 accounts are subject to the mandatory audits required by section 469. Virtually all of those are completed on a timely basis. Standardized audit format and working papers resulted in a high degree of consistency among those audits. Most audits we reviewed were of high quality and contained proper documentation, audit checklists, and concise narrative reports. However, we recommend the assessor perform a physical inspection during major audits.
- We recommend that the assessor discontinue the use of arbitrary minimum percent good factors. For biopharmaceutical equipment, we recommend the assessor use the BOE-recommended valuation guidelines.
- We recommend the assessor revise his *Aircraft Ownership Verification* form to comply with sections 5365 and 5367.
- We recommend the assessor perform an audit or inspection on all business-related aircraft and vessels assessed at or above the mandatory audit threshold.
- The Los Angeles County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2000-01 assessment roll indicated an average assessment ratio of 99.17 percent, and the sum of the absolute differences from the required assessment level was 1.17 percent. Accordingly, the BOE certifies that Los Angeles County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

| | | |
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| RECOMMENDATION 1: | Send the <i>Religious Exemption Claim</i> form to churches when they first file exemption claims for their schools. | 22 |
| RECOMMENDATION 2: | Apply the mandatory 25 percent penalty to late-filed terminations of homeowners' exemptions, pursuant to section 531.6. | 23 |
| RECOMMENDATION 3: | Grant all qualifying disaster relief claims for base year value transfers pursuant to section 69. | 24 |
| RECOMMENDATION 4: | Continue to request fire reports from all fire departments to aid in the discovery of property eligible for disaster relief. | 25 |
| RECOMMENDATION 5: | Properly allocate value between land and improvements. | 25 |
| RECOMMENDATION 6: | Develop a management report summarizing roll changes to determine the quality of appraisal and audit work. | 26 |

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| RECOMMENDATION 7: | Apply the <i>Change in Ownership Statement</i> failure to file penalty within the time prescribed by section 482. | 30 |
| RECOMMENDATION 8: | Revise procedures for processing long-term leases of manufactured home sites. | 31 |
| RECOMMENDATION 9: | Use only certified appraisers to value new construction. | 33 |
| RECOMMENDATION 10: | Obtain all building permits from permit-issuing agencies. | 34 |
| RECOMMENDATION 11: | Revise procedures for handling discarded building permits..... | 34 |
| RECOMMENDATION 12: | Use accurate completion dates when assessing new construction. | 35 |
| RECOMMENDATION 13: | Revise assessment procedures for substantially remodeled or renovated residences and newly constructed additions. | 35 |
| RECOMMENDATION 14: | Update the <i>Claim for Seismic Safety Construction Exclusion from Assessment</i> application. | 36 |
| RECOMMENDATION 15: | Notify the county auditor-controller's office of pending supplemental assessments as required by section 75.30..... | 37 |
| RECOMMENDATION 16: | Follow rule 461(e) when recognizing declines in land and improvement values. | 42 |
| RECOMMENDATION 17: | Improve documentation of Section 11 appraisal records. | 43 |
| RECOMMENDATION 18: | Properly assess taxable possessory interests located on Section 11 lands. | 44 |
| RECOMMENDATION 19: | Review all contracts with the California Pollution Control Financing Authority for possible taxable possessory interests... | 45 |
| RECOMMENDATION 20: | Develop adequate controls over possessory interest appraisal records. | 45 |
| RECOMMENDATION 21: | Revise procedures for processing possessory interest value changes. | 45 |
| RECOMMENDATION 22: | Consider the current market value when valuing enforceably restricted historical properties pursuant to section 439.2. | 47 |
| RECOMMENDATION 23: | Correctly calculate the factored base year values for historical properties. | 47 |

RECOMMENDATION 24: Implement consistent procedures among regional offices for the review of enforceably restricted historical property assessments.48

RECOMMENDATION 25: Value property that is owned by mutual water companies at a zero or minimal value when those companies’ shares are appurtenant to the land they serve.49

RECOMMENDATION 26: Provide for a return of working capital at the end of a project when appraising mining properties.....51

RECOMMENDATION 27: Enroll the lower of the factored base year values or current market values when assessing mineral property.....51

RECOMMENDATION 28: Use current market values of land to determine the residual current market values of the mineral rights.52

RECOMMENDATION 29: Value petroleum properties at fair market value in accordance with rules 8 and 468.....52

RECOMMENDATION 30: Classify manufactured homes on permanent foundations as real property as provided by section 5801.....54

RECOMMENDATION 31: Treat share transfers in manufactured home park cooperatives as reassessable changes in ownership.....55

RECOMMENDATION 32: Value residents' interests in manufactured home parks using the residual approach described in LTA No. 99/87.....55

RECOMMENDATION 33: Issue supplemental assessments for each change in ownership of resident-owned manufactured home parks.....55

RECOMMENDATION 34: Issue supplemental assessments for all reassessable manufactured home events.56

RECOMMENDATION 35: Perform physical inspections during audits of large businesses. ...58

RECOMMENDATION 36: Discontinue using arbitrary minimum percent good factors.60

RECOMMENDATION 37: Use BOE-recommended valuation factors for biopharmaceutical equipment.....60

RECOMMENDATION 38: Revise the *Aircraft Ownership Verification* form to comply with sections 5365 and 5367.....61

RECOMMENDATION 39: Audit or inspect all business-owned aircraft and vessels that meet the mandatory audit value threshold.62

OVERVIEW OF THE LOS ANGELES COUNTY ASSESSOR'S OFFICE

2000-2001 Assessment Roll

The 2000-01 assessment roll totaled almost \$596 billion³. This amount represented a 6.7 percent increase over the previous year. The local assessment roll consists of approximately 2,574,000 appraisal units—2,266,000 real property parcels (land and structures) and 308,000 business and personal property accounts.

The following table displays pertinent information from the 2000-01 assessment roll.

| <u>Property Type</u> | <u>Number of Assessments in County</u> | <u>Enrolled Values</u> |
|---|--|--------------------------|
| Single Family Residential | 1,768,815 | \$ 314,639,336,740 |
| Residential Income | 244,649 | 71,588,876,457 |
| Commercial / Industrial | <u>252,271</u> | <u>151,100,338,048</u> |
| Total Real Property | 2,265,735 | 537,328,571,245 |
| Total Business and Personal Property | <u>308,293</u> | <u>58,526,140,443</u> |
| Total of Locally Assessed Property | <u>2,574,028</u> | <u>\$595,854,711,688</u> |

Assessor's Budget

At the time of our survey, the assessor's salary budget was \$66,213,473, and the budgeted cost of employee benefits was \$19,208,527, for a total of \$85,422,000. This total represents slightly more than 79 percent of the total cost of operating the assessor's office. The following table shows that the assessor's budget has increased in each of the last five years:

| Year | Budget |
|---------|---------------|
| 2000-01 | \$107,867,000 |
| 1999-00 | \$104,496,000 |
| 1998-99 | \$98,307,000 |
| 1997-98 | \$95,461,000 |
| 1996-97 | \$94,284,000 |

³ 2000-01 Annual Report, Los Angeles County Assessor.

Staffing

The assessor has a budgeted staffing level of 1,524 positions for fiscal year 2000–01, a nine-position reduction from fiscal year 1999-2000. The assessor maintains 98 budgeted job classifications, 16 of which have no incumbents. The allocation of positions among the 98 budgeted job classifications, as proposed in the FY 2000-01 budget, is illustrated in the following table.

| Staff Classifications | Number |
|--------------------------------------|--------------|
| Assessor | 1 |
| Managers | 18 |
| Principal and Supervising Appraisers | 123 |
| Appraisers (includes Auditors) | 475 |
| Clerks / Secretaries | 707 |
| Mapping | 39 |
| Information Technology | 100 |
| Personnel / Management Services | 46 |
| Reprographics / Warehouse Services | 15 |
| TOTAL | 1,524 |

Organization

The Executive Office is the highest management level in the assessor's office. The elected assessor, assistant assessor, and chief deputy form the management team. Reporting to the Executive Office are the Administrative Services Department, the Roll Services Department, and the Appraisals Subdepartment.

At the time of our fieldwork, the assessor was consolidating his regional offices from the current nine to six. These offices will include both real property and personal property divisions. The assessor is of the opinion that this organization will maximize efficiencies of personnel resources and information technology. The offices are being located near freeways to maximize convenience for the public. The new regional offices are of modern design and construction, and they will facilitate the use of information technology systems.

We noted an area of concern during our review of the assessor's organization. Some of the assessor's employees pointed out a problem in the office's reporting hierarchy. At the time of our fieldwork, the assessor maintained a separate and parallel management structure for clerical staff. Clerical staff at a regional office did not report directly to the regional manager, but rather to the chief clerk at the Hall of Administration. During our survey, several employees commented

on the tensions and inefficiencies these reporting relationships caused in the office. Since the completion of our fieldwork, the assessor has since reorganized his office to resolve this concern.

Workload studies are not normally performed as part of an assessment practices survey. However certain aspects of staffing appear to merit a workload study. This appears to be particularly true for the level of clerical staffing. The BOE's *A Report on Budgets, Workloads and Assessment Appeals in California Assessors' Offices, 1998-99*, July 2000, indicates that the assessor's roll value per clerk performance measure is among the lowest in the state. We suggest that the assessor investigate this as part of the property tax system business process re-engineering project.

RESULTS OF THE 1996 SURVEY

Supplemental Assessments

We recommended that the assessor notify the county auditor-controller's office of pending supplemental assessments. The assessor acknowledges the exact requirements of section 75.30 are not being met but believes that the creation of a record on the system's database notifying the public of potential additional taxes satisfies the intent of the section. We disagree and repeat that recommendation in this report.

Management Report Summarizing Roll Changes

To determine the quality of appraisal and audit work, we recommended the assessor develop a management report summarizing the reasons for roll changes. The number of and reason behind roll changes can be an important indicator of work quality in the assessor's office. Although the assessor plans to address this issue as part of the current process re-engineering project, we repeat this recommendation.

Disaster Relief

We recommended that the assessor request that the board of supervisors adopt an updated version of the misfortune and calamity ordinance, that only properly calculated and timely filed relief be granted, and that current discovery procedures be expanded. At the assessor's request, the board of supervisors adopted an updated ordinance consistent with section 170(b). To answer the second part of our recommendation, the assessor revised his procedures and now grants relief in a proper manner. As to expanding the discovery of property eligible for disaster relief, the assessor made significant efforts in obtaining fire reports but should continue his efforts to receive all of them.

Cash Equivalent Adjustment for Improvement Bonds

When appraising properties following changes in ownership, we recommended the assessor adjust the reported selling prices of those properties by the cash equivalent amount of any outstanding improvement bonds. Recent revisions to section 110, which created a rebuttable presumption that the value attributable to improvement bonds is included in the selling price, rendered that advice obsolete.

Penalty Abatement Procedures

We recommended the assessor revise penalty abatement procedures when transferees failed to file a timely *Change in Ownership Statement*. Since the assessor continues to waive those penalties for taxpayers that file a *Change in Ownership Statement* beyond the statutory deadline, we repeat this recommendation.

Request Copies of All Building Permits

We recommended the assessor request building permit-issuing agencies to provide copies of all permits that they issue. During our research for this report we found that several of those agencies continue to omit electrical, mechanical, and plumbing permits when providing that information to the assessor. Therefore, we repeat our recommendation.

Review of Discarded Building Permits

Since accumulated construction activity may indicate assessable new construction, we recommended the assessor periodically review discarded building permits. The assessor has not implemented this recommendation, and we repeat it.

Coordination between the Real and Business Property Divisions

Implementation of a positive response system was recommended to insure coordination between the business property and real property divisions. We found the assessor's existing leasehold improvement assessment procedures were an effective alternative to such a system. Thus, that recommendation no longer applies.

Petroleum Refineries

We recommended the assessor follow rule 461(e) by assessing fixtures as a separate appraisal unit. This recommendation was not implemented and is repeated.

Use of BOE-Prescribed Change in Ownership Statement

When soliciting information regarding the change in ownership of mineral properties, we noted that the assessor used a non BOE-prescribed form. This county-developed form contained language describing failure to file penalties. The penalties provided by section 480(c) may be applied only in conjunction with the BOE-prescribed *Change in Ownership Statement*. The assessor now uses the BOE-prescribed *Change in Ownership Statement*.

Training for the Natural Resources Section Staff

We recommended improved training for staff in the natural resources section. The assessor implemented this recommendation.

Manufactured Homes

Recommended changes to the manufactured home valuation program included valuing manufactured homes that have changed ownership at current fair market value, placing greater emphasis on the use of recognized value guides for manufactured homes, and developing a program to periodically compare the factored base year values and current market values of all assessable manufactured homes. The assessor implemented these recommendations and now utilizes recognized value guides, enrolls current market value upon a change in ownership, and annually compares the factored base year value with current market value.

Possessory Interests

Recommended revisions to the possessory interest assessment program included assessing all possessory interests such as interim concessionaires and exhibitors at government facilities, and properly assessing possessory interests in Section 11 lands. By expanding the possessory interest discovery program to include interim concessionaires and exhibitors at government facilities, the assessor implemented the first part of our recommendation. However, the assessor still fails to enroll some taxable possessory interests in Section 11 lands. We repeat that recommendation.

Water Company Property

We recommended the assessor refrain from applying penalties to water company property assessments for their failure to file an annual property statement. Also, we recommended the assessor (1) delete the penalty caption from the *Utility Water Company Statement*; (2) enroll a zero or minimum value for properties owned by mutual water companies; (3) value publicly-owned water company properties located outside the public owners' boundaries in accordance with section 11, article XIII of the California Constitution; and (4) properly classify water companies. Except for the assessments of properties owned by mutual water companies, the assessor implemented all of our recommendations.

Audit Review Procedures

A review procedure was recommended to ensure that major property audits include all possible areas of assessable costs. This recommendation was implemented.

Vendor-Owned Tooling

We recommended that the assessor ensure that his policy for the assessment of vendor-owned tooling was being followed. We had found instances where audit staff did not investigate vendor-owned tooling costs during the audit. We cover this issue under a more general recommendation that the assessor perform physical inspections during major audits.

Leased Equipment

Upon the expiration of equipment leases, we recommended the assessor ensure that leased equipment retained by lessees continues to be assessed. To prevent this potential problem, the assessor now compares property statements submitted by lessors and lessees to discover such property. This recommendation has been implemented.

Equipment Index Factors

The assessor was using averaged composite index factors rather than industry-specific index factors in the valuation of taxable personal property. We recommended the assessor apply index factors appropriate to each assessee's industry. Adoption of new index factors by the BOE made this recommendation no longer applicable.

Constructive Annexation

When classifying government-owned tooling, we recommended the assessor consider the principle of constructive annexation. We now modify this comment to recommend the assessor perform a physical inspection during major audits.

Service Stations

We recommended the assessor reclassify certain service station improvements, such as underground tanks, dispensers, and vapor recovery systems as fixtures. With the completion of the service station allocation project described on page 42, this recommendation has been implemented.

Racehorses

Recommended revisions to racehorse in-lieu tax procedures included requiring all racehorse owners to file annual returns, performing statutorily-required record keeping, and including mandatory penalties and interest on late-filing racehorse owners. Since annual racehorse tax returns are sent to the tax collector and the tax collector is charged with assessing penalties for non-filing, we do not repeat those recommendations. We found that the assessor now performs the record keeping required by statute.

Aircraft

Adjustments for engine hours, optional equipment, and condition were recommended when appraising private aircraft. We found that these adjustments were not being made because the assessor's inquiry card did not specifically request the information from the taxpayer. The assessor has implemented this recommendation and modified the inquiry card to include questions on engine hours, equipment, and condition.

Vessels

We recommended the assessor apply the correct vessel exemption percentage mandated by section 227. Upon receipt of a late-filed claim, the exemption should be 80 percent of the 96 percent exemption, or 76.8 percent of market value. By applying the proper vessel exemption percentage upon the receipt of a late-filed claim, the assessor implemented this recommendation.

Business-Owned Aircraft and Vessels

An aircraft or vessel owned as business personal property falls under the mandatory audit guidelines of section 469. We recommended the assessor audit or inspect all business-owned aircraft and marine vessels assessed at \$300,000 or more. Since this recommendation was not implemented, we repeat it in this report.

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the assessor's participation in the State-County Property Tax Administration Loan Program, certification of appraisal staff, computer systems, standards and quality control, exemption administration, disaster relief, assessment roll changes, and the defense of assessment appeals.

State-County Property Tax Administration Loan Program

Section 95.31 established the State-County Property Tax Administration Loan Program (PTAP); this program provides state-funded loans to eligible counties for the improvement of property tax administration.⁴

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

Presently, the BOE's only connection with the program is that a county's performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31. The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment, and the BOE's assessment practices survey does not address the topic. In most counties, the contract provides that verification of performance is furnished to the State Department of Finance by the county auditor-controller.

Los Angeles County participated in the PTAP during years 1995-96, 1996-97, 1997-98, 1998-99, and 1999-00. For fiscal year 1999-2000, the county borrowed \$13,451,670. A total of 139 positions in the assessor's office are funded using PTAP funds. The Los Angeles County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment.

The assessor has used PTAP funds to reduce backlogs of new construction and changes in ownership, and to review decline-in-value assessments. In the area of administration, PTAP funds have been used to ensure all assessment appeals are defended and to purchase new information technology hardware, software, and related staff training. In the business property

⁴ AB 818, Chapter 914, Statutes of 1995.

area, PTAP funds have been used to investigate business property statement non-filers and to perform mandatory and nonmandatory audits.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. We found that the assessor and his staff possess the required certificates.

Training for New Appraisers

When new appraisers are hired, they are placed in a training group and receive about a month of intense classroom training. The curriculum includes the three approaches to value, principles of economics, and residential appraisal practices. It also includes a review of the Property Taxes Law Guide. This phase of training is equivalent to the first four courses that the BOE offers through the Property and Special Taxes Department training section. During the following 11 months, new appraisers take additional classroom training pertaining to appraisal practice and computer systems.

During the field-training period, trainers use checklist sign-off sheets to monitor the progress of junior appraisers as they complete various work-related tasks. The checklist is very extensive and is evaluated every two weeks. If the training appraiser is not satisfied with the progress demonstrated by a junior appraiser, notations in the training record are made to this effect. These reports are evaluated by management and are used to identify those employees who may not meet the requirements of the position, thereby substantially minimizing the possibility of retaining employees who are not suited for appraisal work.

As a result of this program, the first year of work for a real property appraiser in the assessor's office includes training that could take at least three years in other counties. The advantage to Los Angeles County is that these new appraisers are well trained and highly productive after only one year of employment.

Re-Engineering Project

In 1997, Los Angeles County contracted with an outside consulting firm to facilitate the re-engineering of the business processes of those county departments associated with property tax related functions. Those departments are the board of supervisors, auditor-controller, registrar-recorder-county clerk, treasurer-tax collector, and assessor.

Each department had traditionally developed its own processes, procedures, and computer systems to fulfill its individual but interdependent responsibilities. This approach resulted in various inefficiencies such as duplication of effort, failure to keep pace with technological changes and workload demands, and non-compatible processes and systems. The re-engineering

project is an ongoing effort to discover ways to improve the processes and systems related to property tax functions and to facilitate collaboration between departments.

Computer Systems

The assessor uses a total of 36 information technology systems. These systems help maintain information necessary for the effective operation of the office. Many of these systems use common computer hardware for their operation, while others have dedicated hardware components. The primary real property computer system is the *Property Database* (PDB), also known as *Optimum*. This system maintains current ownership, chain of title, and historical assessment data. It is used to generate the annual section 601 roll.

Building records and appraisal data are paper-based and are maintained in over two million individual files. Individual appraisers value parcels experiencing new construction, changes in ownership, or declines in value. Once an appraiser performs the valuation, an input document is prepared. After supervisory review, these documents are then batch processed by data entry personnel. For all other parcels, the PDB automatically applies the annual CCPI factor.

A recent technology improvement is the implementation of a direct imaging link with the county recorder. This gives the assessor's ownership services section access to electronic images of deeds that have been recorded. This allows more accurate and rapid determination of whether a property transaction is an assessable change in ownership event.

Over the next several years, the assessor plans to develop and deploy a new system that will incorporate the latest relational database technology. The assessor has saved a portion of the PTAP monies received in recent years to help finance the capital costs of a new system. A *Request for Proposal* (RFP) for a property tax information system is scheduled for public release in the second quarter of 2001. The size of Los Angeles County and the unique nature of California property tax law reduce the likelihood that a currently available software product can be used in Los Angeles County. This substantially increases the likelihood that the assessor will require a custom software product.

Standards and Quality Control

A standards and quality control section promotes the consistency and quality of the appraisal product and taxpayer services through the development and maintenance of appraisal and operating standards. At present, the assessor's appraisal standards section is staffed with a principal appraiser, a supervising appraiser, eight appraisers, and support staff. For most of the 1990's, due to budget constraints and a large decline-in-value and assessment appeals workload, staffing was reduced in this section. The standards section staff has gradually increased in size over the last two years.

Overall, it appears that the organization and quality of the appraisal product is satisfactory. We found that staff appraisers in the regional offices are consistent in performing their work assignments and in their reviews of completed appraisals.

Regional principal appraisers generally assign work on an as-needed basis (new construction, changes in ownership, or declines in value) without regard to geographic area. On the other hand, the major property appraisers are assigned work by geographic area or by property use type. Supervising appraisers review all appraisals once completed. Assessments meeting certain criteria require additional reviews and approvals by the principal appraiser and/or the chief appraiser.

Procedures Manuals

The appraisal standards section directs the research, writing, editing, publication, and distribution of the policies and procedures manuals for both real property and personal property. These manuals provide policy guidelines, specific standards, and uniform procedures to assist the assessor's staff in the preparation of appraisal and audit reports, as well as other technical work.

Current manuals provide the assessor's staff with written instructions describing the processes, procedures, and techniques that are necessary to perform their duties in a uniform and standardized manner.

When an update is needed to a procedures manual—or when a manual needs to be created—a member of the assessor's management team completes a *Project Request Form* to initiate the project. Once approved, the project is assigned to an appraiser in the appraisal standards section who then prepares an initial draft and assigns an appropriate title and memo index number. After three levels of review and approvals, the revisions are then sent to the various regional offices for final distribution to appraisers. Every appraiser in the office is assigned a complete set of manuals.

In reviewing this process, we found a small backlog of *Project Request Forms*. For example, there are instances where the lien date should be changed from March 1 to January 1, including Memo No. 5290-1-1 sections 4.2 and 4.4, supplemental assessments and new construction; and Memo No. 5033-3-1, manufactured homes.

During the course of our fieldwork we received several procedures manual updates. We suggest the assessor continue the updating process.

Records Maintenance

Roll information is stored electronically in the PDB system. Building records and appraisal notes are kept as paper documents in parcel jackets and stored in secure file room areas at the appropriate regional offices. In the regional offices, each file has a bar code affixed to it to allow tracking of file custody. A scanning device reads the bar code and the name of the appraiser is entered. A clerical staff member in each office is charged with maintaining this system and preventing unauthorized removal of files by appraisers. A custody log, similar to what is found in modern public libraries, is maintained by this system.

Many files contain documents that are decades old and no longer have any appraisal purpose. This situation creates unnecessary volume in paper records that needlessly occupy space. Section 465 allows an assessor to destroy paper documents after six years, or three years if the paper document is microfilmed or otherwise imaged in some manner. This area should be evaluated as the assessor proceeds with the business process re-engineering project. We suggest the assessor convert as much information as possible to electronic format, discarding irrelevant information.

Exemptions

Religious Exemption Claims

RECOMMENDATION 1: Send the *Religious Exemption Claim* form to churches when they first file exemption claims for their schools.

When processing first-time religious exemption claims, the assessor first sends claimants a *Church Exemption Claim* form. Upon receipt of such a claim, it is reviewed by a supervising appraiser for eligibility for the one-time filing under the religious exemption. If the supervising appraiser approves the claimant for the religious exemption, he or she makes a notation on the file jacket indicating approval for the religious exemption next year. Once a *Religious Exemption Claim* is filed and approved, an annual filing is no longer required. For subsequent years, the claimant is mailed a change in eligibility or termination notice.

The legislative intent in enacting section 207, the religious exemption, was to provide a simple, streamlined claims process for churches operating church schools to file for property tax exempt status. Previously, a church that operated a church school had to file a church exemption for the church property and a welfare exemption for the school portion of the property. Section 207 allows them to file a religious exemption for the entire property.

The assessor's requirement that a first-time religious claimant file a church exemption claim form and a welfare exemption claim form for the school portion means the intent of streamlining the claims process is lost.

We recommend that the assessor follow the intent of section 207 and send first-time religious exemption claimants the *Religious Exemption Claim* form and not the *Church Exemption Claim* form.

Homeowners' Exemption

RECOMMENDATION 2: Apply the mandatory 25 percent penalty to late-filed terminations of homeowners' exemptions, pursuant to section 531.6.

Section 531.6 and rule 135 provide that whenever a homeowner is no longer eligible for the homeowners' exemption, the homeowner is required to notify the assessor by December 10th of the year of ineligibility. Failure to notify the assessor by this deadline results in a mandatory 25 percent penalty being added to the roll.

Homeowners' exemption terminations are processed as soon as they are received. However, we found that the assessor does not differentiate those terminations filed after December 10th. There was no evidence of the assessor ever having applied the mandatory penalty provisions for late filing. For instance, terminations received and processed in March 2001 for fiscal year 2000 did not include the mandatory 25 percent penalty.

We recommend the assessor apply the mandatory 25 percent penalty for late-filed homeowners' exemption terminations.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a factored base year value and personal property with a full value so low that the total taxes, special assessments, and applicable subventions would amount to less than the cost of assessing and collecting them.

In determining the level of exemption, the board of supervisors must determine at what level the costs of processing assessments and collecting taxes exceed the funds collected. The base year value or full value exempted may not exceed \$5,000, except that this limitation is increased to \$50,000 in the case of a possessory interest for a temporary and transitory use in a publicly owned fairground, fairground facility, convention facility, or cultural facility.

Pursuant to section 155.20, Los Angeles County has adopted a low-value property exemption resolution exempting all real property with a factored base year value and all personal property with a full value of \$2,000 or less. The county has approximately 158,000 real property parcels or business accounts valued at less than \$2,000. The business section staff annually conducts a field canvassing of businesses to determine if their property remains below the \$2,000 threshold.

We found the assessor effectively administers the low-value property exemption program.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$5,000 (\$10,000 beginning January 1, 2002) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restoration of value for the affected property.

The assessor uses multiple methods of discovering properties eligible for disaster relief. For major disasters, the assessor depends on taxpayer applications, newspaper accounts, screening of building permits, and reports from fire departments.

Since 1994, Los Angeles County has experienced three major calamities: the Northridge Earthquake, the Hollywood Metropolitan Transit Authority Damage, and floods from El Niño. The assessor continues to restore property values from the Northridge Earthquake. Of the approximately 81,000 earthquake-related disaster relief applications, all but 1,533 properties have had their values fully restored. A report last updated by the assessor's office in June of 1999 indicated that 21 of the 108 assessed values affected by the Hollywood MTA damage have been restored. The most recent misfortune, the El Niño floods of 1998, affected 268 assessments, 25 of which have been restored.

Filing Deadlines

On November 2, 2000, the BOE's Legal Division, responding to a Los Angeles County taxpayer's inquiry, issued an opinion concerning the timeliness of a claim for base year value transfer pursuant to section 69. This inquiry indicated that the assessor denied a claim for such a base year value transfer on the grounds that the claim was untimely. In the opinion of BOE's Legal Division, such claims should not be deemed untimely because section 69 does not prescribe a filing period.

RECOMMENDATION 3: Grant all qualifying disaster relief claims for base year value transfers pursuant to section 69.

Section 69(a) provides that the base year value of property substantially damaged or destroyed by a disaster may be transferred to a comparable property within the same county which is acquired or newly constructed within three years after the disaster, or five years in the case of the Northridge earthquake, as a replacement for the damaged property. However, section 69 does not provide a time limit within which a claim for transfer of a base year value must be filed. Section 69 only prescribes deadlines for the acquisition or new construction of the replacement property.

We recommend the assessor accept all qualifying claims for base year value transfers authorized by section 69.

Discovery

As recommended in our previous survey report, we believe the assessor should expand his discovery procedures for properties that qualify for disaster relief pursuant to section 170. During December 2000, the assessor requested fire reports from the fire departments in Los Angeles County. This request was sent to fire departments in incorporated cities and unincorporated areas of the county. Seventy-seven of the eighty-eight cities are responding on a monthly basis.

RECOMMENDATION 4: Continue to request fire reports from all fire departments to aid in the discovery of property eligible for disaster relief.

To aid in the discovery of isolated events eligible for disaster relief, we believe the assessor should receive fire reports from all fire departments in Los Angeles County (incorporated cities as well as unincorporated areas). We recommend the assessor follow up with nonresponsive fire departments to obtain those reports from all fire departments.

RECOMMENDATION 5: Properly allocate value between land and improvements.

During the sample phase of the survey, we discovered several properties with incorrect allocations of their reported purchase prices between land and improvements. While this does not normally affect the amount of property taxes, one area where the practice can have a marked effect is the application of disaster relief.

Section 170(b) requires the assessor to compare the appraised value after a misfortune or calamity with the roll value before the misfortune or calamity. This value must be segregated into land, improvements, and personal property. If the allocation between land and improvements on the assessment roll are substantially misstated, it is possible that a property owner may not receive the correct amount of disaster relief.

We recommend the assessor ensure that purchase price allocations between land and improvements are reasonable.

Assessment Roll Changes

Government Code section 4831 provides the legal authority for county assessors to make changes to the assessment roll after it has been completed and forwarded to the county auditor. Section 4831 provides that these changes shall be made within four years after the making of the assessment being corrected, with one exception, as noted in the statute.

Assessment roll changes generally reflect two categories of changes to the roll: escape assessments and corrections. An escape assessment is an assessment of property (1) that was not assessed on the July 1 roll, for any reason, or (2) that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any escaped property upon discovery, and the taxpayer must be notified of the proposed escape at least 10 days prior to enrollment.

A correction is any type of authorized change to an existing assessment except for underassessments caused by an error or omission of the assessee. Although corrections are normally initiated by the assessor's office, the concurrence of other county officers may be required depending on the nature of the correction. All roll changes are based on specific statutes, and the assessment roll must contain appropriate statutory references.

In Los Angeles County, roll changes usually originate from an appraiser or a taxpayer's request. An appraiser notes the changes on an RP-70, *Real Property Memo*, which is received and logged in by various clerks within each region. If a roll change is initiated by a taxpayer's request, the change is forwarded to an appraiser for review. Roll changes are then reviewed and approved by the supervising appraiser. A principal appraiser's approval may also be required when roll changes result in large changes in value.

After the necessary approvals, support staff review the roll changes for quality control. Two different support staff usually review those changes to ensure accuracy. Roll changes are then assembled into batches and given to data entry clerks who input changes into the mainframe. They are then electronically transmitted to the downtown Los Angeles office.

The *Notice of Assessed Value Change* or *Notice of Proposed Escape Assessment* are automatically generated and sent to taxpayers. These letters clearly display the assessment year, classification of property, values, and a person to contact if there are any questions concerning the proposed assessment. Assesseees are given 10 days to respond if they wish to question the proposed assessment.

We reviewed a number of secured and unsecured roll changes. All procedures and citations to the Revenue and Taxation Code appeared to be correct. Overall, the assessor's roll change system appears to be operating effectively.

In our prior survey, we recommended the assessor develop a management report summarizing roll changes. Since this recommendation was not implemented, we repeat it again in this report.

RECOMMENDATION 6: Develop a management report summarizing roll changes to determine the quality of appraisal and audit work.

To evaluate the quality of work performed in an assessor's office, we routinely examine roll changes made to the current assessment roll. By reviewing the number of, reasons for, and patterns of roll changes, we can quickly gauge the quality of work performed by an assessor's office.

At present, the assessor does have a report that shows the total number of roll changes and reviews completed for the year. A review, as opposed to a roll change, seems to be an assessment review that could be done for a variety of reasons, for example, a taxpayer's inquiry. However, this report does not differentiate between roll changes and reviews, let alone provide any specific detail about any individual roll change. Consequently, the assessor could not even determine the total number of roll changes for the year.

We again recommend the assessor develop a management report summarizing roll changes and the reasons for those changes, as a means of determining the quality of appraisal and audit work.

Assessment Appeals

The assessment appeals function is mandated by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 provide the statutory provisions governing county boards of equalization in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. The BOE has adopted Property Tax Rules 301 through 326 in regard to county assessment appeals.

The County of Los Angeles has five full-time assessment appeal boards, with 15 board members and 11 alternate board members. The board of supervisors may also appoint one or more hearing officers to conduct hearings. Los Angeles County has 25 part-time hearing officers who hear cases involving single-family residences and small income-producing properties, where the assessed values in question are \$3,000,000 or less. The hearing officers make recommendations to the full assessment appeal boards. The appeals boards meet at the Hall of Administration in downtown Los Angeles. Hearing officers conduct proceedings at several locations in the county.

The assessor's assessment appeals section is made up of ten employees: six appraisers, two legal analysts, and two support staff. The appeals section presents 12,000 to 15,000 cases per year. Only 10 percent of the appeals are personal property cases, the rest are real property.

In Los Angeles County the number of assessment appeals has decreased substantially in recent years as shown in the table below.

| Fiscal Yr. | No. Filed | Withdrawn | No Shows | Stipulated | Reduced | Increased | Denied | Other |
|-------------------|------------------|------------------|-----------------|-------------------|----------------|------------------|---------------|--------------|
| 2000-01 | 11,919 | 4,095 | 1,868 | 2,180 | 2,430 | 11 | 529 | 806 |
| 1999-00 | 23,785 | 6,881 | 3,971 | 3,802 | 5,809 | 52 | 1,361 | 1,909 |
| 1998-99 | 34,365 | 10,786 | 5,931 | 4,652 | 8,258 | 98 | 2,263 | 2,377 |
| 1997-98 | 76,434 | 18,057 | 15,311 | 5,132 | 26,278 | 341 | 5,308 | 6,007 |
| 1996-97 | 109,889 | 25,345 | 22,309 | 9,066 | 33,220 | 143 | 8,991 | 10,815 |

Since the number of appeals has decreased significantly over the last few years, the emphasis has been to improve the quality of the appeals cases. We attended one assessment appeals hearing. The assessor's representative was well prepared and made an effective presentation. We reviewed a number of appraisal records that were the subject of an assessment appeal. All were well documented and complete.

We found the assessor's assessment appeals program in compliance with the law. Appeal cases are resolved in a timely manner and the program appears to be effectively administered.

ASSESSMENT OF REAL PROPERTY

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value, factored at no more than 2 percent per year for inflation unless there is a change in ownership or new construction. The 1975 full cash value and subsequent values that result from a change in ownership or new construction are known as base year values.

Change in Ownership

Section 60 defines a 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 interest. Section 50 requires the assessor to reappraise real property upon a change in ownership. After a change in ownership, the property interest transferred is reassessed at its current market value as of the date of transfer, establishing a new base year value. A significant part of the annual workload in assessors' offices involves the establishment of new base year values of properties that change ownership.

Document Processing

The Los Angeles County Recorder is the assessor's primary source of information for the discovery of changes in ownership. The recorder's office provides the assessor with electronic images of all recorded documents that have the potential of triggering a reassessable change in ownership.

For the 2000 assessment year, the assessor's staff reviewed approximately 383,900 documents for potential changes in ownership. Of this total, approximately 222,600 were reassessable changes in ownership. Reappraisal of these properties resulted in a valuation increase of approximately \$14.9 billion. For the last three years, the number of documents resulting in changes in ownership has remained fairly constant: 218,800 in 1998; 224,100 in 1999; and 222,600 in 2000.

Transfer processing is the responsibility of the assessor's ownership division in the roll services department. This division has undergone considerable change and improvement since our last assessment practices survey. In that survey report, we noted problems connected with the transmittal of data between the county assessor, recorder, and tax collector. This resulted in backlogs of data, missing data, and general inefficiencies.

Today, the backlog and missing data problems have been mostly resolved. Although certain inefficiencies still exist, most have been identified and are being addressed. However, because of the size of the operation and the fact that it is very time consuming and expensive to modify systems, all desired upgrades have not been completed.

As of January 1, 2000, the assessor implemented a document imaging and workflow system that streamlined the processing of the more than 380,000 documents received annually from the county recorder. The old system involved photocopying and handling an estimated one million paper documents as many as 10 times. Staff now works with scanned images instead of paper, resulting in greater accuracy while saving time and resources. This new system allows the assessor to receive document images directly from the county recorder.

At the time of our fieldwork, the assessor continued to receive paper copies of the *Preliminary Change in Ownership Reports (PCOR)*. These documents are scanned into the system and matched with the corresponding deeds.

Deeds and PCORs are reviewed by clerical staff who determine whether the deed and accompanying data evidence a reassessable event. These staff are specially trained to recognize what documents represent a reassessable change in ownership. In addition, there is a special unit that processes questionable transactions, corporate transactions, leases, and transfers involving values of \$8,000,000 or more. Quality control checks are built into the system so that all decisions are reviewed at least once for accuracy. Those transactions that represent reassessable changes in ownership are placed in batches and are updated weekly on the PDB.

Approximately 8 to 10 times per year, the ownership division transmits transfer data to the real estate division on transfer lists. Those lists are categorized as to property type and location. Appraisal assignments are then made within the various regional offices.

As previously mentioned, the assessor implemented an imaging and workflow system for processing deeds and changes in ownership. This system has had mostly positive effects upon the transfer processing operations. However, some aspects of the system result in processing delays of certain changes in ownership.

The Santa Clarita Valley of Los Angeles County is an area of substantial development, with a number of new residential subdivision and condominium developments under construction. Some of these projects are developed, built, and sold out in a relatively short period of time. This rapid development has resulted in numerous instances where taxpayers have called the assessor requesting information about their tax bills. Unfortunately, the assessor was unable to respond because the parcel splits had not yet been processed. As a result, there were no assessments for these new parcels.

We believe that the delays associated with enrolling newly created parcels occurs in the ownership division. Within one to two months after receiving the newly recorded subdivision maps, the assessor's mapping section creates the new maps and sends them to the ownership division. Then the ownership division assigns legal descriptions to the parcels and processes the accumulated changes in ownership. It appears that most of the delay occurs after the new parcel maps are created by the mapping services section and before the change in ownership data is sent to the regional offices.

We also noted that even routine transfers are experiencing delays, but to a lesser extent. As the imaged deeds are received from the recorder, the ownership division begins processing them. Once the deeds have been processed they are held and sent in batches to the regional offices. Depending upon the volume of deeds and workload, about 8 to 10 batches are sent each year. This means that, on average, more than a month elapses between batches.

We suggest the assessor develop procedures to expedite deed processing. This could be explored as part of the process re-engineering project.

Change in Ownership Statement

Section 480 requires transferees of locally assessed real property to file a *Change in Ownership Statement* (COS) with the county recorder or assessor. In addition, section 482 provides for a penalty should a transferee fail to file such a statement with 45 days from the date of a written request by the assessor. Most transferees can obviate such a written request by filing a *Preliminary Change of Ownership Statement (PCOR)*, as specified in sections 480.3 and 480.4, at the time the transfer document is recorded.

Regardless of whether a transferee filed a PCOR, the assessor may still require the filing of a COS. Pursuant to section 483(b), the county board of supervisors can pass a resolution authorizing the assessor to abate the section 482 penalty if the assessee files the COS with the assessor not later than 60 days after the date on which the assessee was notified of the penalty. In Los Angeles County, the board of supervisors passed such a resolution in 1984.

The assessor has comprehensive written procedures describing the automated penalty application and penalty abatement procedures. There are detailed descriptions, forms, and computer listings of penalized transferees. When a COS is not returned and posted within 60 days of the print date, a *Notice of Penalty Assessment* is generated, which indicates that the penalty will automatically be cancelled if the form is completed and returned immediately to the assessor. This abatement is automatic if the COS is timely filed.

RECOMMENDATION 7: Apply the *Change in Ownership Statement* failure to file penalty within the time prescribed by section 482.

The assessor uses the *Notice of Penalty Assessment* form to advise the assessee of the penalty for failure to file the COS within 45 days of the original written request. From the date assessee is so notified, the assessor gives them an additional 60 days to both file the COS and to establish that the original failure to file was not willful. Beyond that period of time, penalty abatement is not permitted by law, except for excusable delay under section 483.

The assessor's procedures for penalty abatement allow assessee to petition for abatement after the 60-day period has expired. In fact, the original COS sent to the transferee already warned of the penalty for failing to file within 45 days. The second mailing constitutes notification of this penalty. No additional time may be extended to the non-filing assessee after 60 days from the

date of the second mailing if there was no application for penalty abatement filed by the assessee.

The assessor's written procedures, however, actually allow an 80-day waiting period before the penalty is sent to the auditor-controller's office, even in situations where no application for penalty abatement was filed. The law specifies that any requests for penalty abatement must be submitted and substantiated no later than 60 days after penalty notification.

Since the assessor continues granting penalty abatements after the time prescribed by section 482, we repeat our recommendation that the assessor apply that penalty in a timely manner.

Long-Term Leases

RECOMMENDATION 8: Revise procedures for processing long-term leases of manufactured home sites.

The county recorder provides the assessor with copies of all recorded leases. Section 61(c)(1) specifies that a change in ownership includes the creation of a leasehold interest in taxable real property for a term of 35 years or more. In addition to processing deeds, the ownership division determines which long-term leases indicate reassessable changes in ownership. With one exception, these leases are processed in the same manner as deeds. If a long-term lease is received for a property that is coded as a manufactured home, the document receives no further processing by the ownership division and is sent directly to the manufactured home section. No follow-up or controls are afforded these documents once they leave the ownership division.

We noted a manufactured home park that has been issuing long-term leases of 50 to 99 years since 1990. The park has issued and recorded 330 of these long-term leases and none have been processed as changes in ownership. These documents remained unprocessed in the manufactured home section. Since these leases were never entered into the system, they escape administrative controls such as the *Unvalued Transfer Report*. Long-term leases for manufactured home sites should be handled in the same way as other long-term leases.

We recommend the assessor revise the procedures for processing long-term leases for manufactured home sites.

Legal Entity Ownership Program (LEOP)

Section 64(c) provides that a change in control of any legal entity results in a change in ownership of all real property owned by that legal entity, as of the date of change in control. Discovery of changes in control can be difficult because ordinarily there are no recorded deeds. While notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records.

Since 1983, the BOE's Legal Entity Ownership Program (LEOP) has informed county assessors of changes in control of legal entities owning real property in California. The LEOP unit learns of these unrecorded changes in control, occurring through stock purchase or acquisition or otherwise, from responses to questions appearing on corporate and partnership tax returns filed with the Franchise Tax Board (FTB). Typically, these types of changes in ownership are not recorded at the local county recorder's office and, thus, may go undiscovered by the assessor.

The LEOP unit gathers this preliminary information from the FTB and sends the acquiring and acquired entities a questionnaire requesting the date of transfer, manner of change in control, and disclosure of all parcels involved. Responses are accumulated, sorted by county, and forwarded to the appropriate assessor's offices. These LEOP notices provide the assessor with important information on unrecorded transfers of real property that may otherwise be overlooked. Because some of the acquiring entities cannot furnish specific information, assessors are advised to thoroughly check parcels listed to determine with certainty which are subject to reappraisal.

From January 1995 to May 2000, LEOP notified the assessor of changes in control of 377 legal entities, owning about 4,680 parcels of real property in Los Angeles County.

We reviewed 10 legal entities reported to the assessor as having experienced a change in control. We found that all real property owned by these entities had been appraised or were in the process of being reviewed, and that proper supplemental and escape assessments had been enrolled.

New Construction

Section 70 defines 'newly constructed' and 'new construction' as any addition to real property, whether land or improvements (including fixtures), since the last lien date; and any alteration of land or any improvement (including fixtures) since the lien date that constitutes a major rehabilitation thereof or that converts the property to a different use. When real property undergoes new construction, section 71 requires the assessor to enroll the value of the new construction upon completion or, if incomplete, the value as of the lien date.

Building Permits

Building permits are the primary method of discovering new construction. The assessor identifies potentially assessable new construction primarily by reviewing copies of building permits received from each of the 73 permit-issuing agencies in the county. In 2000, the office received 220,000 permits. The permits are received monthly, both electronically (magnetic tape and computer disk) and in paper form. The electronically transmitted information is automatically downloaded to the assessor's database, while the information received on paper is keyed into the system.

Once entered into the database, clerks in the new construction section review the data to determine which permits are likely to represent reappraisable events. Those permits form the database of permits to be worked. Of the 220,000 permits received last year, 77,000 were processed as

possible reassessable events and 143,000 were discarded as non-assessable events. The parameters for culling non-assessable permits are contained in the ownership division's *Building Permit Processing Manual*. Although these discarded permits are kept in the ownership division for three years, they are not logged in the system, nor is the appraisal staff made aware of them.

Once the permits have been determined to represent potentially reassessable events, a *New Construction Statement* (NCS) form is sent to the property owner. This voluntary program requests property owners to report the costs, detail, and a sketch of the new construction. If the statement is not returned to the office in 40 days, a second form is sent. If the second form is not received in 25 days, the permit is forwarded to the regional office for a field check.

When a NCS is received, it is coupled with a *Property Data Record* (PDR) containing building permit data and sent to the appropriate regional office. The regional office pulls the appraisal record, and, together with the NCS and PDR, returns the package back to the new construction section for valuation processing. Pursuant to the assessor's policy, staff in the new construction section may work only those permits below \$80,000 in value. This work is usually limited to residential pools, patios, remodels, and room additions.

Clerks review the costs reported by the taxpayer on the NCS. If the reported costs are between 65 percent and 150 percent of the costs indicated by the assessor's cost manual, the reported value is accepted and a clerk then enrolls the reported value. If the reported costs are outside of those parameters, the building record is returned to the appropriate regional office for a field check and valuation. Should a clerk have a question, an appraiser specialist and supervising appraiser assist when needed.

Appraisal staff in the regional offices value new construction that is not valued by the new construction section. This work involves a field check to inventory the new construction. Large new construction projects are valued by the major properties division.

Upon completion of new construction, the appraiser or clerk records the permit number, date, and action taken on the appraisal record and records the new value on the record for the data entry. The purpose and function of the new construction section is to value the smaller items so that appraiser time can be utilized on the larger and more complicated assessments.

RECOMMENDATION 9: Use only certified appraisers to value new construction.

As previously noted, clerks in the new construction section process and enroll new construction valued at \$80,000 or less. If those clerks have no questions for the assisting appraisers, the value is enrolled without an appraiser's review. This practice directly conflicts with section 670(a) which provides: "No person shall perform the duties or exercise the authority of an appraiser for property tax purposes as an employee of the state, any county or city and county, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificate issued by the State

Board of Equalization." Since determining new construction values is the exercise of the authority of an appraiser, appraisers—not clerical staff—should make those valuations.

We recommend the assessor use only certified appraisers for valuing new construction.

RECOMMENDATION 10: Obtain all building permits from permit-issuing agencies.

We contacted 14 permit-issuing agencies and found that only nine of those agencies forwarded all permits to the assessor. The remaining five agencies did not forward mechanical, electrical, or plumbing alteration permits.

Often, when a residence undergoes a total rehabilitation, only a mechanical, electrical, and plumbing permit is issued unless there is additional square footage added. In addition, many tenant improvements require only mechanical, electrical, or plumbing permits. Without receiving these permits, the appraisal staff is not aware of all new construction and the possibility of escaped new construction exists.

In our 1996 survey, we recommended the assessor request all permits from permit-issuing agencies as required by section 72(a). We again recommend the assessor obtain all building permits from permit-issuing agencies.

RECOMMENDATION 11: Revise procedures for handling discarded building permits.

The assessor's *Building Permit Processing Manual* sets minimum valuations for permits to be considered as assessable. For example, permits for repairs and alteration under \$20,000 are to be discarded. When permits are discarded, no notation is made to the property record, nor are they logged into the system. Although the discarded permits are kept by the new construction section for three years, the appraisal staff is not made aware of them. We believe that all permits are important in the appraisal process and the discarding of permits can lead to escape assessments.

All construction permit information is useful to an appraiser, whether or not any given permit involves assessable new construction. Appraisers need records of all prior permit information in order to make informed judgments about current condition, quality, appeal, and market value. This is especially true in the event of a nonsale property transfer.

In our 1996 survey, we recommended that the assessor periodically review discarded building permits for accumulated construction activity that may indicate assessable new construction, and to retain and store all building permit data.

We now recommend that discarded building permits be identified by assessor's parcel number, logged into the system, and sent to the regional offices so as to be available to appraisers.

RECOMMENDATION 12: Use accurate completion dates when assessing new construction.

We asked the 14 permit-issuing agencies we contacted if they supplied the assessor with the date of completion (or final date) of new construction and certificates of occupancy. None of the agencies contacted provided the assessor with this information. Without the official date of completion for new construction, the appraiser must estimate the date, or contact the assessee or permit-issuing agency.

Since supplemental assessments are prorated for the remainder of the tax year after the construction is completed, it is important to have the correct date whenever possible. Section 72(b) requires permit agencies to provide the assessor this information within 30 days after the date of issuance of the certificate of occupancy, or the finalization date of the permit.

When we reviewed recent new construction building records, we observed it was a common practice of the appraisal staff to estimate the cost of a partially complete improvement as if complete, and then estimate a completion date. No future site callback or contact was done to verify if and when it was completed.

Many factors can contribute to the delay of a project (financing, weather, availability of labor and supplies, etc.). Part of the appraisal process is to accurately inventory improvements on a parcel to obtain an accurate valuation. It is not good appraisal practice to estimate and value a new improvement when it is only 10 or 20 percent complete.

In addition, since the supplemental assessment is for the change in value during the assessment year an item was completed, it is important to get an accurate completion date. Without the correct final date, the proration of the supplemental assessment will be in error. The assessee will either be underassessed or overassessed. Section 75.10 and rule 463.500(b) require the assessor to base supplemental assessments for new construction events on the date of completion.

We recommend the assessor use accurate completion dates for new construction.

RECOMMENDATION 13: Revise assessment procedures for substantially remodeled or renovated residences and newly constructed additions.

A common construction practice today is the total remodel and renovation of a single-family residence. This is often accompanied by an increase in square footage. We examined three older residences that were recently remodeled, with square footage added, to create a substantially equivalent-to-new residence.

We observed that there was no consistency in how the appraisers credited the remaining portion of the original residence to the roll value. Although the assessor's *Real Property Handbook* (Memo No. 5215-1-1) has an example of an extensively remodeled and renovated residence, this

example is for a residence that is the same square footage before and after the renovation. Most extensive renovations also include the addition of square footage.

Also, when a residence undergoes a substantial equivalent-to-new transformation, the effective year should be changed to reflect the new improvements and added economic life. The assessor's *Real Property Handbook* (Memo No. 5214-3-1) covers the topic of effective age of a structure. Again, it does not cover the determination of an effective year when a residence has had a substantial renovation.

We reviewed the records of a residence, originally built in 1951, with 4,434 square feet prior to a substantial renovation in 1994 that increased the living area to 5,556 square feet. The appraiser made contact with the architect who said the prior residence was "taken down to the slab" for the renovation. The appraiser gave the newly renovated residence an effective year of 1965. The assessor's *Real Property Handbook* (Memo #5215-2-0) addresses updates to the effective year-built of an improvement. It states, "the effective year built reflects the age at which the property competes in the market. It reflects the utility, condition, and future life expectancy of the improvement." Thus, this residence should have been given an effective year closer to 1994, the year of the renovation work.

During our interview with one supervising appraiser in the real estate division, he provided us with a memo that he gives to his appraisers with instructions on valuing substantially renovated residences. We reviewed the procedures and concluded that they reflect appropriate procedures. However, this memo and the procedures it describes are not common to all appraisal crews.

We recommend the assessor revise his procedures for assessing substantially remodeled and renovated residences and newly constructed additions.

RECOMMENDATION 14: Update the *Claim for Seismic Safety Construction Exclusion from Assessment* application.

When we reviewed the *Claim For Seismic Safety Construction Exclusion From Assessment* application utilized by the assessor,⁵ we found an error in the fifth paragraph of the instruction sheet. It states the exclusion applies only to projects completed on or after January 1, 1991, and completed on or before July 1, 2000. The completion date of July 1, 2000 requirement has been deleted from section 74.5(f) effective January 1, 2000. We recommend that the assessor amend the application to reflect this change.

Supplemental Assessments

Section 75, et seq., requires the assessor to appraise property at its full cash value on the date property changes ownership or upon the completion of new construction and then to issue a supplemental assessment. The increase or decrease in assessed value is reflected in a prorated

⁵ *Claim for Seismic Safety Construction Exclusion from Assessment*, form PT-64 ASSR. 80 (5/2/91).

value that covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction. For changes in ownership or completed new construction occurring between the lien date and May 31, two supplemental assessments are issued. The first supplemental assessment reflects the value difference for that portion of the current fiscal year remaining after the assessable event; the second covers the ensuing fiscal year in its entirety.

RECOMMENDATION 15: Notify the county auditor-controller's office of pending supplemental assessments as required by section 75.30.

We repeat this recommendation from our prior survey report. At the time of our fieldwork, the assessor had not acted to comply with our recommendation. The assessor's response to our prior survey asserted that while his office did not meet the exact requirements of section 75.30, it did satisfy the intent of that statute.

Section 75.30 provides that whenever the assessor determines that a change in ownership or the completion of new construction has occurred, the assessor shall place a notice of the supplemental assessment on the roll being prepared. The assessor is also required to notify the auditor-controller of the pending supplemental assessment. The auditor-controller is then obligated to place a notation on the current roll or on a separate document accompanying the current roll.

We found that the assessor does not notify the auditor-controller of pending supplemental assessments until after a taxpayer has been notified of the supplemental assessment. Only after the assessor observes the statutory waiting period and enrolls the supplemental assessment does he send an automatic notice to the auditor-controller.

Section 75.30 provides a means by which potential property owners and title companies can discover the existence of any pending supplemental assessments. Because the auditor does not flag the current roll as to a pending supplemental assessment until after receiving notice of that supplemental assessment, the critical element here is timeliness. The auditor should be notified before an appraisal is done, not after. Backlogs and delays in processing changes in ownership and new construction are not uncommon in assessors' offices. For this reason, it is important to provide the auditor with timely notice.

We recommend the assessor notify the auditor-controller's office of pending supplemental assessments as required by section 75.30.

Decline in Value

Section 51 requires the assessor to enroll real property annually at the lower of its factored base year value or its current market value as defined in section 110. When the current market value for a property declines below its factored base year value, for any reason, the lower value must be enrolled as the taxable value for the year of the decline. For each lien date after the first lien date for which the taxable value of a property has been reduced, that property must be reviewed annually until the current market value exceeds its factored base year value.

Recognizing that economic trends in Los Angeles County contributed to declines in real estate values, the assessor conducted market value reviews of approximately 400,000 parcels during 1993. Those parcels were selected because they had base years that suggested the possibility that their market values were less than their factored base year values for the 1993 lien date. Of these parcels, approximately two-thirds received decline-in-value assessments. These parcels have received annual reviews and their values have been adjusted to the current market value or restored to their factored base year value. For lien date 2000, approximately 290,000 parcels remained in decline-in-value status.

Properties identified since 1993 as declines-in-value have been added to the existing database of such properties. These properties have been identified by taxpayer application to either the assessor or the assessment appeals board. Since the 1993 market review, most new decline-in-value discovery comes from a taxpayer application process. The application process has been extended and applications are now accepted all year.

Applicants are asked to identify their property and provide evidence indicating the market value for the lien date. Information regarding recent transfers may be viewed, free of charge, at any of the assessor's regional offices. Information brochures, printed in both English and Spanish, suggest that applications be filed early so that there is time to file an assessment appeal should the applicant disagree with the assessor's determination. Applications are available at assessor's offices or can be printed from the assessor's Web site and mailed to the assessor's office.

A taxpayer may file an *Application for "Decline-in-Value" Reassessment* (Form RP-87) anytime between January 1 and December 31 to be effective for the next annual tax bill. This application form states that an application received between July 2 and September 17, 2001 may not be acted upon before the assessment appeals deadline (September 17, 2001). It is suggested in the form's instructions that an applicant may wish to file an appeal with the assessment appeals board to protect his/her rights in the event the assessor does not agree with the application.

Decline-in-value applications that are received at the regional offices, the Hall of Administration, and the assessment appeals boards are forwarded to the appropriate regional offices for review. Each regional office maintains a decline-in-value application tracking system. Letters are sent to taxpayers acknowledging the receipt of the application. Applications are processed and reviewed at the regional offices and the results are enrolled.

Decline-in-value reviews are usually assigned by geographic area to regional appraisers assigned to those areas. The parcels are arrayed on the worksheets by property type and size. This speeds the appraisal process by allowing the appraiser to view similar properties with similar values. The appraiser will also be familiar with the area and should know current market trends affecting property value.

The *AutoComps* feature of the assessor's computer system suggests up to three comparable sales based on adjustable parameters. Additionally, an appraiser can access the entire transfer list from

the screen or can adjust the *AutoComps* feature to customize a search. The value suggested by the system can be accepted or rejected by the appraiser. The appraised value will represent either a further decrease in value or an increase in value to an amount greater than or equal to the prior decline-in-value assessment.

If the appraised value is a value greater than or equal to the factored base value, the factored base value will be restored and the property removed from decline-in-value status. Upon completion, a supervisor reviews decline-in-value appraisals. Elements built into the decline-in-value computer software system assist supervisors in the review process.

Once a property is in decline-in-value status, it is tracked annually by the restoration unit created during 1999 to track decline-in-value assessments. The restoration unit tracks both roll values and factored base values and generates worksheets that are sent electronically to the regional offices for annual review. These reviews are worked by appraisers, reviewed by supervisors, and returned to the restoration unit to be loaded into their server. After processing, the final data is transferred to the assessor's computer system.

Decline-in-value reviews for major properties are handled in a very similar manner. Usually, the major properties division receives an application for decline-in-value reassessment, often with evidence supporting the taxpayer's value assertion. An appraiser familiar with the real estate market for that type of property will contact the applicant for any additional information that may be needed. Appraisers in major properties divisions are assigned to certain property types within specific geographic areas. Typically, the appraiser will suggest that the property owner file an assessment appeal, should a value disagreement occur. Some major property decline-in-value appraisals will be analyzed through the appeals process, where more detailed information can be presented. If the taxpayer and assessor concur, the taxpayer may request withdrawal of the appeal.

The decline-in-value program used by the assessor appears to meet all the necessary requirements in an effective manner.

California Land Conservation Act and Rural Property

California Land Conservation Act Property

An agricultural preserve contract is established between a landowner and a city or county, pursuant to the California Land Conservation Act of 1965 (CLCA). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income, (e.g., hunting, communication facilities, etc.), and are assessed at the lowest of this restricted value, the current market value, or the factored base year value, as defined in article XIII A of the California Constitution. Sections 421 through 430.5 detail the methods to be used in the valuation of land subject to agricultural preserve contracts.

For the 1999-2000 lien date, Los Angeles County had approximately 40,052 acres (91 parcels) encumbered by one CLCA contract with a total assessed value of \$40,052. All the properties under CLCA contract are located on Santa Catalina Island and are part of the Santa Catalina Island Conservancy.

We reviewed the assessments of the CLCA restricted parcels for compliance to the applicable constitutional and statutory provisions. Due to the relative insignificance of the CLCA assessments, the CLCA program has not been computerized. However, the property records appear to be well managed. The valuation is done on a specially designed form to promote consistency from year to year. The assessor calculates the restricted values and compares the restricted value with the factored base year value to determine taxable value.

We found that the assessor has an effective CLCA program.

Rural Property

For 1999, the overall gross value of agricultural crops and products grown in Los Angeles County was \$253,010,000. Most agricultural properties in Los Angeles County produce ornamental trees and shrubs, bedding plants, or root vegetables. The assessor does not request production and crop information from taxpayers or the Agricultural Commissioner.

The number of agricultural property assessments in Los Angeles County continues to decline with the rise of residential and commercial development. Most rural properties that are bought and sold are intended for future nonagricultural uses. For this reason, the sales comparison approach is the most widely used method of valuation. We found the assessor's treatment of rural property to be in compliance with applicable statutes and BOE guidance.

Major Property

The major properties division is responsible for 96,600 assessments with a total value of \$122 billion. While this division processes only 4 percent of the total parcel count in Los Angeles County, its workload represents 20 percent of the total assessed value. This division has seven regions, each having an area of unique responsibility. The seven regions are as follows: (1) commercial- industrial central, (2) commercial-industrial west, (3) commercial-industrial east, (4) possessory interests, (5) special properties, (6) cost appraisals, and (7) natural resources.

Given that professional agents often represent the owners of major properties and assessment appeals are common, the major properties division is staffed with mostly senior professional staff members. Most appeals are settled by stipulations or roll changes and do not result in an assessment appeals board hearing. Appraisals in the major properties division are generally more detailed and feature the use of all three approaches to value (when applicable).

The commercial-industrial regions handle all commercial-industrial property of significant scale in their geographic area of responsibility (generally greater than five stories or 20,000 square

feet). While not defined in absolute terms, a property generally will be referred to the special properties region if it meets one of the following criteria.

- All malls and shopping centers containing a minimum of 100,000 square feet.
- Malls and shopping centers containing a minimum of 50,000 square feet with at least two major stores.
- Major department and discount stores
- Hotels and motels with more than 50 units.
- Apartment buildings of six stories or greater.
- Television and movie studios, professional sports facilities, golf courses, and major theme parks.
- Downtown commercial centers in Burbank, Glendale, Hollywood, Long Beach, Pasadena, and Santa Monica (with some exceptions).
- Hospitals with more than 100 beds.
- Parking parcels for all of the above.

The cost appraisal region performs cost appraisals on major new construction projects anywhere in Los Angeles County that require specialized expertise beyond what is available in the regional field offices. Major new hotels and office buildings are examples of properties that would be referred to this group.

In addition to possessory interest appraisals, the possessory interest region also values Section 11 properties and properties owned by public employee retirement systems. The assessment of possessory interests, Section 11 property, and public employee retirement system property are discussed in separate sections of this report.

The natural resources region is responsible for mineral properties, petroleum refineries, intra-county pipelines, tank farms, electric generation facilities, and service station land and structures. Mineral and intra-county pipeline property are discussed in separate sections of this report.

Refineries

In the past two survey reports, we recommended that the assessor follow rule 461(e) by assessing fixtures as a separate appraisal unit. The assessor has not implemented this recommendation and continues to assess petroleum refineries as a unit, without distinction between the land, structure, and fixture components.

RECOMMENDATION 16: Follow rule 461(e) when recognizing declines in land and improvement values.

Rule 461(e) recognizes that land and improvements constitute one appraisal unit, while fixtures and other machinery and equipment classified as improvements are a separate appraisal unit, even though they might be part of the same business enterprise. The fair market value of each appraisal unit must be determined and compared to the base year value of that appraisal unit to determine assessed value. The assessed value shall be the lower of factored based year value or fair market value of land and improvements, plus the lower of fair market value or factored base year value of fixtures and machinery and equipment classified as fixtures, plus the fair market value of personal property.

Letter To Assessors (LTA) No. 79/39 states that declines in value in one appraisal unit cannot be offset by increases in value in another appraisal unit. For example, declines in value in fixtures cannot be offset by increases in land and improvement values. Therefore, after allocating the fair market value, as determined by use of the income approach, the assessor must enroll the lower of either the fair market value or base year value of each appraisal unit.

We recommend the assessor follow rule 461(e) when recognizing declines in land and improvement values.

Electric Generation Facilities

Los Angeles County has a number of cogeneration and privately owned electrical generation plants. We reviewed the assessor's appraisal procedures regarding these properties and found that generally accepted appraisal practices are followed for these assessments. The assessor uses BOE-prescribed forms for gathering information. And, for the January 1, 2000 lien date, the assessor used reasonably expected price forecasts, relying on information from the California Power Exchange or information from the California Public Utilities Commission for properties under a Standard Offer (SO) contract. We have no recommendations for changes in the assessor's power plant assessment program.

Service Station Property

In our previous survey, we recommended that the assessor reclassify certain service station improvements as fixtures. The assessor has recently completed a review of all service stations and car washes in Los Angeles County. This review reclassified tanks, pumps, dispensers, hoists and car wash equipment as business property fixtures. Our review indicates that the assessor has fully implemented our prior recommendation.

Chapter 352 of the Statutes of 1999 (Senate Bill 933) became effective on September 7, 1999. This law change was reported to the assessor in LTA No. 99/62. This legislation provides a new construction exclusion for underground storage tanks that are improved, upgraded, or replaced to comply with federal, state, or local regulations. Section 70(e) provides the tank work shall not be

considered new construction, and is considered normal maintenance if the reconstruction was performed timely.

As is noted above, the assessor completed a review of all service stations and car washes. The service station allocation project reviewed 3,556 service stations and 237 car washes. This project removed \$159,838,330 from the real property roll and added \$318,269,346 to the business property roll as fixtures. The discrepancies were the result of recently reported upgrades (costs) versus outdated real property records.

Taxable Government-Owned Property

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

Los Angeles County has 3,568 Section 11 properties with a total value of \$255,565,763. We found two areas for improvement in the assessment of Section 11 properties.

Our first concern addresses the assessor's staffing. We found that a single appraiser currently handles all Section 11 assessments. We suggest that the assessor cross-train other appraisers in this specialized area in the event this appraiser is absent for an extended period of time.

Our second issue concerns the assessor's documentation of Section 11 assessments.

RECOMMENDATION 17: Improve documentation of Section 11 appraisal records.

We reviewed the appraisal records of 23 Section 11 parcels. Most of those appraisal records did not contain all of the information necessary to enroll a correct assessment. Instead, we found that the assessor stores spreadsheets containing a substantial amount of pertinent information in separate files. One parcel was underassessed due to a structure that was missing from the appraisal records. Another parcel had an agricultural use that was not noted on the appraisal records. Lastly, we could not find evidence that the assessor field checks these properties.

We recommend the assessor improve documentation of Section 11 appraisal records.

Taxable Possessory Interests

For property tax purposes, the term "possessory interest" includes either the possession of or the right to possession of real property when a governmental agency holds the fee title to that property. The possession must be durable, independent, exclusive, and provide the possessor with a private benefit. Pursuant to section 107, the assessor is responsible for identifying the

existence of taxable possessory interests, valuing those interests upon their creation, qualifying renewal, or transfer, and valuing any new construction.

There are 9,947 taxable possessory interests on the 2000-2001 assessment roll with an assessed value of more than \$7.3 billion. The assessor's possessory interest section has the responsibility of discovering and assessing all taxable possessory interests within the county. To aid in the discovery of taxable possessory interests, the assessor sends annual letters to the 319 different government agencies owning real property in Los Angeles County requesting updated user lists.

Although taxable government-owned properties (Section 11 lands) are discussed on page 43 of this report, taxable possessory interests exist on such lands and will be discussed here. In our prior survey, we recommended that the assessor properly assess possessory interests on Section 11 lands. This recommendation was not implemented and is repeated in this report. We also found a weakness in the assessor's discovery of a certain special type of possessory interest.

RECOMMENDATION 18: Properly assess taxable possessory interests located on Section 11 lands.

We found that the assessor does not enroll taxable possessory interests on Section 11 lands if the values of those possessory interests are less than the Section 11 value. In essence, the assessor disagreed with the BOE's interpretation of article XIII, section 11, of the California Constitution.

Article XIII, section 11, subdivision (f), of the California Constitution provides the limit on value for Section 11 Lands:

The aggregate value of all the interests subject to taxation pursuant to Section 11(a), however, shall not exceed the value of all interests in the land less the taxable value of the interest of any local government ascertained as provided in Sections 11(a) to 11(e), inclusive, of this Article."

Under this provision, the total of the taxable value of all interests, including any possessory interest(s), when added to the taxable value of the interest of any local government cannot exceed the current fair market value of the fee interest.

Instead of using the difference between the Section 11 value and current fair market value as the limit on possessory interest assessments, the assessor continues to set the Section 11 value as the upper limit on value. Disagreeing with BOE's interpretation, the assessor has not changed his method of valuing taxable possessory interests located on Section 11 lands.

We recommend the assessor properly assess possessory interests on Section 11 lands.

There is one area of the discovery process that we believe the assessor should give greater attention.

RECOMMENDATION 19: Review all contracts with the California Pollution Control Financing Authority for possible taxable possessory interests.

As provided by section 201.5, possessory interests in property owned by the California Pollution Control Financing Authority are subject to assessment. Although the existence of such property does not automatically create a taxable possessory interest, each interest must be analyzed on a case-by-case basis.

The BOE informed the assessor of two companies that had entered into contracts with the California Pollution Control Financing Authority during 1999. Staff of the possessory interest section stated that they do not enroll possessory interests in property owned by the California Pollution Control Financing Authority. They assume that if the property was assessed it was assessed by the business property section. Failing to investigate these potentially taxable possessory interests may result in property escaping assessment.

We recommend the assessor review contracts with the California Pollution Control Financing Authority to discover potentially taxable possessory interests.

RECOMMENDATION 20: Develop adequate controls over possessory interest appraisal records.

We requested a number of possessory interest appraisal records during both the survey and sample portions of our research for this report. Several of those appraisal records could not be found. On other occasions, information describing the leases between the government owners and possessors was missing.

We recommend the assessor review possessory interest appraisal record procedures to adequately track those records and to ensure they contain all of the documents necessary to enroll an accurate assessment.

RECOMMENDATION 21: Revise procedures for processing possessory interest value changes.

We found weaknesses in the assessor's procedures for updating possessory interest values on the assessment roll. On a few occasions, incorrect tax bills have been issued as a result of those problems. It appears that there is some difficulty encountered when processing value changes on the assessor's computer system and transmitting that data through to the auditor's database.

Because possessory interest data entry documents are hand-written, the assessor processes those value changes differently from other value changes. We found that possessory interest worksheets—documents showing the value changes determined by an appraiser—sometimes reflected different values from the values we found on the assessor's computer system. We confirmed that the tax collector generated tax bills from the assessments found on the computer system instead of the values found on the possessory interest worksheets.

In addition, we found that possessory interest value changes often miss the assessment roll cut-off date. These changes are then processed as "prior year changes," rather than roll changes, through the auditor's office. Instead of updating the assessor's computer system, these input documents were sent directly to the auditor.

Using hand-written input documents has also led to at least one assessment error caused by a transcription mistake. We found an incorrect base-year value coding for a possessory interest assessment that caused a trending error. Since possessory interest value change documents do not receive the same automated verification as other value changes during the data entry process, it appears more likely that these types of errors will escape detection. By circumventing the standard data entry process, possessory interest updates also avoid the checks and balances design built into the assessor's computer system.

We recommend the assessor revise his procedures for posting processing possessory interest value changes to his computer system.

PERS Property

On September 30, 1992, the Legislature amended Government Code section 7510 to eliminate the "in lieu" fees imposed upon state public retirement systems that own real property. Properties owned by the California Public Employees Retirement System (PERS) and the State Teacher Retirement System (STRS) are subject to the assessment provisions of Government Code section 7510, et seq.

Government Code section 7510(b)(1) provides that the possessory interest upon which property taxes will be based shall equal the greater of (A) the full cash value of the possessory interest or (B) if the lessee has leased less than all of the property, the lessee's allocable share of the full cash value of the property that would have been enrolled if the property had been subject to property tax upon acquisition by the state public retirement system. The full cash value as provided for pursuant to either (A) or (B) of the preceding sentence shall reflect the anticipated term of possession if, on the lien date described in section 2192, that term is expected to terminate prior to the end of the next succeeding fiscal year. The lessee's allocable share shall, subject to the preceding sentence, be the lessee's square footage divided by the total leasable square footage of the property.

One appraiser is responsible for the assessment of the fourteen PERS/STRS properties located within Los Angeles County. We reviewed three PERS/STRS properties and found that all were valued in accordance with Government Code section 7510(b)(1).

Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with a local government restricting the use of that property in exchange for favorable property tax assessment. Government Code section 50280.1 requires that in order for a property to be eligible for such a contract, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Sections 439 through 439.4 promote the preservation, renovation, and maintenance of historical properties throughout California by providing a property tax incentive (via a special valuation formula) for owners of these properties. At the January 1, 2000 lien date, 298 properties in Los Angeles County were receiving the valuation treatment specified in sections 439 through 439.4.

Our review of the assessor's historical property assessment program revealed three areas for improvement.

RECOMMENDATION 22: Consider the current market value when valuing enforceably restricted historical properties pursuant to section 439.2.

Section 439.2 provides a specific valuation procedure for the annual assessment of historical property. Briefly, historical properties must be assessed at the lowest of (1) current market value, (2) factored base year value, or (3) the restricted value prescribed by section 439.2. The assessor's procedures for valuing historical properties do not direct the appraiser to calculate or consider the current market value as specified in section 439.2(d). None of the regions we surveyed considered the current fair market value for historical properties.

We recommend the assessor consider current market values when enrolling enforceably restricted historical properties.

RECOMMENDATION 23: Correctly calculate the factored base year values for historical properties.

We found that the assessor does not correctly calculate the factored base year value for enforceably restricted historical properties. In every sample we reviewed, the initial value of the restricted property, whether it was the factored base year value or the restricted value, became the factored base year value in subsequent years and was multiplied by the consumer price index factor. The correct procedure uses the current market value as of the last change in ownership, or new construction, or the 1975 lien date value multiplied by the consumer price index factor as if the property were free of any contractual restriction.

We recommend the assessor correctly calculate factored base year values for historical properties.

RECOMMENDATION 24: Implement consistent procedures among regional offices for the review of enforceably restricted historical property assessments.

The assessor's procedures call for an annual review of historical property assessments pursuant to section 439.2. This review should confirm the restricted historical property's assessed values and ensure that the lowest of the three value approaches prescribed by section 439.2 is enrolled as the assessed value. However, we found many inconsistencies in the review process among the regional offices. Some regional offices either did not perform the annual review or performed that review in an untimely manner. Some assessed values appeared to have been rolled over to the next year without consideration of the current year assessment formula prescribed by section 439.2.

We recommend the assessor implement consistent procedures throughout his regional offices for the annual review and assessment of enforceably restricted historical property.

Leasehold Improvements

Leasehold improvements, also called tenant improvements, are structure or fixture improvements made to rented or leased premises, installed by and paid for by either the tenant or the landlord. Leasehold improvements can also be the original installation of finished space in a retail, office, or industrial development project. Leasehold improvements are often subject to periodic changes by tenants remodeling to meet competitive demands of the marketplace or as new tenants move into spaces with leasehold improvements abandoned by the former tenant.

Leasehold improvements could be (1) structure improvements that require assessment; (2) structure improvements that are considered normal maintenance or remodeling and do not qualify as new construction; or (3) fixtures which should be classified, valued, and assessed as such.

A portion of the *Business Property Statement* (BPS), Schedule B, is designed for the reporting of costs expended by tenants for improvements (structure or fixture) to rented premises (land and/or buildings). Frequently, it is difficult to determine from the BPS how to classify a reported structure improvement or whether the expenditure adds assessable value to a property.

In our prior survey, we recommended that the assessor implement a positive response system to ensure coordination between the business property and real property divisions. Although our current review found no evidence that the assessor coordinates or relays information between those divisions, we did find that the assessor has detailed procedures that allocate the assessment responsibilities for leasehold improvements. While those procedures do not directly address our prior recommendation, they do prevent the potential problems identified in our prior survey report. Consequently, our prior recommendation no longer applies.

Water Company Property

Water company properties assessed on local assessment rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water company associations.

The assessor's natural resources section is responsible for the valuation of all water company property located within the county. The assessor utilizes various resources for discovering water company property such as the Los Angeles County Small Public Water Systems listing, the California Department of Health Services Drinking Water Program, and the CPUC. To assist the valuation process, the assessor requests that mutual water companies provide copies of their articles of incorporation and bylaws.

RECOMMENDATION 25: Value property that is owned by mutual water companies at a zero or minimal value when those companies' shares are appurtenant to the land they serve.

A mutual water company is a private association created for the purpose of providing water at cost, to be used primarily by its stockholders or members. Corporations organized for mutual purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than the stockholders and members.

We were able to identify 200 water companies from county records. Approximately 50 are mutual water companies, 25 are privately owned water companies, and the remaining 125 are public utility companies.

The assessor values mutual water company property in the same manner as other types of water companies. That is, the value is based on a historical cost approach using information obtained from a property statement supplied by the property owner.

In some cases, mutual water company shares are appurtenant to the land. In those cases, we believe that the value of the water company is typically reflected in the value of the land that it serves and to which the shares attach. This opinion is based on the premise that purchasers take into account the matter of water availability, i.e., share ownership, when buying such property. As a result, the assessor must recognize that the value of the mutual water company is included in the value of the land which it serves and to which the shares attach. If the assessor enrolls a separate assessment for the mutual water company property, while appraising the land served by such companies at the value indicated by sale prices, double assessments will result.

When the mutual water company's shares are not appurtenant to the land and can be purchased separately, or the company serves customers outside its service area, the mutual water company's land, improvements, and delivery systems, or a portion of each, may be separately assessed.

We recommend the assessor value property that is owned by mutual water companies at a zero or minimal value when those companies' shares are appurtenant to the land they serve.

Pipeline Rights-of-Way

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

Ten intercounty pipeline owners have rights-of-way in the County of Los Angeles. The assessor has assigned an appraiser specialist the duty of assessing and tracking these pipelines. In order to maintain current information on these rights-of-way, the assessor mails property statements to these owners on an annual basis. The appraiser specialist indicated that a cooperative and helpful response is received from those owners. There are slightly more than 1,000 miles of intercounty pipeline right-of-way within Los Angeles County.

When valuing the pipeline rights-of-way, a density classification is assigned to sections of right-of-way as specified in section 401.10. The assessor applies all three density classifications: low value density at \$9,000 per mile, medium value density at \$12,000 per mile, and a high value density at \$20,000 per mile. We found that the assessor values all intercounty pipeline rights-of-way within Los Angeles County in accordance with sections 401.8 through 401.12.

Mineral Property

Mineral properties in Los Angeles County fall into two categories: sand and gravel quarries and petroleum properties. The assessor's natural resources section appraises both of these types of properties. The staff of this section consists of real property appraisers as well as petroleum and chemical engineers. This group also appraises many of the cogeneration facilities associated with petroleum properties.

Los Angeles County is the state's second largest oil-producing county, producing approximately 6 percent of California's total petroleum production. The county also produces a significant amount of sand and gravel to support the local construction industry.

Aggregate Production Properties

RECOMMENDATION 26: Provide for a return of working capital at the end of a project when appraising mining properties.

Rule 8(e) provides that when income from operating a property is used to value a property, sufficient income shall be excluded to provide for a return on working capital. By treating the working capital as an investment in the cash flow and providing for the return of working capital at the end of a project, the return on that capital is excluded from the valuation analysis. Assessors' Handbook Section 560, *Assessment of Mining Properties*, addresses this issue on page 6-9.

We found that the assessor determines the total property value and then deducts the amount of the working capital from that total property value. That procedure fails to address the recapture of the working capital at the end of a project's life. This recapture should be treated as income flowing to the property.

We believe the assessor's procedure has undervalued the aggregate mineral properties by \$3.7 million. This estimate was calculated by subtracting the present worth of the working capital for those projects from the working capital deductions used by the assessor.

We recommend the assessor provide for a return of working capital at the end of a project's life when assessing mineral properties.

RECOMMENDATION 27: Enroll the lower of the factored base year values or current market values when assessing mineral property.

In mineral property valuations, the assessor determines the total current market value by use of the income approach and then determines the taxable value for each component by comparing the components' factored base year values with the current market values.

This practice is contrary to rule 469(e)(1)(C). The assessor should recognize declines in mineral property values when the market value of each appraisal unit is less than its factored base year value. The appraisal unit includes land, improvements including fixtures, and reserves.

Failure to measure the decline in value of a mineral property as an appraisal unit could result in part of the value being enrolled as a factored base year value and part enrolled at the current market value. The nature of mineral properties is that the fixtures and minerals are so closely related that they should be evaluated as a unit for declines in value.

We recommend that mineral property assessments be enrolled at the lower of the factored base year value or the current market value.

RECOMMENDATION 28: Use current market values of land to determine the residual current market values of the mineral rights.

The assessor subtracts the factored base year value of land from the current market value of the total property when determining the value of the mineral rights. This is an improper application of the residual method.

To properly determine the current market value of the mineral rights, the assessor should subtract the current market values of land and improvements from the total property value, pursuant to rule 469(e)(2)(A)(2). Once the current market value of the mineral rights has been determined, then the current market value of any added reserves can be determined and added to the factored base year value of the mineral rights.

The most likely result of the assessor's practice is that the factored base year value of the land will be lower than the current market value, leading to an overestimate of the current market value of the mineral rights. Using the current market value of the land will result in the correct allocation of value to the mineral rights.

We recommend the current market value of the land be used to determine the residual current market value of the mineral rights.

Petroleum Properties

Before the recent increase in petroleum prices, the assessors and industry representatives attempted to develop a mutually acceptable pricing formula for crude oil. The result was a *Memorandum of Understanding* (MOU) that established criteria and weighting factors for the use of lien date price, future contract prices, and past history, in forecasting oil prices for appraisals. This review represents the first opportunity for the BOE to publicly comment on the MOU between assessors and the oil industry.

RECOMMENDATION 29: Value petroleum properties at fair market value in accordance with rules 8 and 468.

While the assessors should be commended for trying to establish a structured way to estimate future oil prices, the use of the MOU is inconsistent with the requirements of rules 8 and 468.

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

The use of the MOU subjects the current market value analysis to artificial constraints that are not reflective of the market for two reasons: (1) no consideration is accorded to futures contracts for

year 2 and following, and (2) pre-tax cash flows and a pre-tax discount rate required by rule 8 are not realized.

The MOU uses three components to determine the first appraisal year's petroleum price and then employs the average price for the previous five years for all subsequent years. The components for the first year price are the lien date price, the 12-month average of futures prices, and the average price for the last five years. No consideration is given to futures contracts for year two and beyond. The MOU formula places too much emphasis on past history, and not enough on future expectations as required by rule 8(c) and rule 468(b).

The use of the MOU formula also negates the efforts of industry and the assessors to analyze and use discount rate information from recent sales. The rates derived from the sales data provided to the assessor and the industry consultant are based on the perceived risks of fluctuating commodity prices. However, when applying the income approach to value, the method of defining the anticipated cash flow affects the discount rate that should be used to value the property. For example, rule 8 requires that pre-tax cash flows be used, therefore, a pre-tax discount rate must be applied to the cash flow to determine value. The MOU creates an artificial price forecast that has little relation to current market expectations. Therefore, market-derived discount rates should not be applied to this artificial forecast.

Due to the complex nature of mineral appraisals, it is not possible to quantify the value differences attributable to the use of the MOU. For those properties enrolled at current market value, the use of the MOU underestimates the market value, based on the significantly higher prices on the 2000 lien date.

We recommend the assessor value petroleum properties in accordance with rules 8 and 468.

Manufactured Homes and Manufactured Home Parks

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. Sections 18007 and 18008 of the Health and Safety Code define "manufactured home." Sections 5800 through 5842 prescribe the valuation and assessment of manufactured homes.

The assessor's manufactured homes and commercial airlines section values manufactured homes located either in a manufactured home park or on leased land. Real property appraisers in the regional offices assess manufactured homes that are on permanent foundations in manufactured home parks or on private lots.

Sources of discovery for manufactured homes include: (1) information from the State Department of Housing and Community Development, (2) dealer reports of sale, (3) tax collector tax clearance certificates, (4) notices of voluntary conversion of licensed manufactured homes to the local property tax (LPT) roll, and (5) building permits.

Once this information is received, an assessment clerk enters the appropriate data into the computer system and attempts to determine whether the manufactured home is already on the roll. If already enrolled, the clerk will give the data and appraisal record to an appraiser. If there is no match, the clerk will give the data to an appraiser for a field check, inventory, and value.

Valuation

When a field check is required, the appraiser will create an appraisal record and inventory the manufactured home and all pertinent accessories (porch, carport, shed, etc.). In an effort to exclude the site value influence from manufactured home assessments, the assessor uses the *Kelley Blue Book Manufactured Housing Used Value Guide (Blue Book)*.

In our previous survey, we recommended that the assessor develop a computer program to annually compare the current market value and the factored base year value of manufactured homes. The assessor has implemented this recommendation by creating a computer program to compare values from the tables in the *Blue Book* to the factored base year values.

For the 2000 lien date, there were 18,721 manufactured homes subject to local property tax on the assessment roll. The assessor processed 4,200 changes in ownership and inventoried 980 new manufactured homes over that period. Los Angeles County has 667 manufactured home parks, composed of over 53,000 leased spaces. In addition, the assessor has identified eight resident-owned parks with a total of 675 spaces. The assessor's real property section assessed 1,200 manufactured homes that were on permanent foundations (i.e. located in resident-owned parks or on private lots).

Classification

RECOMMENDATION 30: Classify manufactured homes on permanent foundations as real property as provided by section 5801.

During our review of manufactured home parks, we found 137 manufactured homes in one park that had a *Notice of Manufactured Home Installation on a Foundation System* issued by the California Department of Housing and Community Development (HCD) in the appraisal records. Section 5801 provides that manufactured homes shall be classified as personal property, except those affixed on a permanent foundation system pursuant to section 18551 of the Health and Safety Code. These manufactured homes had been incorrectly classified as personal property.

We recommend the assessor classify manufactured homes on approved permanent foundations as real property.

Resident-Owned Parks

RECOMMENDATION 31: Treat share transfers in manufactured home park cooperatives as reassessable changes in ownership.

In our review of nine resident-owned manufactured home parks, we encountered one park that became resident-owned during 1986. Residents own the park as a co-op, with each resident holding one share. Section 61(i) defines the transfer of stock of a cooperative housing corporation as a reassessable change in ownership that must be valued and have a base year assigned. When shares transfer ownership, they should be processed as reassessable changes in ownership.

We recommend that the assessor treat share transfers of a manufactured home park co-op as reassessable changes in ownership.

RECOMMENDATION 32: Value residents' interests in manufactured home parks using the residual approach described in LTA No. 99/87.

We found that the assessor equalized or averaged residents' interests or shares in resident-owned manufactured home parks without considering the individual reported sales prices. LTA No. 99/87, question three, explains that the residents' ownership shares of those parks should be derived by subtracting the market value of the manufactured home from reported total price paid for the manufactured home and the share or interest in the park. This residual value represents the market value of each share. Enrolling equalized or average values of those shares or interests overvalues some shares and undervalues others.

We recommend the assessor value interests in resident-owned manufactured home parks using the residual approach described in LTA No. 99/87.

Supplemental Assessments

RECOMMENDATION 33: Issue supplemental assessments for each change in ownership of resident-owned manufactured home parks.

We found that the assessor accumulates all of the reassessments resulting from changes in ownership of resident-owned manufactured home park interests and creates only one supplemental assessment on June 29 each year.

Section 75.11 provides that the assessor should enroll separate supplemental assessments for each change in ownership event using the actual date of transfer. The assessor's *Real Property Handbook* (Memo #5290-1-1) describes the proper methodology for supplemental assessments. Multiple change in ownership events on the same property require separate assessments for each occurrence. In addition, LTA No. 99/87, question nine, illustrates the proper method of calculating those supplemental assessments. However, such assessments should be issued

prospectively only. Recent legislation precludes the assessor from issuing supplemental or escape assessments for such changes in ownership occurring between January 1, 1989 and January 1, 2002, if the assessor failed to levy any assessments prior to January 1, 2000.

We recommend the assessor enroll separate supplemental assessments for each change in ownership of an interest in a resident-owned manufactured home park.

RECOMMENDATION 34: Issue supplemental assessments for all reassessable manufactured home events.

We found that the assessor does not issue supplemental assessments for any reassessable event relating to manufactured homes when the change in value is less than \$5,000.

Section 75.55 provides that the board of supervisors may adopt an ordinance to allow cancellation of any supplemental assessment or tax bill in which the amount of taxes to be billed is less than the cost of administration. In no event shall any supplemental assessment or tax bill be canceled if the amount of taxes on the bill exceed \$20, or \$50 in the case of eligible manufactured home accessories. Section 75.55(d) defines eligible manufactured home accessories and provides that they must have a base year value or full value of \$5,000 or less.

We found no evidence of such an ordinance having been adopted by the board of supervisors. Therefore, we recommend the assessor issue supplemental assessments for all reassessable manufactured home events.

ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY

Business and personal property accounted for \$58.5 billion in assessed value as of the 2000 lien date. Approximately half of the \$58.5 billion is assessed on the secured roll with the remainder appearing on the unsecured roll. For the 2000 lien date, the assessor enrolled a total of 308,293 business and personal property assessments. The assessor's personal property division has a staff of 201 employees and is divided into two sections: business and audit.

Audit Program

Business property audits are an important function of the assessor's business property assessment program. Audits ensure that taxable property has been reported accurately by the taxpayer and assessed correctly by the assessor. Audits allow for the timely investigation and resolution of reporting and appraisal problems. Property tax audits also provide a means of collecting data relevant to determination of taxability, situs, and value of business property. Audit findings may result in corrections to the original assessments to reflect more accurate values.

Mandatory Audits

Section 469 requires the assessor to audit the accounting records of assessee claiming, owning, possessing, or controlling tangible business personal property and trade fixtures with a full value of \$400,000 or more. Rule 192 clarifies the statute by requiring the value threshold to be reached in each of four consecutive years.

The assessor has more than 12,000 accounts subject to the mandatory audit requirement. Each year the assessor generates a computer listing of accounts attaining values of \$400,000 or more. That list forms the basis for the mandatory audit workload. To remain current, the assessor must audit approximately 3,400 accounts each year. The business property staff completes virtually all of the mandatory audits on a timely basis. The few that are carried over into the next audit year are due to scheduling conflicts and/or waiting for additional information. A waiver of the statute of limitations is obtained if an audit will not be finalized by the end of the appropriate roll year.

During our fieldwork we reviewed numerous audits. In general, the narrative clearly described any differences discovered, and there was a high degree of consistency among those audits. This is attributable to the use of a standardized format and working papers. Most mandatory audits contained proper documentation, audit checklists, and clear, concise narrative reports.

We found that the assessor has an effective mandatory audit program.

Nonmandatory Audits

Although there is no legal requirement to audit all taxpayers, no auditing program is complete unless it includes a representative sampling of accounts of all sizes. An audit, or the possibility of an audit, promotes accurate reporting by taxpayers. Understanding the importance of auditing these nonmandatory accounts, the assessor annually performs more than 1,800 nonmandatory audits. This is a requirement of the PTAP contract with the State Department of Finance.

Audit Procedures

In our previous survey, we made three recommendations concerning the audit of defense aerospace contractors who may hold possessory interests in fixtures owned by the federal government. We are not repeating those recommendations as written. The size of the defense aerospace industry has decreased significantly in Los Angeles County since our last survey. The likelihood of this problem recurring has substantially decreased. However, one area of concern identified in our prior survey remains the subject of a recommendation:

RECOMMENDATION 35: Perform physical inspections during audits of large businesses.

During our survey we found a number of large businesses where the assessor did not perform a physical inspection of those business' premises. While omitting such a physical inspection will save time, it degrades the overall quality of the audit product.

Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, discusses the importance of physical inspections in an audit program. An auditor who physically visits the business premises of an assessee can visually inspect property for purposes of audit verification and perform additional audit procedures.

For example, an auditor may see a piece of equipment with an identification number and attempt to trace it back to the underlying property records. Relying entirely on the reconciliation of accounting records makes this type of audit verification impossible. Additionally, sometimes only a thorough physical inspection can help the auditor determine whether an item of business property should be classified as a fixture or personal property.

We recommend that the assessor include physical inspections as a part of his audits of large businesses.

Property Statement Processing

Annual property statements form the backbone of the business and personal property assessment program. Section 441 requires each person owning taxable personal property costing in excess of \$100,000, except manufactured homes, to file a signed business property statement annually with the assessor. Additionally, any person owning personal property, regardless of value, must, upon the request of the assessor, file a business property statement.

One of the primary duties of the business section is property statement processing. During the period between April and July, appraisers assigned to the audit section also assist in the processing of property statements. Each year, appraisers review the property statements for each account and make changes to the account based on the reported information. Support staff enter the reported costs into the assessor's computer system and produce a valuation sheet for an appraiser's review. Appraisers in the assessor's major property division process property statements reporting more than \$10,000,000.

We found the assessor has an effective program for processing property statements.

Discovery

Discovery of new businesses and the relocation/change in ownership of existing businesses is an ongoing process in every county. In Los Angeles County that process is even more difficult. Performing a field canvass of every business location within the county has proven to be the best solution for the nearly constant turnover of business ownership. Although other assessors have attempted to eliminate such a complete and intense survey, the number of undeliverable tax bills returned by the postal service has been so large it became apparent that discontinuing the annual canvass would not be cost effective. Correcting and canceling such tax bills, as well as discovering and assessing the correct owner, would require more personnel than is necessary to conduct a complete field canvass.

Appraisers visit each business location in the county to determine correct ownership, size, location, and situs address. All businesses with personal property valued at less than \$65,000 are valued on site by the appraiser performing the canvass. The assessor mails a property statement to any business with personal property valued at \$65,000 or more. When a taxpayer has an assessed value of \$10,000,000 or more, appraisers in the major properties division review the current property statement in conjunction with the prior year's property statement and the results of the most recent audit.

We found the assessor has a very effective business property discovery program.

Business Equipment Valuation

Taxable values of business equipment are calculated using historical costs and valuation factors. The valuation factors are derived from price index and percent good factors that measure depreciation. Accurate assessments of business equipment depend on the proper choice and application of a price index and percent good factor. The BOE annually publishes equipment price index and percent good factors in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

Index factors recognize the annual changes in cost associated with price changes and technological progress. The index factor is intended to create a surrogate contemporary cost for

an item purchased in the past. This surrogate contemporary cost reflects the hypothetical price of an item in today's market with utility equivalent to the item being assessed.

Percent good factors are intended to reflect the average loss in value suffered by business property over its expected economic life. The percent good factors in AH 581 are based on the premise that business property loses value as it ages in a systematic manner that can be measured.

RECOMMENDATION 36: Discontinue using arbitrary minimum percent good factors.

We found that the assessor uses minimum percent good factors in the valuation of business personal property, without any supporting study. This practice deviates from the tables contained in AH 581.

When valuing property, it is necessary for appraisers to analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the percent good factor to reflect the deviation. However, establishing minimum percent good factors without documented support is not an acceptable appraisal practice and is likely to overvalue older equipment.

We recommend the assessor discontinue the use of arbitrary minimum percent good factors.

Biopharmaceutical Equipment Valuation Factors

RECOMMENDATION 37: Use BOE-recommended valuation factors for biopharmaceutical equipment.

We found the assessor uses valuation factors for biopharmaceutical equipment and fixtures that result in higher assessed values than the BOE-recommended factors. To promote the uniform and fair assessment of the specialized property used in this industry, BOE staff conducted research regarding the value of biopharmaceutical equipment and fixtures. As a result of that research, the BOE issued special valuation factors for this type of property in LTA No. 99/54. We believe the assessor's use of different factors results in the overassessment of this type of property.

We recommend the assessor use BOE-recommended valuation factors for biopharmaceutical equipment contained in LTA No. 99/54.

Computer Valuation

To promote uniformity in appraisal practices and assessed values, and to comply with the requirements of section 401.5, the BOE issues valuation factors for the valuation of computer equipment. The BOE provided valuation factors for use in valuing computer equipment for the 2000-01 assessment year in Table 6 of AH 581.

We reviewed the assessor's computer valuation program and found that the assessor uses the computer valuation factors in AH 581 without modification.

Leased Equipment

The proper and complete assessment of leased equipment is a complex and difficult task. Leased equipment is often mobile, lease terms vary from contract to contract, the reporting of the property tends to be sporadic, and some leases are actually purchase agreements. Numerous other variables also make the assessment of leased equipment challenging.

We found that the assessor has an effective program for the tracking, valuation, and assessment of leased equipment.

Aircraft

Prior to the 1997 lien date, the BOE had published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data* (AH 587). The BOE no longer publishes this handbook section. On January 8, 1997, the BOE approved the *Aircraft Bluebook-Price Digest* as the primary guide for valuing general aircraft. The BOE also directed assessors to use *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Aircraft Bluebook-Price Digest*.

As stated in LTA No. 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

For the 2000 lien date, the assessor enrolled 3,402 general aircraft with a total assessed value of \$2.149 billion.

Section 5365 provides that, at the request of the assessor, aircraft owners shall file a statement setting forth the make, model, and year of manufacture of the aircraft. The assessor sends an *Aircraft Ownership Verification* form to all general aircraft owners in Los Angeles County. In addition to the information required by section 5365, the assessor requests other pertinent data.

The first sentence of the form's paragraph correctly refers to section 5362 as the legal basis for assessing general aircraft at market value. The third sentence of the same paragraph makes reference to sections 5365 and 441(d) as the basis for requesting that the form be completed.

RECOMMENDATION 38: Revise the *Aircraft Ownership Verification* form to comply with sections 5365 and 5367.

The assessor's *Aircraft Ownership Verification* form warns aircraft owners that a 10 percent penalty shall be applied if they do not return the form by April 1. However, we found that the form does not provide the legal basis for applying that penalty.

Although section 5367 gives the assessor the authority to add a 10 percent penalty for the late filing or the failure to file an *Aircraft Ownership Verification*, the form does not limit that penalty to the information specified in section 5365. All other requested information is optional and the assessor does not have the authority to apply a penalty for the failure to provide such information.

We recommend the assessor revise the *Aircraft Ownership Verification* form to comply with sections 5365 and 5367.

Vessels

For the 2000 lien date, the assessor enrolled 62,062 vessels with a total assessed value of more than \$955 million.

When assessing vessels, the marine section staff categorizes all vessels into two major groups (new and used) and, within each group, six subgroups (cruiser/powerboat, sailboat, inboard, onboard, inboard/outboard, and personal watercraft). They next calculate trends in market value for these sub-groups by comparing a sample of each subgroup in published valuation guides for the current year and previous year. The final step is application of this percentage change in value to all vessels within each subgroup. This system appears to result in reasonable and accurate valuations for boats.

We found the assessor has an effective vessel valuation program.

Business-Owned Aircraft and Vessels

In our prior survey report, we recommended the assessor audit or inspect all business-owned aircraft and marine vessels assessed at \$300,000 or more. The assessor has not implemented this recommendation.

RECOMMENDATION 39: Audit or inspect all business-owned aircraft and vessels that meet the mandatory audit value threshold.

An aircraft or vessel owned by a business is subject to the mandatory audit provisions of section 469. Section 469 provides, in part, "In any case in which locally assessable trade fixtures and business tangible personal property owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade, or business has a full value of four hundred thousand dollars (\$400,000) or more, the assessor shall audit the books and records of that profession, trade, or business at least once each four years."

We recommend that an audit or inspection be performed on all business-related aircraft and vessels that are assessed at \$400,000 or more.

Annual Racehorse In-Lieu Tax

All property, unless specifically exempted, is taxable under mandate of article XIII of the California Constitution, including horses. However, several categories of horses have been exempted from taxation pursuant to various provisions of the Revenue and Taxation Code. Pets are exempted under section 224. Horses in business inventory are exempted under sections 129 and 219. Rule 133 extends the inventory exemption to animals used for the management of livestock. Thus, having horses subject to property taxation does not impact ranchers who use their horses to work with cattle, nor to people who have pet horses solely for personal use and enjoyment.

Racehorses and show horses are the two main categories of horses used in a trade or business that are subject to property taxation. Each category includes the associated breeding stock. Racehorses are taxed based upon their racing categories rather than their value. Show horses (and other horses used in a trade or business that are not exempt) are assessed as personal property in the same way as any other item of business property.

Since 1973, racehorses domiciled in California have been subject to a special annual tax in lieu of the ad valorem property tax. The provisions of this tax are contained in sections 5701-5790. Specific procedures are prescribed by rules 1045, 1046 and 1047. Rule 1045(a) lists the responsibilities of the assessor as it pertains to the administration of this tax.

Rule 1046(b) provides that in order to qualify as a racehorse, a horse must be registered or be eligible to be registered with one of the five agencies currently recognized by the California Horse Racing Board (CHRB). Since 1987, the assessor has obtained a computer tape listing from the CHRB identifying racehorse owners and trainers in the county who may be required to file either Form 571-J (*Annual Racehorse Tax Return*) or Form 571-J1 (*Annual Report of Boarded Racehorses*).

In our prior survey, we recommended that the assessor require racehorse owners to file annual returns and include mandatory interest and penalties to delinquent racehorse tax returns. However, those forms are actually returned to the tax collector and it is the tax collector that has the authority to assess failure to file penalties pursuant to section 5767. Consequently, these recommendations are not repeated. We found that the assessor effectively administers the annual racehorse in-lieu tax.

APPENDICES

A. County Property Tax Division Survey Group

Los Angeles County Assessment Practices Survey

Chief, County Property Tax Division

Charles Knudsen

Assessment Practices Survey Section Manager

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor

Claudia Tendal

Supervising Property Appraiser

Survey Team Leader

John Corum

Senior Specialist Property Auditor Appraiser

Survey Team

James McCarthy
Engineer

Senior Petroleum and Mining Appraisal

James Lovett

Senior Specialist Property Appraiser

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Yvette Barrios

Associate Property Appraiser

David Dodson

Associate Property Appraiser

Matt Hanna

Associate Property Appraiser

Michael Hinojos

Associate Property Appraiser

Tina Krause

Associate Property Appraiser

Thomas McClaskey

Associate Property Appraiser

Laura Ruiz

Associate Property Appraiser

Mark Winters

Associate Property Appraiser

Alan Dannen

Associate Property Auditor Appraiser

Manual Garcia

Associate Property Auditor Appraiser

Beverly Lawson

Associate Property Auditor Appraiser

Mike Shannon

Associate Property Auditor Appraiser

Delia Garcia

Tax Technician II

Richard Kozman

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁶ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁷
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁶ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁷ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

- b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
 - c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

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

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

Revenue and Taxation Code**75.60. Allocation for administration.**

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS. If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) ADDITIONAL SURVEYS. This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

Section 15645 also allows the BOE to include in the report comments regarding the assessor's response. Our comments follow the assessor's response.



**OFFICE OF THE ASSESSOR
COUNTY OF LOS ANGELES**

320 KENNETH HAHN HALL OF ADMINISTRATION
LOS ANGELES, CALIFORNIA 90012-2770
213.974.3101 / FAX 213.617.1493
<http://assessor.co.la.ca.us>

RICK AUERBACH
ASSESSOR

June 20, 2002

RECEIVED

JUN 24 2002

Mr. Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

County Property Tax Division
State Board of Equalization

Dear Mr. Knudsen:

ASSESSMENT PRACTICES SURVEY

Attached is my response to the Assessment Practices Survey and sample of the 2000 - 2001 assessment roll. Section 15645 of the Government Code requires a written report to the assessor, and allows a response.

The periodic survey of assessors' assessment practices is an invaluable, useful, and constructive tool. I very much appreciate the effort, professionalism, and courtesy of Board of Equalization staff while performing the sampling program, the practices survey, and the preparation of the report.

Although some of the recommendations made have been and will continue to be the subject of debate, we welcome an objective review of the operations of this office. We agree with many of your recommendations and will work to make the necessary changes. Where we have differences of opinion regarding your recommendations, these are also noted.

I also wish to commend my staff whose professionalism and dedication was demonstrated by the sample indicating an average assessment ratio of over 99%.

Sincerely,

A handwritten signature in black ink that reads "Rick Auerbach".

RICK AUERBACH

RA:tt

Attachment

BOE
ASSESSMENT PRACTICES SURVEY
- 2000 -
RESPONSES

LOS ANGELES COUNTY

June 20, 2002

RECOMMENDATION 1: Send the *Religious Exemption Claim* to churches when they first file exemption claims for their schools.

Response to Recommendation 1:

We agree and will comply with the recommendation.

RECOMMENDATION 2: Apply the mandatory 25 percent penalty to late-filed terminations of homeowners' exemptions, pursuant to Section 531.6.

Response to Recommendation 2:

We agree and intend to incorporate this into our new Real Property Assessment System. While that is being developed, we will investigate ways to process this penalty assessment manually.

RECOMMENDATION 3: Grant all qualifying disaster relief claims for base year value transfers pursuant to Section 69.

Response to Recommendation 3:

We agree and will comply with this recommendation.

RECOMMENDATION 4: Continue to request fire reports from all fire departments to aid in the discovery of property eligible for disaster relief.

Response to Recommendation 4:

We agree; however, we cannot compel compliance from all the fire departments. All of the 88 cities within Los Angeles County were contacted. Of these, the Assessor has received responses from all but seven cities. In January 2002, the seven non-responding cities were sent follow-up letters (third request) requesting the fire reports.

RECOMMENDATION 5: Properly allocate value between land and improvements.

Response to Recommendation 5:

We agree with the importance of the issue but disagree that we are performing a less than reasonable job of allocating land and improvement values.

RECOMMENDATION 6: Develop a management report summarizing roll changes to determine the quality of appraisal and audit work.

Response to Recommendation 6:

We agree that a report of this type is a useful management tool. We will evaluate our current reporting procedure in an attempt to create such a report.

RECOMMENDATION 7: Apply the *Change in Ownership Statement* failure to file penalty within the time prescribed by Section 482.

Response to Recommendation 7:

We agree and will comply with this recommendation.

RECOMMENDATION 8: Revise procedures for processing long-term leases of manufactured home sites.

Response to Recommendation 8:

We agree and will comply with this recommendation.

RECOMMENDATION 9: Use only certified appraisers to value new construction.

Response to Recommendation 9:

We agree and will comply with this recommendation. This recommendation is in reference to the Assessor's New Construction Statement Processing Unit that was disbanded on May 4, 2001.

RECOMMENDATION 10: Obtain all building permits from permit-issuing agencies.

Response to Recommendation 10:

We agree and will work with all the permit-issuing agencies to ensure their compliance.

RECOMMENDATION 11: Revise procedures for handling discarded building permits.

Response to Recommendation 11:

We disagree. Currently, it is not cost-effective for the Assessor to index and log into the system all discarded permits. Our current practice of only creating appraisal documents for reappraisable new construction is a more efficient use of manpower and resources. Discarded permits continue to be reviewed by experienced staff members who adhere to written guidelines. These guidelines are reviewed annually. The practice will be reviewed as we redesign our processes and system. If it becomes cost-effective to do so, we will implement this recommendation.

RECOMMENDATION 12: Use accurate completion dates when assessing new construction.

Response to Recommendation 12:

We agree that accurate completion dates must be used when assessing new construction; however, this recommendation suggests that the date of completion supplied by the permit-issuing agencies is the most accurate date. We do not agree. The date used by the permit-issuing agency is the date on which the inspector made his final inspection. Often final inspections are not requested until well after the new construction is complete. In these instances, it would not be proper to use the final inspection date as the new construction completion date.

RECOMMENDATION 13: Revise assessment procedures for substantially remodeled or renovated residences and newly constructed additions.

Response to Recommendation 13:

We agree to revise our existing procedures to incorporate additional instructions and examples.

RECOMMENDATION 14: Update the *Claim for Seismic Safety Construction Exclusion from Assessment* application.

Response to Recommendation 14:

We agree. We used the existing Board of Equalization (BOE)-prescribed form during this period. The revised form incorporating new legislation was not available from the BOE until October 2001. We have revised our form as of January 2002.

RECOMMENDATION 15: Notify the county auditor-controller's office of pending supplemental assessments as required by Section 75.30.

Response to Recommendation 15:

We agree we do not meet the exact requirements of Section 75.30 of the Revenue and Taxation Code, but we believe we satisfy the intent of this section.

Currently, the first part of the recommendation is impossible because there is no actual "roll being prepared" on which to place the notice. We do not create a sequential roll for the following year as assessments are completed. However, we do create a supplemental segment on our Property Data Base (PDB). A segment is created when a transfer transaction is posted or when a completed new construction value is posted to the PDB.

Section 75.30 provides a means by which potential buyers of real property and title companies can discover the existence of any pending property taxes. We believe that the creation of these segments on our PDB provides a sufficient record of pending supplemental assessments (not the taxes due), so that anyone wishing to know this information would have access to it.

RECOMMENDATION 16: Follow Rule 461(e) when recognizing declines in land and improvement values.

Response to Recommendation 16:

We disagree. The Assessor does not believe that 461(e) was intended to apply to a property where land, improvements, fixtures, and personal property are typically sold in the marketplace as an economic unit. We believe that the aggregate Proposition 13 trended base year value should be compared with the total fair market value in determining which value should be enrolled.

In support of this position, the Assessor has focused on Section 51 of the Revenue and Taxation Code, which states:

(a) For purposes of ... the California Constitution, for each lien date after the lien date in which the base year value is determined pursuant to Section 110.1, the taxable value of real property shall ... be the lesser of:

(a)(2) Its full cash value, as defined in Section 110, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a decline in value.

(d) For purposes of this section, "real property" means that appraisal unit that persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately.

We contend that refinery property is commonly bought and sold as a unit, and is normally appraised as a unit. Classifying fixtures as a separate appraisal unit from land and improvements may be reasonable where, for instance, the fixtures are under separate ownership or commonly bought and sold as a separate unit, and their assessment "travels" with the property. In this instance, however, the fixtures and other property are highly integrated. In our opinion, the instruction of Section 51(d), a statute, is more compelling authority than the regulation.

This position is supported by Rule 324(b), which provides:

... Additionally, the board shall determine the full value of the entire appraisal unit whenever that is necessary to the determination of the full value of any portion thereof. ...

... An appraisal unit of property is a collection of assets that functions together, and that persons in the marketplace commonly buy and sell as a single unit or that is normally valued in the marketplace separately from other property, or that is specifically designated as such by law.

For a large integrated facility such as a refinery, allocating the cash flow to individual property components is problematic and artificial. Given the ambiguity between Section 51(d) and Rule 461(e), we believe our interpretation to be most consistent with economic, appraisal, and administrative realities.

RECOMMENDATION 17: Improve documentation of Section 11 appraisal records.

Response to Recommendation 17:

We agree and will comply with this recommendation.

RECOMMENDATION 18: Properly assess taxable possessory interests located on Section 11 lands.

Response to Recommendation 18:

We agree. With the adoption of Rule 29, effective on February 9, 2002, Los Angeles County will implement the specified procedures relative to possessory interests on Section 11 lands.

RECOMMENDATION 19: Review all contracts with the California Pollution Control Financing Authority for possible taxable possessory interests.

Response to Recommendation 19:

We agree and will comply with this recommendation.

RECOMMENDATION 20: Develop adequate controls over possessory interest appraisal records.

Response to Recommendation 20:

We agree and will comply with this recommendation.

RECOMMENDATION 21: Revise procedures for processing possessory interest value changes.

Response to Recommendation 21:

We agree. The Possessory Interest Section is enhancing its database to electronically prepare assessments and track enrollment progress. When implemented, this system will eliminate much of the physical oversight currently necessary, and result in increased accuracy and efficiencies in the assessment process.

RECOMMENDATION 22: Consider the current market value when valuing enforceably restricted historical properties pursuant to Section 439.2.

Response to Recommendation 22:

We agree and have clarified the procedures for valuing the approximately three hundred enforceably restricted historical properties in our county.

RECOMMENDATION 23: Correctly calculate the factored base year values for historical properties.

Response to Recommendation 23:

We agree and will comply with this recommendation.

RECOMMENDATION 24: Implement consistent procedures among regional offices for the review of enforceably restricted historical property assessments.

Response to Recommendation 24:

We agree and will comply with this recommendation.

RECOMMENDATION 25: Value property that is owned by mutual water companies at a zero or minimal value when those companies' shares are appurtenant to the land they serve.

Response to Recommendation 25:

We disagree with the Board's interpretation that the value of a mutual water company is appropriately reflected in the value of the land that it serves and to which the shares attach. On the contrary, the typical buyer of a property served by a mutual water company pays a separate fee in escrow, independent of the property's purchase price, for his shares in the company. In addition, the by-laws typically make no reference to shareholders owning the assets of the company, rather, they state that the corporation shall have a lien on every share of stock to secure the payment of all levies and rate charges. Los Angeles County has assessed all non-municipally owned water companies as separate entities for many years. We have never received any assertions that any of these are double assessments nor that they are not grounded in statute.

Lastly, the Board staff's recommendation of placing a zero or nominal value on the mutual water company is impractical to administer. Quite often, a water company adds new investments in land, improvements, water rights, water plants, and other assets that are fully assessable. In a situation where the water company serves 500 homes, the Board recommendation will necessitate sending out 500 bills for the new investments, that is, one bill to each home. The Assessor's current procedure will result in one bill being sent to the water company for the very same amount. These numbers would also hold true in situations where the water company were to sell or remove assets. The Board recommendation would necessitate 500 refunds while the Assessor's current procedure would result in one refund.

RECOMMENDATION 26: Provide for a return of working capital at the end of a project when appraising mining properties.

Response to Recommendation 26:

We agree. We currently provide for the *return on* working capital by treating working capital as an investment at the beginning of the cash flow. We will modify our approach to conform to the BOE recommendation by also providing for the *return of* working capital at the end of a mining project's economic life.

RECOMMENDATION 27: Enroll the lower of the factored base year values or current market values when assessing mineral property.

Response to Recommendation 27:

We agree. We will compare the property as a unit (land, improvements, fixtures, and reserves) and enroll the lower of the factored base year value or the current fair market value. We have always enrolled the lower of the two by valuing the total unit and comparing each component. This recommendation by the BOE is contradictory to recommendation 16 where it is recommended to value the fixtures as a separate appraisal unit.

RECOMMENDATION 28: Use current market values of land to determine the residual current market values of the mineral rights.

Response to Recommendation 28:

We agree. As recommended we will value the property as a unit to obtain the current market value for the total property. We will then deduct the current market value of the land and improvements from the total property value to determine the current market value of the mineral rights. This recommendation to value the property as a unit is again contradictory to recommendation 16, which states that fixtures should be valued separately.

RECOMMENDATION 29: Value petroleum properties at fair market value in accordance with Rules 8 and 468.

Response to Recommendation 29:

We disagree that we are not valuing petroleum properties at fair market value. The statewide Memorandum of Understanding, which was established as the result of consultation between industry and all petroleum producing counties, follows Rules 8 and 468.

RECOMMENDATION 30: Classify manufactured homes on permanent foundations as real property as provided by Section 5801.

Response to Recommendation 30:

We agree and will comply with this recommendation.

RECOMMENDATION 31: Treat share transfers in manufactured home park cooperatives as reassessable changes in ownership.

Response to Recommendation 31:

We agree and will comply with this recommendation.

RECOMMENDATION 32: Value residents' interests in manufactured home parks using the residual approach described in LTA No. 99/87.

Response to Recommendation 32:

We agree and will comply with this recommendation.

RECOMMENDATION 33: Issue supplemental assessments for each change in ownership of resident-owned manufactured home parks.

Response to Recommendation 33:

We disagree. Our current procedure is to issue one supplemental assessment annually for each resident-owned manufactured home park. This supplemental is the combined total of all supplementals for that year. Each supplemental is appropriately prorated for the number of months from the date of change in ownership to the end of the fiscal year. The resultant supplemental tax is the same amount as that which the combined individual supplementals would have totaled.

RECOMMENDATION 34: Issue supplemental assessments for all reassessable manufactured home events.

Response to Recommendation 34:

We agree. Our automated manufactured housing system was being developed when the BOE survey was being conducted. This system is now fully operational, permitting the Department to automatically issue supplemental assessments.

RECOMMENDATION 35: Perform physical inspections during audits of large businesses.

Response to Recommendation 35:

We agree and will comply with this recommendation.

RECOMMENDATION 36: Discontinue using arbitrary minimum percent good factors.

Response to Recommendation 36:

We disagree that we use arbitrary minimum percent good factors. The minimum percent good factors included in our trend factor calculations are not mandatory, nor are they arbitrary. Appraisers are required and obligated to adjust the recommended percentages when presented with evidence supporting such a change. The suggested minimums are usually at or below salvage value, as established by Marshall Valuation Service.

RECOMMENDATION 37: Use BOE-recommended valuation factors for biopharmaceutical equipment.

Response to Recommendation 37:

We disagree. The California Assessors' Association (CAA) has promulgated suggested tables for the valuation of biopharmaceutical equipment. These tables are based on research of relevant industry data. By mutual agreement within the CAA, Los Angeles County and other counties that have this industry have adopted these tables for use statewide.

RECOMMENDATION 38: Revise the *Aircraft Ownership Verification* form to comply with Sections 5365 and 5367.

Response to Recommendation 38:

We agree and will comply with this recommendation.

RECOMMENDATION 39: Audit or inspect all business-owned aircraft and vessels that meet the mandatory audit value threshold.

Response to Recommendation 39:

We agree and will comply with this recommendation.

BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Board's staff has elected to comment on some of the assessor's responses.

RECOMMENDATION 16: Follow rule 461(e) when recognizing declines in land and improvement values.

The assessor stated in his response: "In our opinion, the instruction of Section 51(d), a statute, is more compelling authority than the regulation." He also stated: "Given the ambiguity between Section 51(d) and Rule 461(e), we believe our interpretation to be most consistent with economic, appraisal, and administrative realities."

Section 51 provides general principles regarding the appropriate unit of appraisal for measuring declines in value. When clarification as to the application of a statute is necessary, the Board of Equalization is empowered to adopt a regulation to provide the appropriate clarification. Property Tax Rule 461 was adopted by the BOE to, among other things, interpret, clarify, and make certain the proper appraisal unit for measuring declines in value.

Although statutory law takes precedence over a regulation, a regulation is binding on all parties unless a court finds that the regulation is contrary to a statute or other law. If the assessor believes that Property Tax Rule 461 is contrary to section 51 or is otherwise invalid, section 538 provides that the assessor may bring an action in court against the BOE. Until a court finds that a property tax rule is invalid, the assessor is obligated to comply with the rule.

RECOMMENDATION 27: Enroll the lower of the factored base year values or current market values when assessing mineral property.

RECOMMENDATION 28: Use current market values of land to determine the residual current market values of the mineral rights.

The assessor agreed to implement Recommendations 27 and 28 but stated that the recommendations are contradictory to Recommendation 16, which concerns valuation of fixtures as a separate appraisal unit.

Recommendation 16 concerns the assessment of general business properties. Recommendations 27 and 28 concern the assessment of mining properties, which are governed under Property Tax Rule 469. Rule 469 provides for specific procedures to be used for determining declines in value of mining properties. The reason the procedures are spelled out in Rule 469 is because they differ from the procedures to be used for most other property types, which are governed under Rule 461.