

# **RIVERSIDE COUNTY ASSESSMENT PRACTICES SURVEY**

**FEBRUARY 2009**

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## **CALIFORNIA STATE BOARD OF EQUALIZATION**

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STATE BOARD OF EQUALIZATION  
PROPERTY AND SPECIAL TAXES DEPARTMENT  
450 N STREET, SACRAMENTO, CALIFORNIA  
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062  
916 324-5827 • FAX 916 323-5689  
www.boe.ca.gov

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No. 2009/007

February 27, 2009

TO COUNTY ASSESSORS:

RIVERSIDE COUNTY  
ASSESSMENT PRACTICES SURVEY

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

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

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from February 2007 through July 2007. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Ward 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:tl  
Enclosure

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## INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board's findings in its current survey of the Riverside County Assessor-County Clerk-Recorder's Office.<sup>1</sup>

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

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) 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.

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<sup>1</sup> This report covers only the assessment functions of this office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

In addition, pursuant to Revenue and Taxation Code<sup>2</sup> section 75.60, the Board determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Riverside County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Riverside County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2006-07 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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<sup>2</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

## **EXECUTIVE SUMMARY**

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

In our 2003 Riverside County Assessment Practices Survey, we made 43 recommendations to address problems in the assessor's policies and procedures. The assessor implemented 25 of the recommended changes. Four recommendations no longer apply because of a change in Board guidance or because of an action taken by the county board of supervisors. The remaining recommendations that were not implemented are repeated in this report.

In the area of administration, we note several positive aspects:

- The assessor has developed an operations manual to guide staff on assessment policy and procedures.
- The assessor has implemented procedures to avoid potential conflicts of interest regarding employee-owned properties and businesses.
- The assessor's programs for appraiser certification and training, assessment appeals, disaster relief, and exemptions appear to be run effectively.

We found that the assessor can improve his administrative program by referencing the required sections of the Revenue and Taxation Code on the roll when enrolling penalties in conjunction with assessment roll changes.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, supplemental assessments, timeshares, restricted historical properties, and pipeline rights-of-way. The assessor should, however, improve his real property assessment programs by taking the following actions:

- Process legal entity changes in control more timely;
- Revise the section 408.1 transfer list to include all required elements;
- Improve the processing of section 69.5 exclusion claims;
- Improve the California Land Conservation Act (CLCA) program;
- Review taxable possessory interests for declines in value;
- Value structural improvements made by tenants as structure improvements;
- Improve the assessment of water company properties; and

- Improve the assessment of mineral properties.

While the assessor has effective programs for processing business property statements, business equipment valuation, and discovery of leased equipment, several areas of the business property program need improvement, including:

- The assessment of manufactured homes;
- The valuation of historical aircraft;

Despite the problems noted above, we found that most properties are assessed correctly.

The Riverside County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2006-07 assessment roll indicated an average assessment ratio of 99.90 percent, and the sum of the absolute differences from the required assessment level was 0.83 percent. Accordingly, the Board certifies that Riverside County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Reference the controlling statutes when enrolling penalties on the assessment roll. ....17

**RECOMMENDATION 2:** Timely reappraise property owned by legal entities that have undergone a change in control. ....25

**RECOMMENDATION 3:** Revise the transfer list to include all the information required by section 408.1(c).....25

**RECOMMENDATION 4:** Properly apply the inflation factor to section 69.5 transfers.....26

**RECOMMENDATION 5:** Improve the California Land Conservation Act (CLCA) program by: (1) developing appropriate risk rates for CLCA property, and (2) correctly calculating the restricted values for living improvements as required by section 423. ....32

**RECOMMENDATION 6:** Periodically review all taxable possessory interests with stated terms of possession for declines in value. ....35

**RECOMMENDATION 7:** Value structural improvements made by tenants in the same manner as other real property. ....37

**RECOMMENDATION 8:** Improve the water company property assessment program by: (1) collecting and reviewing relevant data for the assessment of water company properties, (2) identifying and assessing properties owned by regulated water companies, and (3) assessing all water company property at the lower of its factored base year value or its full cash value. ....40

**RECOMMENDATION 9:** Revise the mineral assessment procedures by: (1) identifying and treating each leach pad, settling pond, and tailings facility as a separate appraisal unit, and (2) measuring declines in value as required by Rule 469. ....42

**RECOMMENDATION 10:** Improve the assessment of manufactured homes by: (1) valuing resident interests in manufactured home parks by allocating the residual sales price to the land and common structures, and (2) using value guides when assessing manufactured homes in rental parks located on rented or leased land. ....51

**RECOMMENDATION 11:** Apply a reduced exemption to qualifying historical aircraft when an affidavit is not timely submitted.....54

## RESULTS OF 2003 SURVEY

### ***Standards and Quality Control***

We recommended the assessor develop an operations manual to provide guidelines for his staff. The assessor has developed an operations manual that provides sufficient guidelines for his staff.

### ***Disaster Relief***

We recommended the assessor obtain fire reports from all local fire departments in order to discover property eligible for disaster relief. The assessor's ability to obtain fire reports from all fire departments is constrained by a lack of cooperation from the departments. Since this constraint is outside of the assessor's control, we do not repeat the recommendation.

We recommended the assessor grant disaster relief only for timely-filed applications, prorate disaster relief in accordance with section 170(e), and develop written procedures for processing claims. We also recommended the assessor request that the board of supervisors update the county's disaster relief ordinance to reflect recent changes to section 170. The assessor has complied with all of these recommendations.

### ***Assessment Roll Changes***

We recommended the assessor reference controlling statutes from the Revenue and Taxation Code on the roll when enrolling penalties. Our current review found the statutes are still not being referenced; therefore, we repeat the recommendation.

### ***Exemptions***

We recommended, for entities receiving a religious exemption, the assessor retain the approved claim in the entities' file. The assessor has complied with this recommendation.

### ***Racehorse Tax Administration***

We recommended the assessor submit to the tax collector a list of persons to whom racehorse tax returns were mailed. The assessor is now providing the list to the tax collector.

### ***Changes in Ownership***

We recommended the assessor enroll verified sales prices and maintain and grant public access to a two-year transfer list as provided in section 408.1. The assessor has implemented these recommendations.

In addition, we recommended the assessor revise the transfer list to include all the elements required by section 408.1 and timely process transfers due to legal entity changes in control. Currently, we found that, even though the assessor has granted the public access to the transfer

list, the transfer list has not been revised to include all the required elements of section 408.1 and that the assessor continues not to timely reassess transfers due to legal entity changes in control.

### ***New Construction***

We recommended the assessor enroll newly constructed swimming pools at market value. Our current review of newly constructed swimming pools found that the swimming pools are now being assessed at market value.

### ***Declines in Value***

We recommended the assessor revise his *Owners Request for Review of Property Value* form to provide more flexibility. The form has been revised.

### ***California Land Conservation Act (CLCA) Properties***

We recommended the assessor make deductions for capital replacement of irrigation wells, use questionnaires to obtain income data, classify agricultural wind machines as fixtures, and develop appropriate risk rates for CLCA properties. We found the assessor is making the deduction for capital replacement of irrigation wells, using questionnaires to obtain income data, and classifying wind machines as fixtures.

However, the assessor continues to use only one risk rate for all CLCA properties and we are repeating this recommendation.

### ***Taxable Government-Owned Properties***

We recommended the assessor review nontaxable property lists to discover taxable government-owned properties, improve documentation for assessable improvements, and correctly establish base year values for taxable government-owned properties. The assessor has complied with these recommendations.

### ***Taxable Possessory Interests***

We recommended the assessor assess all taxable possessory interests and develop a system for tracking taxable possessory interests and identifying reassessable events. The assessor has complied with these recommendations.

### ***Restricted Historical Properties***

We recommended the assessor correctly calculate the factored base year value and annually review the assessments for restricted historical properties. The assessor has complied with these recommendations.

### ***Water Company Properties***

We recommended the assessor collect and review relevant assessment data, annually reappraise regulated water company property, and develop written procedures for the assessment of these

types of properties. The assessor has developed written procedures for the assessment of water company properties; however, the assessor has not implemented our recommendations on collecting relevant assessment data and reappraising regulated water company property annually. Therefore, we repeat these two recommendations.

### ***Mineral Properties***

We recommended the assessor adequately document mineral property files, adjust the value of mineral properties for changes in reserves, and ensure that the anticipated term of possession used in the valuation of that property matches the economic life of the mineral property. Currently, we found that the assessor has implemented our recommendation.

### ***Audits***

We recommended the assessor enroll all escaped assessments discovered during audits, including low-value assessments, since the Riverside County Board of Supervisors had not, as of the date of our last survey, passed a resolution in accordance with section 531.9 that prohibits the assessor from enrolling low-value escape assessments discovered during audits. Since the issuance of our last survey report, the Riverside County Board of Supervisors has adopted such a resolution. Therefore, this recommendation will not be repeated.

### ***Business Property Statement Processing***

We recommended the assessor review residential income properties to discover assessable personal property. The assessor has implemented this recommendation.

### ***Business Equipment Valuation***

We recommended the assessor use the index and percent good factors from Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), when valuing older equipment. The assessor addressed this concern by adopting the California Assessors' Association factors, which are deemed an acceptable substitute.

### ***Manufactured Homes***

We recommended the assessor classify manufactured homes as personal property, revise procedures emphasizing recognized value guides, enroll changes of ownership as of the date reported by the State Department of Housing and Community Development (HCD), assess share transfers in cooperatively-owned mobilehome parks, and value residents' interests in mobilehome parks by allocating the residual sales prices to the land.

The assessor has implemented two of the recommendations. The assessor is enrolling changes of ownership as of the date reported by HCD and assessing share transfers in cooperatively-owned manufactured home parks as reassessable changes in ownership. For the recommendation concerning classification, we did not find any material impact on the roll, and therefore, we do not repeat this recommendation. However, we are repeating the recommendations for using

value guides for the assessment of manufactured homes, and valuing residents' interests in mobilehome parks by allocating the residual sales prices to the land.

***Restricted Historical Aircraft Exemption***

We recommended the assessor grant the restricted historical aircraft exemption only to individual owners, not legal entities, of such aircraft. The assessor now limits this exemption to individual owners of aircraft that otherwise qualify.

***Vessels***

We recommended the assessor include additional vessel details on the vessel appraisal record and value vessels at current market value. The assessor is now collecting the vessel details and updating the vessel appraisal records. However, the assessor is still using a fixed depreciation factor for all vessels, other than personal watercraft. Notwithstanding, because the Board is currently in the process of developing valuation tables to determine market values for vessels on an annual basis, we will not repeat this recommendation until this process is completed.

## **OVERVIEW OF RIVERSIDE COUNTY**

Riverside County is the fourth largest county in terms of area in California, with an estimated population of 1,953,330 in 2006. Just east of Orange and Los Angeles counties, Riverside County was created in 1893 from 7,200 square miles carved out of territory from San Diego and San Bernardino counties. The City of Riverside is the largest city and the county seat for the 24 incorporated cities and unincorporated areas of Riverside County. Approximately 64 percent (3,015,630 acres) of land area in Riverside County is owned by federal, state, and local government.

Riverside County has continued to experience substantial population and housing growth since our last survey. Employment has grown approximately 22 percent from 2001 to 2005 with trade, transportation, and utilities leading the way, followed by construction, and professional and business services.

The following table displays information pertinent to the 2006-07 assessment roll as provided by the assessor:

	<b>PROPERTY TYPE</b>	<b>ASSESSMENTS</b>	<b>ENROLLED VALUE</b>
<b>Secured Roll</b>	Residential	639,709	
	Commercial/Industrial	38,908	
	Agricultural	14,811	
	Manufactured Homes	62,584	
	Other Secured	96,805	
	Total Secured	852,817	\$195,929,372,000
<b>Unsecured Roll</b>	Personal Property & Fixtures	56,397	\$6,597,491,000
	<b>Total Assessment Roll</b>	909,214	\$202,526,863,000

The next table illustrates the growth in assessed values over recent years as reported in the Board's annual reports.<sup>3</sup>

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>INCREASE</b>	<b>STATEWIDE INCREASE</b>
2006-07	\$202,526,863,000	23.0%	12.3%
2005-06	\$164,667,193,000	19.8%	11.1%
2004-05	\$137,473,977,000	14.2%	8.3%
2003-04	\$120,408,284,000	11.5%	7.3%
2002-03	\$107,944,381,000	N/A	N/A

In 2006-07, Riverside County experienced a 23 percent increase in the value of locally assessed property over the 2005-06 roll year. The assessment roll reached \$202.5 billion, an increase of \$37.8 billion from the previous year. The assessor believes a vibrant housing market, with a substantial amount of new construction and reassessable changes in ownership, accounts for a large part of this increase. In addition, a robust commercial and industrial market contributed to the trend.

<sup>3</sup> State Board of Equalization Annual Report, Table 7.

## ADMINISTRATION

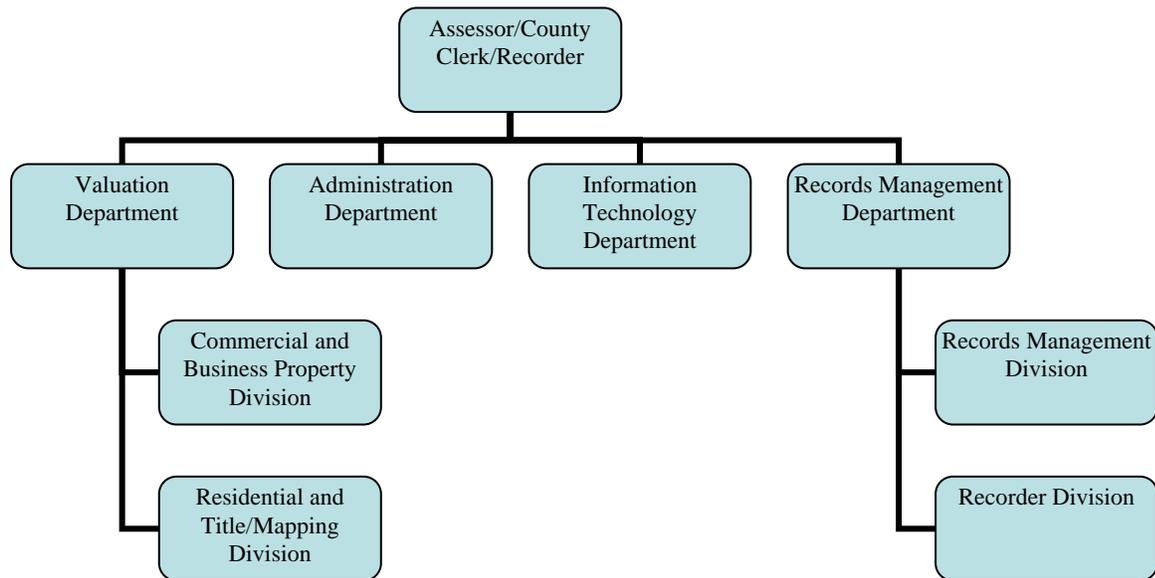
This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, assessment appeals, disaster relief, assessment roll changes, low-value property exemptions, exemptions, and the racehorse administrative tax.

### **Budget and Workload**

To enable the assessor to perform his duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so that the assessor can produce a timely roll of all properties subject to local assessment, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments as required before an appellate body, and provide information and service to the public as needed.

In addition to offices at the county administration center in the city of Riverside, the assessor has field offices in the cities of Moreno Valley, Temecula, Palm Springs, Hemet, Perris, Indio, and Blythe. For the 2006-07 fiscal year, the assessor staffed these offices for the assessment function with 261 people on a total budget of \$25.8 million.

The following is an organization chart of his office:



The following table shows the changes in the assessor's budget for recent years:

FISCAL YEAR	ACTUAL BUDGET	PERCENT CHANGE
2006-07	\$25,566,429	14.7%
2005-06	\$22,283,436	26.4%
2004-05	\$17,626,650	-0.9%
2003-04	\$17,777,547	10.1%
2002-03	\$16,147,011	N/A

**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. For the Riverside County Assessor's Office, there are a total of 134 certified appraisers on staff, including the assessor; 88 hold advanced certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

The training coordinator in the quality assurance unit monitors training and certification of the assessor's personnel. The assessor has developed an intranet website called the ACR (Assessor/County Clerk/Recorder) University, which allows appraisers to view their training history and status. The website provides access to information on courses, conferences, and on-line classes available to the assessor's staff. Training forms and reports are also available on the website.

The assessor encourages appraisers to become eligible and apply for their advanced appraisal certificates.

**Staff Property Procedures**

We reviewed property tax records and other documents to determine if the assessor has proper procedures in place to ensure that staff does not value their own properties for property tax purposes. The code of ethics section of the assessor's policy manual provides the reporting requirements and assessment rules regarding employee-owned property. Managers in the assessor's human resource unit maintain a record of employee-owned property to ensure employees do not impact the assessment of their own property. Additionally, the manual conveys procedures for avoiding conflicts of interest with regard to properties owned by family members of employees.

All employees of the assessor's office are required to file an annual *Statement of Economic Interests* (Form 700 from the State Fair Political Practices Commission). This disclosure is used to identify potential conflicts of interest employees may have regarding their interests in

businesses and property investments. With disclosure procedures in place and a conflict-of-interest policy defined, the assessor has a good foundation to ensure that all employee-owned properties and businesses are being properly assessed and that employees are not inappropriately assessing properties or businesses that they own.

### ***Assessment Appeals***

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

The Riverside County Board of Supervisors adopted Ordinance No. 510 in 1967 (last amended in 1998), which provides for up to five assessment appeals boards and five hearing officers. Two appeals boards are currently operating; each board consists of three members. One alternate member is available to both boards. There are no hearing officers. Assessment appeal hearings are held every Thursday at the county administration center.

Applications are received by the clerk of the assessment appeals board, date-stamped, reviewed, and validated. Information from the application is input into a database through an Appeals Entry Form screen. An image of the form BOE-305-AH, *Application for Changed Assessment*, is also stored in the database. This database is directly linked to the assessor's office, and all appraisers can view the Appeals Entry Form as well as the image of the application.

The assessor's staff maintains a comprehensive and effective spreadsheet to track the progress of assessment appeals. For the 2006-07 roll year, 1,381 appeals were filed, down substantially from ten years prior, when appeals filings exceeded 25,000. All appeals were resolved within the two-year time limit specified by section 1604(c).

The number of assessment appeals in Riverside County has decreased in recent years, as shown in the table below:

APPEALS	ROLL YEAR				
	2006-07	2005-06	2004-05	2003-04	2002-03
<b>Total Appeals:</b>					
Applications Received	1,381	1,994	2,416	2,557	
Carried Over	814	509	328	388	
<b>Total</b>	<b>2,195</b>	<b>2,503</b>	<b>2,744</b>	<b>2,945</b>	<b>3,523</b>
<b>Resolution:</b>					
Denied-lack of appearance	88	423	420	393	729
Hearing-reduced	5	5	19	59	47
Hearing-upheld	18	65	91	70	215
Stipulation	1	60	184	224	321
Withdrawn	238	1,136	1,521	1,871	1,823
<b>Total</b>	<b>350</b>	<b>1,689</b>	<b>2,235</b>	<b>2,617</b>	<b>3,135</b>
<b>Carried over to next year</b>	<b>N/A*</b>	<b>814</b>	<b>509</b>	<b>328</b>	<b>388</b>
*Unresolved at the time of our fieldwork					

The appraisal staff prepares appeal defenses. The appraiser who prepares the appeal defense typically presents the case at the hearing. Another member of the assessor's staff, who acts as the assessor's representative and liaison between the assessor's office and the clerk of the appeals board, also attends the hearing.

We attended several assessment appeals hearings and found the assessor's staff well prepared with effective presentations. We also reviewed several appraisal records that were the subject of assessment appeals. All records were well documented and complete. We found the assessor's assessment appeal program in compliance with the law. A good working relationship between the assessor and the clerk of the assessment appeals board makes the appeals process effective and efficient, particularly in the areas of scheduling and document processing.

**Disaster Relief**

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

To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. If the assessor is aware of any property that has suffered damage by misfortune or calamity, then the assessor must either provide the last known assessee with an application for reassessment or revalue the property on the lien date. Alternatively, the ordinance may specify that the assessor may initiate the reassessment where the assessor is aware of any property that has suffered damage by misfortune or calamity.

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

The Riverside County Board of Supervisors adopted a disaster relief ordinance on May 18, 1972 (last revised on March 26, 2003). The ordinance grants the assessor the authority to initiate disaster relief reassessment without an application. The assessor also uses this authority to initiate reassessment through the application process.

The assessor has established written procedures consistent with the county ordinance and the requirements of section 170. Calamities are discovered through reviewing building permits issued for repairs and newspaper articles, field investigation, fire reports from the State Department of Forestry, and notification from taxpayers.

We found that the assessor's staff confirms that property owners are eligible for disaster relief and processes claims properly. The assessor also provides disaster relief to owners of manufactured homes destroyed in a Governor-declared disaster, and provides partial disaster relief when appropriate.

The following table lists the number of claims processed by the assessor for recent years:

<b>ROLL YEAR</b>	<b>CLAIMS FILED</b>
2006-07	91
2005-06	186
2004-05	70
2003-04	87
2002-03	96

**Assessment Roll Changes**

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of unpaid taxes requires the consent of the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes processed in Riverside County over recent years:

CALENDAR YEAR	ROLL CORRECTIONS
2006	56,889
2005	61,366
2004	55,257
2003	44,432
2002	54,573

An appraiser or appraiser technician initiates a roll change through an input document, which is given to the area senior or supervisor for approval. Once approved, the document is forwarded to the clerical section for data entry. The principal appraiser is responsible for final approval of the roll change after it has been entered into the system.

The *Notice of Assessed Value Change* or *Notice of Proposed Escape Assessment* are automatically generated by the computer system. These notices clearly display all the statutorily required information. Additionally, the *Notice of Proposed Escape Assessment* includes the direct phone number of the appraiser who performed the valuation. The roll changes are held for 10 days before the new value is posted to the roll and the resulting *Notice of Enrollment of Escape Assessment* is sent to the taxpayer.

In our 2003 survey report, we recommended the assessor cite controlling statutes when enrolling penalties on the assessment roll. The assessor has not implemented this procedure; therefore, we repeat this recommendation.

**RECOMMENDATION 1:** Reference the controlling statutes when enrolling penalties on the assessment roll.

We found that penalties are placed on the assessment roll with only the notation "penalty" appearing in the remarks section of the roll. This practice is inconsistent with Rule 261, which provides that the assessor shall reference the specific statutory authority for the penalty assessment. The rule offers examples of language that may be used. By neglecting to reference controlling statutes, the assessor has failed to meet the explicit regulatory requirements for penalty enrollments.

### ***Low-Value Property Tax Exemption***

Section 155.20 authorizes a county board of supervisors to exempt from taxation all real property with a base year value, and personal property with a full cash value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt property with a total base year value or full cash value of more than \$5,000, or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

The Riverside County Board of Supervisors adopted a low-value property tax exemption resolution (No. 90-121) on February 27, 1990 (last revised on October 19, 2004). The resolution exempts all taxable possessory interests for temporary and transitory uses in a publicly owned fairground, convention or cultural facility, with a full cash value of \$50,000 or less, and all personal property and trade fixtures on the unsecured assessment roll having a full cash value of \$5,000 or less, in accordance with section 155.20(b)(1). In addition, the county adopted an ordinance pursuant to section 531.9, which prohibits the enrollment of low-value escape assessments.

We found that the assessor properly and uniformly administers the low-value property tax exemption pursuant to the county's resolution and section 155.20.

### ***Exemptions***

#### **Church and Religious Exemptions**

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

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

for the exemption. In Riverside County, the assessor processed 40 church exemption claims and 677 religious exemption claims for the 2006-07 assessment roll.

The following table presents the number of properties and the amount of assessed value exempted under the church and religious exemptions for recent roll years:

ROLL YEAR	CHURCH	EXEMPTED VALUE	RELIGIOUS	EXEMPTED VALUE
2006-07	40	\$ 11,184,255	677	\$ 554,793,160
2005-06	42	\$ 10,265,723	684	\$ 534,433,660
2004-05	45	\$ 15,938,023	662	\$ 474,213,125
2003-04	44	\$ 13,611,524	751	\$ 459,899,510
2002-03	60	\$ 10,781,515	644	\$ 439,458,539

Our review indicates that the assessor properly processes church and religious exemption claim filings. We found no problems with the assessor's church and religious exemption program.

### Welfare Exemption

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

The welfare exemption is co-administered by the Board and county assessors. The Board is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* (OCCs) to qualified organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

The following table summarizes the number of properties and the amount of assessed value exempted under the welfare exemption for recent roll years:

<b>ROLL YEAR</b>	<b>WELFARE</b>	<b>EXEMPTED VALUE</b>
2006-07	913	\$ 2,117,239,904
2005-06	657	\$ 2,054,579,245
2004-05	636	\$ 1,890,412,506
2003-04	572	\$ 1,617,625,063
2002-03	1,133	\$ 1,483,742,290

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We also reviewed the exemption claims for low-income housing property, including properties owned by a limited partnership holding a SCC. Our review indicated that the assessor is properly administering the welfare exemption.

#### Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218, exempts \$7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or the veteran's unmarried surviving spouse). The amount of exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both these amounts are adjusted annually by a cost of living index.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible.

The assessor processed 301,983 homeowners' exemption claims and 1,786 disabled veterans' exemption claims for the 2006-07 assessment roll.

The following table lists the number of properties and the amount of assessed value exempted under the homeowners' and disabled veterans' exemptions for recent roll years:

<b>ROLL YEAR</b>	<b>HOMEOWNERS'</b>	<b>EXEMPTED VALUE</b>	<b>DISABLED VETERANS'</b>	<b>EXEMPTED VALUE</b>
2006-07	301,983	\$ 2,112,426,332	1,786	\$ 175,474,867
2005-06	293,951	\$ 2,056,355,328	1,674	\$ 156,940,390
2004-05	283,666	\$ 1,983,316,453	1,537	\$ 141,195,303
2003-04	280,171	\$ 1,929,020,105	1,360	\$ 119,222,893
2002-03	250,084	\$ 1,749,156,083	1,192	\$ 101,166,103

We found the assessor is properly processing homeowners' and disabled veterans' exemption claims.

**Racehorse Administrative Tax**

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 and 1046. Rule 1045(c) requires the assessor to furnish Board-prescribed forms to racehorse owners for reporting the in-lieu tax.

Racehorses within the state are registered with the State Horse Racing Board (SHRB). For property tax purposes, section 5703 defines a racehorse to mean a horse that is or will be eligible to participate in, or produce foals which will be eligible to participate in, a horseracing contest in California where parimutuel racing is permitted. Qualifying horses include stallions, mares, geldings, ridgelings, colts, fillies, and foals.

Each year in mid-December, the assessor sends form BOE-571-J1, *Report of Boarded Racehorses*, to owners of ranches and stables that board racehorses in Riverside County. The form instructs the ranch and stable owners to list all boarded racehorses that are boarded at their locations as of 12:01 AM, January 1.

When the forms are returned, an appraiser cross-references the reported boarded racehorses with the assessor's database of known racehorses sited in the county. As an additional form of discovery, the assessor obtains from the SHRB an annual listing of registered racehorses. This listing is also cross-referenced with the assessor's racehorse database.

Rule 1045(c)(2) requires the assessor to maintain a record of those persons that the assessor believes are liable for the annual racehorse tax and to whom the assessor has sent form BOE-571-J1. In addition, the assessor is required to deliver a copy of this record to the tax collector's office so that the tax collector can be cognizant of the taxpayers that may file a return. The tax returns, along with tax payments, are submitted directly to the tax collector. If applicable, the tax collector applies the appropriate late-filing and interest penalties.

Additionally, Rule 1045(d)(1) requires the assessor to perform an audit of any racehorse owner whose annual racehorse tax exceeds \$4,000 or more for each of four consecutive years. We reviewed the assessor's listing of all racehorse owners in the county, which included the 2006-07 racehorse tax liabilities, and found that there were no racehorse owners in Riverside County whose tax liabilities exceeded the statutory threshold for a mandatory audit.

In summary, we found that the assessor's racehorse tax administration program is effectively administered.

## ASSESSMENT OF REAL PROPERTY

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

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

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

### ***Change in Ownership***

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

### **Discovery and Document Processing**

Riverside County has combined the assessor's office with the county clerk and the recorder offices. This combination has made for more efficient work processes that involve both recording and assessment functions. Documents are recorded, examined, indexed, and scanned into the recorder's system.

The assessor's primary means of discovering properties that have changed ownership are documents recorded at the county recorder's office. The recorder's office forwards all documents relating to a change in ownership to the assessor's office.

Documents received by the assessor's office are divided by conveyance date and property type and assigned to a technician for processing. Upon receipt, the technician is responsible for confirming the parcel number, verifying the chain of title, determining the percentage of interest transferred, and selecting the appropriate transfer code, which will let the system know if the transfer is reappraisable. This information is forwarded to the data control unit for data entry, and then given to the Valuation Department for valuation.

The following table shows the total number of recorded documents received by the assessor's office and the total resulting reappraisable transfers for recent roll years:

<b>ROLL YEAR</b>	<b>RECORDED DOCUMENTS</b>	<b>REAPPRAISABLE TRANSFERS</b>
2006-07	211,724	139,491
2005-06	209,632	135,969
2004-05	178,737	123,128
2003-04	150,400	112,832
2002-03	128,862	90,435

**Legal Entity Ownership Program (LEOP)**

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

To help assessors, the Board's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property involved. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

In 2005, the assessor created a senior appraiser position in the title unit to handle the LEOP reports. This appraiser is responsible for researching changes in control in legal entities and forwarding such information to the Valuation Department for reappraisal of all affected property previously owned by that legal entity. This appraiser acquires change in control information from field offices, the business personal property section, and the LEOP list sent by the Board. In addition to these duties, the senior appraiser handles assessment appeals resulting from changes in control of legal entities.

In our 2003 survey report, we recommended the assessor process changes in control in legal entities in a timely manner. Even though there is now a senior appraiser responsible for processing these changes in control, there is still a backlog of these changes in control. Thus, we make the following recommendation.

**RECOMMENDATION 2:** Timely reappraise property owned by legal entities that have undergone a change in control.

Our current review found that the assessor failed to properly investigate several changes in control of legal entities despite having been notified of those changes by the Board. While property owned by legal entities that have undergone a change in control after the assessor created the LEOP senior appraiser position have been properly reviewed and valued, many of the transfers we reviewed that occurred prior to 2005 remain unprocessed.

Section 64(c) provides that when there is a change in control of a legal entity, there is a change in ownership of all real property owned by the legal entity. When a change in ownership occurs, the assessor must reassess the property previously owned by the legal entity; otherwise, the property may be underassessed, allowing escape assessments to occur.

We again recommend the assessor ensure that all transfers due to changes in control of legal entities are processed in a timely manner.

### Section 408.1 Transfer Lists

Section 408.1 requires the assessor to maintain, and make available for public inspection, a list of property transfers for the most recent two-year period. The type of information that should be included on the list is specifically outlined in section 408.1.

In our 2003 survey report, we recommended the assessor revise the transfer list to include the names of the transferors and transferees as required by statute. The assessor has not revised the list to include all necessary information. Therefore, we repeat our recommendations.

**RECOMMENDATION 3:** Revise the transfer list to include all the information required by section 408.1(c).

The assessor's transfer list contains the assessor's parcel number, the address of the property, the date the sale was recorded, the recording document number, and the consideration paid for the property. However, the list omits the property's situs, the transfer date, and the names of the transferor and transferee.

Section 408.1(c) sets forth the specific items of information that must be included in the transfer list. If some items are omitted, the public is deprived of access to information intended to be part of the public record.

### Section 63.1 Exclusions and Section 69.5 Base Year Value Transfers

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

Section 69.5 generally allows qualified homeowners over age 55 or severely and permanently disabled to transfer the base year value of a principal residence to a replacement residence of

equal or lesser value. Claims must be filed within three years of the purchase or completion of the new construction of the replacement residence.

The following table represents the approved section 63.1 and section 69.5 claims for recent roll years:

ROLL YEAR	SECTION 63.1	SECTION 69.5
2006-07	3,758	643
2005-06	4,985	566
2004-05	4,886	362
2003-04	4,284	184
2002-03	4,081	140

We reviewed several section 63.1 and section 69.5 claims processed by the assessor. We found that the claim forms were filed timely, included the required information, and that all required signatures were present. All claims were diligently reviewed and relevant information was verified. However, we found an area needing improvement relating to section 69.5 claims.

**RECOMMENDATION 4:** Properly apply the inflation factor to section 69.5 transfers.

We found some instances where the assessor had applied the inflation factor multiple times for the same transfer event when transferring the base year value to the replacement property.

Section 69.5 allows a property owner to transfer the base year value of his or her original residence to a replacement residence. The value transferred to the replacement residence is the current roll value as of the date of transfer, including appropriate inflation factor adjustments as mandated by section 2(b) of article XIII A of the California Constitution.

We found situations where the assessor applied the inflation factor to the base year value prior to and after transferring the base year value. This improper application of the inflation factor results in an overassessment of the property and conflicts with section 69.5, which is intended to provide relief by allowing the property owner to retain his or her base year value adjusted annually by the inflation factor as though no transfer had occurred.

**Direct Enrollment Program**

Direct enrollment is a program used in many assessors' offices for enrolling uncomplicated transfers of properties with minimal appraisal involvement. In Riverside County, the direct enrollment program is used only for transfers of 100 percent interest in property with full stamps indicated or confirmed sale prices. If these criteria are met, the program analyzes the property based on sale price, property location, and property type, and determines if the sale price fits within market parameters. If the sale price is found to fit within these parameters, the program enrolls the sale price immediately. If the sale price does not fit local market parameters, the direct enrollment system will reject the sale price, and the transfer, therefore, must be enrolled manually.

The direct enrollment program enrolled 65,330 transfers, or approximately 48 percent of the total number of transfers, for the 2005-06 roll year. The assessor's goal is to have 60 percent of all transfers valued by the direct enrollment program.

### **Improvement Bonds**

Improvement bonds are instruments used to finance construction of public improvements, including sewers, sidewalks, lighting, and water lines. Such public improvements generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with the 1911 or 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration paid for a property exclusive of the lien amount. The assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in that consideration.

It is the assessor's policy not to add any amount for improvement bonds unless market evidence indicates otherwise. This is consistent with the requirements of section 110(b).

### **New Construction**

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

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

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

### **Building Permits**

Building permits are the assessor's primary means of discovering assessable new construction. The assessor receives building permits from 24 cities and the County of Riverside. Other discovery methods include review of newspaper articles and business property statements, and field inspections of properties subject to change in ownership and new construction.

Most of the permits are accompanied by a building plan. All permits received are forwarded to the appropriate district office for review and valuation by an appraiser. The clerical staff automatically mails new construction questionnaires on all permits indicating an appraisable event. Cost information and completion dates are obtained from building permits and from taxpayers.

The following table shows the number of new assessments that resulted from review of building permits for recent roll years:

ROLL YEAR	BUILDING PERMITS	NEW ASSESSMENTS
2006-07	59,673	36,648
2005-06	55,081	29,387
2004-05	49,579	29,598
2003-04	44,735	34,003
2002-03	32,411	27,461

Permits are received in electronic or paper form. Clerical staff enters building permit data into the assessor's system. Residential permits are screened to determine which permits are likely to represent an appraisable event. Supervisors screen permits for commercial properties.

Only assessable permits are copied and forwarded to the appraisal staff. An appraiser then inspects and values the new construction. Field inspections help verify information received from the questionnaires and aid in the discovery of new construction completed without a permit. Permits issued for maintenance, replacement, or repairs, which generally do not generate a change in value, are filed with the property record.

**Valuation**

The assessor values new construction by estimating its full cash value as of the date of completion. Appraisers determine the completion status of new construction from field inspections, notices of completion from the permit-issuing agencies, and information from taxpayers. All permits for reassessable new construction are field reviewed. It is the policy of the Riverside County Assessor to enroll all assessments for new construction even if the value may be too low to generate a tax bill.

The assessor uses several cost sources to value residential new construction, including Assessors' Handbook Section 531, *Residential Building Costs*, and owners' reported costs. The value of new construction for commercial and industrial properties is estimated using the cost approach, including *Marshall Valuation Service*, the income approach, or the sales comparison approach.

**Construction in Progress**

Section 71 requires the assessor to enroll construction in progress at its fair market value on each lien date. On subsequent lien dates, if the construction is still incomplete, the assessor must again

enroll the construction in progress at its fair market value. This process continues until the construction is completed, at which time it is appraised at its fair market value and a base year value is assigned. We found no problems with the valuation of construction in progress.

### Summary

We found the assessor is receiving building permits from all city and county permitting agencies, and is properly assessing construction in progress at market value on lien date. The assessor keeps a detailed history of improvements that are made to each property; we did not discover any taxable new construction that escaped assessment. Records were properly documented both on the appraisal record and on the assessor's system for the valuation of new construction.

### ***Declines in Value***

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

Due to increasing real estate values in past years in Riverside County, at the time of our fieldwork for this report, the number of properties eligible for decline-in-value reassessments had steadily decreased over prior years.

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

ROLL YEAR	DECLINE IN VALUE
2006-07	26,696
2005-06	31,898
2004-05	34,173
2003-04	49,499
2002-03	80,206

As noted in the table below, for 2006-07, about 94 percent of properties in decline-in-value status are either timeshares or manufactured homes. The following table shows the decline-in-value properties by property-use type for 2006-07:

PROPERTY USE	ASSESSMENTS REDUCED	ASSESSED VALUE REDUCTION
Residential	65	\$21,164,540
Condos	49	\$4,535,866
Manufactured Homes	3,448	\$52,929,604
Timeshares	21,699	\$103,466,288
Agriculture	97	\$10,147,295
Commercial	557	\$253,644,201
Apartments	54	\$41,708,945
Vacant Land	727	\$97,782,675
<b>TOTAL</b>	<b>26,696</b>	<b>\$585,379,414</b>

The assessor's program for the discovery, valuation, and processing of decline-in-value assessments is governed by comprehensive written policies and procedures. A computer program is used to assist in discovering, valuing, and tracking value declines for single-family residential properties. The assessor's program for other than single-family residential properties entails responding to taxpayer requests for review and relying upon appraisers' general knowledge of market values in their assigned areas.

Our review of decline-in-value appraisals indicates that these appraisals are properly made and contain adequate documentation.

As we concluded our survey in Riverside County, the economics of the real estate market appeared to be shifting again. In order to remain proactive, the assessor announced that his staff would review recent home sales to identify any decline-in-value patterns. The filing period for *Owner's Requests for Review of Property Value* was being extended from March 15 to the end of the year.

Overall, we found that the Riverside County Assessor has an effective program for discovering, processing, and assessing properties that have experienced a declined in value.

### **Supplemental Assessments**

Sections 75 through 75.80 mandate supplemental assessments for changes in ownership and the completion of new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completion of new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The Riverside County Assessor has a completely automated, event-driven supplemental assessment system. Appraisers value properties and complete a posting sheet that, after review, is submitted for data entry. Once the value is posted, the computer system automatically calculates the supplemental assessment, sends out the *Notice of Supplemental Assessment*, and forwards the information to the auditor for billing. On average, taxpayers receive a supplemental bill about eight months after the date of a reappraisable event.

We reviewed a number of appraisal records for properties that had experienced new construction or a change in ownership. We found the assessor enrolls supplemental assessments in a timely manner and that the assessor's system accurately calculates the supplemental assessment amounts.

### **California Land Conservation Act Properties**

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

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

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

Riverside County has 2,070 contracts encompassing 48,068 acres under CLCA contract for the 2006-07 assessment roll. Of the 2,070 contracts, 171 are in nonrenewal status. Riverside County does not have any parcels under Wildlife Habitat or Farmland Security Zone restrictions. The amount of nonrenewal acreage has increased recently because of rising values for developable land. The total assessed value for the land and living improvements for the 2006-07 roll is \$333,569,924, or 0.17 percent of the secured roll.

The valuation of CLCA properties is the responsibility of four agricultural appraisers and one supervising appraiser. Each appraiser is located in a different district office (Riverside, Hemet, Indio, or Temecula) and is responsible for agricultural properties within that geographical district. Administration of the CLCA-assessment program is automated via the assessor's system.

Each year variable items such as the various components of the capitalization rate and income are entered into the computer system. The program calculates the restricted values and compares the restricted values with the factored base year values to determine the taxable values. The assessor annually mails agricultural questionnaires in an attempt to obtain information about rents, compatible use income, production data, and other matters related to the assessment of CLCA properties.

In our 2003 survey report, we recommended the assessor develop appropriate risk rates for CLCA properties. We found the assessor did not implement this recommendation. We also found one additional area needing improvement.

**RECOMMENDATION 5:** Improve the California Land Conservation Act (CLCA) program by: (1) developing appropriate risk rates for CLCA property, and (2) correctly calculating the restricted values for living improvements as required by section 423.

**Develop appropriate risk rates for CLCA property.**

The assessor uses a risk component of one percent in the valuation of all CLCA properties, regardless of location, property characteristics, or crop. Typically, farmers recognize varying degrees of risk among different types of agricultural properties. Factors such as price stability, production costs, the availability of water, and the probability of damage due to wind and flooding might increase or decrease the risk associated with a particular property.

According to the assessor's policy manual, the consistent use of a one percent risk rate is based on the AH 521 recommendation of a one percent basic risk component. While the AH 521 provides for a basic risk rate of one percent, it also makes clear that the component will vary according to the specific risks associated with the development of the income to be capitalized. Because location and characteristics of land vary throughout the county, it is reasonable to expect variations in the risk rate. The use of the same risk rate for all properties may result in

incorrect assessments of CLCA properties. Therefore, the assessor should develop appropriate risk rates for different locations and crops.

**Correctly calculate the restricted values for living improvements as required by section 423.**

The assessor uses a computer program to determine the restricted value of CLCA properties, including restricted living improvements. We found that there have been no recent adjustments to the program for variables such as interest component, annual income, risk component, or the property taxes component. As a result, many of the living improvement values we reviewed have remained the same for the past several years.

Section 429 requires fruit- or nut-bearing trees and vines located on enforceably restricted land to be valued in the same manner as the land. The valuation method prescribed in section 423 requires the assessor to determine a value estimate by capitalizing the annual income attributed to land and living improvements. The capitalization rate to be applied shall include components for the Board-announced interest rate, risk, property taxes, and, where appropriate, amortization of any investment in perennials.

If all other variables are held constant, a fluctuation in the interest rate component should result in a difference in the appropriate taxable value for the living improvements on CLCA properties. Unless the assessor has market evidence of offsetting changes to annual income or to components of the capitalization rate other than the interest component, his practice of enrolling the same value for living improvements over multiple, successive years is inappropriate.

***Taxable Government-Owned Properties***

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

For the 2006-07-assessment roll, the Riverside County Assessor enrolled 436 taxable government-owned properties with a total taxable value of \$31,752,074. These assessments are mainly property owned by various cities, water districts and flood control districts. The 2005-06 assessment roll had 272 taxable government-owned properties as compared to 436 on the 2006-07 roll. The increase in the number of assessable properties is mostly due to irrigation and flood control districts expanding their holdings.

Since our last survey, the assessor has developed written policy and procedures to assist in the correct discovery and valuation of taxable government-owned lands. The policy was enacted on February 22, 2005, and revised December 8, 2005. The responsibilities are divided among the Residential and Title/Mapping Division, which identifies the taxable government-owned properties, and the Commercial and Business Property Division, which values the property and

maintains the database for tracking the parcels. The policy and procedures are comprehensive and follow mandates for assessing taxable government-owned property.

**Taxable Possessory Interests**

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

The assessor's total property unit has responsibility over the assessment of taxable possessory interests. A principal and supervising appraiser oversee two senior appraisers valuing most taxable possessory interests. Residential appraisers value residential taxable possessory interests in their assigned regional areas. Copies of leases creating taxable possessory interests are filed with the appraisal records. Taxable possessory interests are assessed on the secured roll. The majority of assessments of this type in Riverside County are long-term uses of Indian lands.

For the 2006-07 roll, there were 11,672 taxable possessory interest assessments with a value of \$3,132,856,557. The assessor discovers taxable possessory interest properties by canvassing public agencies, reviewing recorded documents, sending business property statements, and field review by the appraisers. Written requests are made annually to 71 public agencies for information on private uses of public lands.

Assessment roll values and the number of taxable possessory interests over recent years are shown in the following table:

<b>ROLL YEAR</b>	<b>TAXABLE POSSESSORY INTERESTS</b>	<b>TOTAL ROLL VALUE</b>
2006-07	11,672	\$3,132,866,557
2005-06	11,516	\$2,796,809,777
2004-05	11,580	\$2,570,278,643
2003-04	11,593	\$2,453,267,892

We reviewed several taxable possessory interest assessments, including uses of fairgrounds, California Public Employee Retirement System properties, and redevelopment properties. We found the assessor has developed a spreadsheet program that effectively tracks the taxable possessory interests. However, we did find one area where improvement is needed.

**RECOMMENDATION 6:** Periodically review all taxable possessory interests with stated terms of possession for declines in value.

For taxable possessory interests with a contract term, the assessor uses the contract term as the term of possession when initially valuing the taxable possessory interest. For subsequent years, the assessor applies the annual inflation factor to the base year value.

Section 51 requires the assessor to assess a taxable possessory interest at the lesser of its base year value (adjusted annually for inflation by no more than two percent) or its current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term of possession, Rule 21(d)(1) provides that the stated term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have mutually agreed to a different term.

Rule 21 also provides that the "stated term of possession" for a taxable possessory interest property is the remaining period of possession. The term of possession may have a material effect on the current fair market value of the interest.

The assessor should estimate the market value of a taxable possessory interest with stated terms of possession as of the lien date, based on the remaining terms of possession, compare that value with the factored base year value, and in each case enroll the lower of the two values.

Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of taxable possessory interests with stated terms of possession to ensure that declines in value of taxable possessory interests are consistently recognized. Failure to consider the remaining term of possession of a taxable possessory interest may overstate its taxable value.

### ***Restricted Historical Properties***

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily prescribed capitalization of income method. For assessment purposes, qualified historical property under such a contract is referred to as "restricted historical property." Section 50280.1 provides that in order for a property to qualify as historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Restricted historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method, as provided in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the Board;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and,
- A component for amortization of the improvements.

The assessment of restricted historical properties is the responsibility of the Commercial and Business Property Division. For the 2006-07 assessment roll, there were 25 restricted historical properties with an assessed value of about \$5 million. There are currently no historical property contracts in nonrenewal status.

The following table illustrates assessment data for restricted historical properties for recent roll years:

<b>ROLL YEAR</b>	<b>HISTORICAL PROPERTIES</b>	<b>ROLL VALUE</b>
2006-07	25	\$5,018,100
2005-06	15	\$2,190,474
2004-05	9	\$1,449,171
2003-04	7	\$939,952
2002-03	2	\$265,086

The assessor uses a worksheet to process the income stream into an indicator of the restricted value of the historical property. The assessor annually compares the factored base year value, the market value, and the restricted value for each property, and enrolls the lowest of the three values.

We found the assessor is developing his overall capitalization rate with all the components as provided in section 439.2(b). The assessor is properly using the Board-announced interest component and the proper risk component as determined by the property type, and properly applying the property tax component.

Since our 2003 survey, the assessor has implemented consistent and correct procedures for the review of enforceably restricted historical property assessments. The appraisal files contain copies of the contracts with the local governments, as well as the ordinances establishing a historical preservation district or the historical preservation zone.

We found that restricted historical properties in Riverside County are correctly assessed.

### ***Leasehold Improvements***

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

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

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

The most common methods of discovery for leasehold improvements are the BPSs and building permits. Schedule B of the BPS is specifically for reporting real property installed by a tenant. Taxpayers are annually required to list additions or deletions of real property. The auditor-appraiser refers expenditures reported on Schedule B to the commercial property unit for review. Other discovery techniques used by the assessor may include new construction questionnaires sent to tenants, and a review of the current rent rolls to discover new tenants.

Proper classification of leasehold improvements as structure items or fixtures is important because fixtures are treated differently than structures. Fixtures constitute separate appraisal units when measuring declines in value and, in certain cases, are not subject to supplemental assessment. Additionally, fixtures and personal property are components in the value criteria for qualification of a mandatory audit.

We reviewed the assessment of billboards, cell towers, and foreign improvements; we found no problems. However, our review did identify one area needing improvement.

**RECOMMENDATION 7:** Value structural improvements made by tenants in the same manner as other real property.

We found that the assessor is inconsistent in his treatment of tenant-installed structural improvements. The auditor-appraisers determine whether any reported structural improvements on the BPS should be referred to the real property units. If they are referred to the real property units, then the real property units will assess the reported structural improvements as part of the real property. If the structural improvements are not referred to the real property units, then the

business property unit will assess the reported structural improvements as fixtures. This practice may result in a shorter service life and decline in value for subsequent years.

Structural improvements, added by the tenant or the landlord, should be assessed in the same manner as any other real property. Specifically, a base year value should be established for all structural improvements and, for subsequent roll years, these values should be treated the same as other improvements. The assessor's practice has resulted in the underassessment of tenant-installed structural improvements.

This practice in effect will produce a significant valuation difference between otherwise similar improvements assessed on the secured roll. Thus, the same leasehold improvements, if assessed on a secured parcel, would probably not be depreciated at all, but would be increasing in taxable value each year in accordance with article XIII A of the California Constitution. The resulting effect is inconsistent treatment of similar taxable property.

### ***Timeshares***

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided.

When purchased, a timeshare typically includes nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable nonreal property items (considered nontaxable). Examples of nonreal property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

There are 35 timeshare projects located in Riverside County. For the 2006-07 assessment roll, there were 96,805 timeshare assessments in Riverside County with a total assessed value of \$876,654,451. Each timeshare unit is assigned its own assessor's parcel number.

All documents concerning timeshares are forwarded to the title unit. A senior technician receives and processes all timeshare documents. One appraiser is responsible for the assessment of all timeshare parcels in the county.

The assessor maintains timeshare appraisal records as electronic files. A master file for each project contains building sketches, building costs, build-out projections by phase, inventories, and base year calculations. Information in this database also includes the name of the timeshare project, the assessor's parcel number, unit type or model, parties involved in transfers, sales price, and sales date. This information allows the assessor to identify differences in sales price due to location and season, and to identify sales between parties to determine if they are arms-length transactions.

With this information, the assessor can review timeshares for declines in value and be consistent in the assessment of units located in each specific timeshare project. For the 2006-07 assessment roll, 21,699 timeshares were in decline-in-value status. For each lien date, the current market

value is compared with the factored base year value and the lower of the two is enrolled as the assessed value for the current roll.

We found the assessor effectively administers the timeshare assessment program.

### ***Water Company Properties***

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

The total assessed value for all water company properties located in Riverside County was \$1,348,000 for the 2006-07 assessment roll. This includes a total of \$481,264 for regulated water companies, \$155,166 for mutual water companies, and \$711,570 for municipal water companies.

### ***Municipal Water Systems***

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments and located within city limits, and property owned by water districts located within district boundaries. When property owned by the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California Constitution provides that publicly owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district.

We found no problems with the assessment of parcels owned by municipal water systems and located outside their boundaries.

### ***Mutual Water Companies***

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to the land, improvements, and delivery system owned by the water company, as the values of these properties are reflected in the assessments of the member or stockholder parcels. However, if the ownership in a mutual water company is not appurtenant to the land, its land, improvements, and personal property must be assessed separately from the served parcels.

Riverside County has 57 mutual water companies. We found the assessor enrolls either zero value or a minimal value for mutual water company property when the company shares are appurtenant to the parcels they serve.

### ***Private Regulated Water Companies***

Private, for-profit water companies are subject to "rate base" regulation by the California Public Utilities Commission (CPUC). In brief, this form of regulation limits the rate a company may

charge to the cost of service plus a fair return on rate base, or invested capital. For this reason, the market value of the property of a regulated water company should correlate closely with the historical cost less depreciation (HCLD) of the assets.

In our 2003 survey report, we recommended the assessor collect and review relevant data for the assessment of water company properties and reappraise properties owned by regulated water companies. The assessor has not fully addressed these recommendations. Therefore, we are repeating our prior recommendations in this survey report with some revision; we also note one additional area of concern.

**RECOMMENDATION 8:** Improve the water company property assessment program by:  
(1) collecting and reviewing relevant data for the assessment of water company properties, (2) identifying and assessing properties owned by regulated water companies, and  
(3) assessing all water company property at the lower of its factored base year value or its full cash value.

**Collect and review relevant data for the assessment of water company properties.**

In our 2003 survey, we recommended the assessor request copies of water companies' annual financial reports from the CPUC and enforce the penalty provision when companies do not file a property statement. The assessor has not implemented either recommendation.

The assessor continues to collect water inspection listings from the State Department of Health Services, Office of Drinking Water and a list of regulated water companies from the CPUC. However, these lists do not offer any current income or cost information. Such information for regulated companies could be obtained by requesting annual financial reports from the CPUC. These reports are public record, and the CPUC will furnish them upon request. The reports contain the data necessary for developing an income and a historical cost less depreciation (HCLD) indicators of value. Without this information, assessments will not reflect ongoing property changes, such as new construction, which may result in escape assessments.

Moreover, although there are numerous private water companies in Riverside County, very few file property statements. In addition, we found no recent audits of water companies.

The assessor should continue to request data from water companies on an annual basis and enforce the penalty provision of section 463 if property statements are not filed. The information obtained from the property statement will provide an audit trail for the assessor and will ensure proper valuation.

**Identify and assess properties owned by regulated water companies.**

The assessor was unable to find assessments on property owned by two of the five regulated water companies identified on the list furnished by the CPUC. One of the assessed water companies had been identified only recently. In addition, the assessor has not conducted a field inspection to locate property owned by these companies.

As noted above, the assessor does not receive copies of annual financial statements from the CPUC. In addition to providing income and cost information, these statements may assist in locating property owned by these companies. By not reviewing the annual financial statements or conducting a field inspection, the assessor may have allowed taxable property to escape assessment.

**Assess all water company property at the lower of its factored base year value or its full cash value.**

We found that the assessor does not annually determine the HCLD of real property owned by private regulated water companies. Instead, the assessor annually enrolls the company's real property at its factored base year value.

Section 51(a) requires that real property shall be assessed on each lien date at the lower of its factored base year value or its full cash value as defined in section 110. The market value of the assets of a regulated water company is likely to be closer to the depreciated historical cost than to its factored base year value. Thus, it is important to prepare both value indicators in order to properly estimate the taxable value as of the lien date.

The assessor's practice of enrolling the factored base year value may result in overassessment of real property owned by a regulated water company.

***Mineral Properties***

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties, and are specific to mineral properties. There are no assessable petroleum or geothermal properties in Riverside County.

Mineral properties located in Riverside County are primarily sand and gravel properties. The assessor uses the royalty method to value the mineral rights. The properties are appraised by a senior property appraiser. Recent personnel changes have rotated this assignment through several staff members, and the assessor's staff has made a good effort to provide consistent valuations and to make changes recommended in prior surveys.

We found areas that need improvement.

**RECOMMENDATION 9:** Revise the mineral assessment procedures by: (1) identifying and treating each leach pad, settling pond, and tailings facility as a separate appraisal unit, and (2) measuring declines in value as required by Rule 469.

**Identify and treat each leach pad, settling pond, and tailings facility as a separate appraisal unit.**

The assessor does not currently identify and treat leach pads, settling ponds, and tailings facilities as separate appraisal units as required by section 53.5.

Section 53.5 provides that each leach pad, tailing facility, or settling pond shall be considered a separate appraisal unit for purposes of determining its taxable value on each lien date subsequent to the initial base year value determination.

Settling ponds can typically be discovered by reviewing applications for county mining permits. Existence of leach pads, settling ponds, and tailing facilities can be discovered through visual inspection of the property or review of the *Surface Mining Permit*. Each leach pad, settling pond, and tailing facilities shall have its own base year value for purposes of determining declines in value.

**Measure declines in value as required by Rule 469.**

We found that the value of land, improvements, and reserves determined by the real property staff are not coordinated with the values of improvements and fixtures determined by the business property staff. Rule 469 provides that the appraisal unit for mining properties includes land, improvements, including fixtures (except for leach pads, settling ponds and tailings facilities), and reserves.

When reviewing for declines in value, the adjusted base year value of the total appraisal unit should be compared to the total current market value of the same appraisal unit. In some cases, the current market value of the improvements and fixtures that are valued by the business property staff may offset increases in the current market value of the mineral rights. It may then be proper to enroll the current market value of the mineral rights on the secured roll. The business property can still be enrolled on the unsecured roll, but the value should be communicated to the real property unit so that the decline-in-value assessment can be coordinated.

***Pipeline Rights-of-Way***

Intercounty pipeline rights-of-way were assessed by the Board from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the Board's constitutional authority.<sup>4</sup> The court ruled that while the pipelines themselves are properly assessed by the Board, the rights-of-way through which the pipelines run must be locally

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<sup>4</sup> *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4<sup>th</sup> 42.

assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, governing the valuation of intercounty pipeline lands and rights-of-way.

There are three pipeline rights-of-way assessments on the 2006-07 assessment roll with a total assessed value of \$2,795,222. The pipeline rights-of-way have been valued by the prescribed density classification methodology in accordance with section 401.10. Pipelines in Riverside County are being properly assessed in accordance with sections 401.8 through 401.13.

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

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

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

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

### ***Audits***

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

The business personal property unit is comprised of 32 permanent staff. Two supervising auditor-appraisers and 13 auditor-appraisers under the direction of the principal auditor-appraiser are responsible for the audit workload.

The assessor maintains an audit database of business accounts, which includes both mandatory and non-mandatory audit accounts. This database includes business accounts of related entities discovered during the course of mandatory audits that do not fall within the guidelines of section 469 and those that have irregularities discovered during statement processing. As of the date of our review, Riverside County had 2,077 audit accounts, including approximately 1,500 mandatory and 577 nonmandatory audit accounts. Additionally, the assessor subscribes to the California Counties Cooperative Audit Service Exchange.

The following table shows the total number of audits completed for recent years:

ROLL YEAR	2005-06	2004-05	2003-04	2002-03	2001-02
<b>Audit Workload:</b>					
Mandatory	350	391	407	303	335
Nonmandatory	90	75	75	150	300
Total Audits Scheduled	453	466	482	453	635
Mandatory Audits Carried From Prior Year	13	8	1	24	24
Total Audit Workload	466	474	483	477	635
<b>Audits Completed:</b>					
Mandatory	330	386	400	326	335
Nonmandatory	85	75	78	174	315
Total Audits Completed	415	461	478	500	650
Mandatory Audits Carried Forward	33	13	8	1	24

### Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more for four consecutive years.<sup>5</sup>

In order to remain current with his obligations pursuant to section 469, the assessor must conduct approximately 375 mandatory audits each year. Our review of the assessor's mandatory audit program shows that the assessor is current. For those mandatory audits that are not completed in the scheduled year, the assessor obtains waivers of the statute of limitations from the taxpayers and the audits are completed in the following year.

### Statute of Limitations

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

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<sup>5</sup> Effective January 1, 2009, the criteria for determining mandatory audits changed to require the assessor to conduct audits, equal to 75% of the number of audits completed during 2002-2003 through 2005-2006, with at least 50% to be selected from a pool of those taxpayers with the largest assessments.

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

### **Audit Quality**

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

We found that the assessor performs legal entity ownership change in control reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment. We reviewed several recently completed audits and found that, in all cases, the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. A standardized review process further enhances audit quality.

### ***Business Property Statement Processing***

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

Workload

The following table displays the assessor's workload of secured and unsecured business property statements and assessments for the 2005-06 assessment roll:

<b>TYPE OF PROPERTY STATEMENTS</b>	<b>TOTAL</b>	<b>TOTAL ASSESSED VALUE</b>
Agriculture	460	\$114,650,739
Apartments	1,585	\$37,751,771
Financial	526	\$67,219,949
General Business (Active Accounts)	19,513	\$6,326,449,728
General Business (Direct Billing)	4,455	\$79,227,477
Leased Equipment	7,944	\$1,399,746,577
Service Stations	401	\$102,091,266
Boats, Aircraft & Other	10,732	\$400,637,231
Totals	45,616	\$8,527,774,738

General Statement Processing

An office assistant or technician processes business property statements by documenting the date received and confirming the signature on the statement. The assessor's computer system is flagged to indicate that a statement has been received, and statements are classified and sorted by type. Auditors then review statements for accuracy and completeness, enroll current costs, investigate any inconsistencies or irregularities, and assign valuation factors. Incomplete or un-signed statements are returned to the property owner for completion. The processed statement is then returned to technicians for data input and review by a supervisor.

We reviewed all aspects of the business property statement program, including processing procedures, use of Board-prescribed forms, application of penalties, coordination with the real property staff, and record storage and retention. In addition, we reviewed several business property statements. We found that all statements were completed in sufficient detail and were properly signed. We further found that the assessor properly uses Board-prescribed forms.

Filing Procedures

Under section 441.5, in lieu of completing the property statement, information required of the taxpayer may be furnished to the assessor as attachments to the property statement provided that the attachments are in a format as specified by the assessor and either a copy of the actual property statement is signed by the taxpayer and carries appropriate reference to the data attached, or the statement is properly filed electronically. The assessor allows taxpayers to

submit attachments in lieu of completing business property statements as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits the signed original of the statement.

We found that the taxpayer or an authorized agent appropriately signed statements, even when a rendition was attached to an original of the business property statement.

Our review also included verifying the assessor's procedures for processing late filed and non filed statements. We found that the assessor properly applies the late-filing penalty as required by section 463. Additionally, habitual non filers are flagged for either a field review or an audit.

### **Direct Billing**

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

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements that must be processed annually by the assessor's staff, thereby, increasing time available for the auditor-appraisers to perform other required duties.

The Riverside County Assessor maintains a significant direct billing program with over 4,400 accounts. The program is well regulated, and the appropriate controls are in place to reduce the chance of escape assessments. Additionally, a statement is sent to participants every four years in order to update taxable equipment information.

### **Summary**

Overall, we found that the assessor's business property statement processing program to be effectively administered. The procedures in place are well structured and compliant with existing law. We have no recommendations regarding this area.

### ***Business Equipment Valuation***

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

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

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment (e.g., pagers, facsimile equipment, high-tech medical equipment, and photocopiers) that the CAA recommends should not be trended. The (CAA) also recommends the use of minimum percent good factors to recognize the fair market value of older property. The minimum factors recommended for most commercial and industrial equipment are based on a review of data in the *Marshall Valuation Service*. This review indicated an average 9 percent minimum percent good factor for all industrial property and an average 10 percent minimum percent good factor for all commercial property. The CAA also recommends the use of a 25 percent minimum percent good factor when valuing automated teller machines. This recommendation is based upon a separate study conducted by the Los Angeles County Assessor.

We found that the assessor's application of the CAA valuation tables and the use of the minimum percent good factors are applied consistently and accurately.

In addition, the assessor has adopted the CAA factors for computer equipment. The factors agree with those found in AH 581.

We found the assessor utilizes separate and appropriate factor tables for new and used mobile agricultural and construction equipment pursuant to the instructions located in Tables 5 and 6 in the AH 581. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile agricultural and mobile construction equipment when the taxpayer does not indicate on the property statement whether the equipment is first acquired new or used. Where the condition is known, the assessor should use the "new" or "used" table.

We reviewed the assessor's agricultural and construction factor tables, in addition to several processed agricultural statements, and found that the assessor is applying the agricultural and construction equipment factor tables as intended.

### ***Leased Equipment***

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer purchasing the equipment), and double or escape assessments resulting from combined lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

Taxpayers are required to report all leased equipment on their annual property statement. They also are required to provide information on the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

In Riverside County, the assessor sends a supplemental form along with the property statement to accommodate the reporting of numerous leased assets. Once the completed statements are received, a technician keys a flag in the computer system for each individual assessment associated with the returned statement, which indicates the submission has been made. The returns are then forwarded to auditor-appraisers for processing.

Current reported cost information is cross referenced with a database of all enrolled leased equipment. New taxable equipment information is updated on the computer system and new assessments are created as necessary. This database serves as a crucial control in property statement processing.

When processing lessees' statements, which include leased equipment, the auditor-appraisers cross reference the reported information with the database to determine if the equipment is already assessed to the lessor of the equipment. If the reported equipment appears in the database as already enrolled, the auditor-appraisers will make a note as such. If the reported leased equipment does not appear on the database, the auditor-appraisers will enroll the equipment and assess the lessee or contact the lessor. This exercise further helps to isolate possible double assessments and to facilitate the comparison of leased information reported on a lessor's property statement with information provided by a lessee to ensure the accuracy of the reported cost and acquisition data.

We reviewed the annual property statements of several lessors and lessees. We focused our analysis on the valuation methods applied completeness of reporting, tracking of equipment, correct assessee designation, correct expired lease disposition, and correct processing procedures. The assessor maintains effective procedures for the enrollment and tracking of leased equipment. We found that the assessor's staff properly distinguishes between leases and conditional sales contracts, and follows correct appraisal and assessment procedures.

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

When a lessee obtains ownership and retains possession of equipment at the end of the lease term, the assessor should confirm that the lessee reports the property. A cross check of information reported by lessors and lessees verify the accuracy of the reported information. In Riverside County, once the assessor receives notice from a lessor that a lease has terminated, equipment costing less than \$10,000 is enrolled directly to the lessee. Research is conducted for assets of greater value to determine the appropriate course of action and to ensure that the property is not double assessed.

We examined multiple examples of lease terminations, which established that the assessor is properly tracking lease expiration notifications and adequately documenting the steps taken. The assessor has strong procedures in place to minimize the possibility of escape assessments from occurring subsequent to the transfer of off-lease equipment from the lessor to the lessee.

## **Manufactured Homes**

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

In Riverside County, the assessor is notified of assessable manufactured homes by information from the State Department of Housing and Community Development, dealer reports of sale, and building permits.

Riverside County has 62,584 manufactured homes on the 2006-07 assessment roll with a total roll value of \$4,653,414,102. The county has 363 mobilehome parks, of which five are resident-owned parks.

The manufactured homes unit has the responsibility of appraising all manufactured homes except those located on parcels of ten acres or more. A manufactured home located on a parcel of ten acres or more is coded and assessed as part of an agricultural parcel.

We reviewed a number of manufactured home assessments, including transfers and new installations of manufactured homes. Overall, the assessor has an effective program for the discovery and assessment of manufactured homes. Discovery procedures are good and new construction and accessories are assessed properly.

In our 2003 survey report, we recommended the assessor improve the manufactured home valuation program by classifying manufactured homes as personal property, placing greater emphasis on recognized value guides, and by valuing resident interests in mobilehome parks by allocating the residual sales price to the land and common structures. We did not find any material impact on the roll for misclassifying manufactured homes, and, accordingly, we will not repeat this recommendation. However, we will repeat the other recommendations, which the assessor has not implemented.

**RECOMMENDATION 10:** Improve the assessment of manufactured homes by:  
(1) valuing resident interests in manufactured home parks by allocating the residual sales price to the land and common structures, and (2) using value guides when assessing manufactured homes in rental parks located on rented or leased land.

### **Value resident interests in mobilehome parks by allocating the residual sales price to the land and common structures.**

We found that the assessor applies an equalized value for the pro rata portion of the real property in the park to the residents' interests or shares in resident-owned mobilehome parks. Letter To Assessors No. 99/87 provides that the residents' ownership shares of those parks should be

derived by subtracting the market value of the manufactured home from the reported total price paid and assigning the remainder to the share or interest in the park. Enrolling equalized or average values of those shares or interests overvalues some shares and undervalues others.

### **Use value guides when assessing manufactured homes in rental parks located on rented or leased land.**

We reviewed several records for manufactured homes in rental parks located on rented or leased land and found that the assessed values were based on selling prices without adjustment for site value.

Section 5803(b) requires the assessor, when determining the full cash value of a manufactured home on rented or leased land, to take into consideration data listed in recognized value guides for manufactured homes. These value guides include the Assessors' Handbook Section 531 and the National Automobile Dealers Association's *Manufactured Housing Appraisal Guide*.

Sales prices of manufactured homes located on rented or leased land frequently include increments of value attributable to factors other than the manufactured home. Examples include site values, associated accessories, buildings, structures, or items of personal property. Site value is attributable primarily to location, such as the desirability of the park, space within the park, or space size. It is improper to include site value in the assessed value of a manufactured home that is located on rented or leased land.

By using the sales price, the manufactured home is likely to be assessed at a value that includes increments of value attributable to factors other than the manufactured home, resulting in overassessment.

## **Aircraft**

### **General Aircraft**

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

For the 2006-07 assessment roll, the Riverside County Assessor enrolled 1,364 general aircraft with a total assessed value of \$234,898,917. Two auditor-appraisers are responsible for appraising general aircraft. The assessor discovers aircraft through airport operators' reports, field canvasses, other county referrals, Federal Aviation Administration reports, and Internet research.

An aircraft property statement is mailed annually to the known owner of each aircraft in the county. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information, if applicable. The aircraft statement indicates a filing due date of April 1 and contains penalty language pursuant to section 5367.

Upon receipt of the aircraft property statement, an auditor-appraiser incorporates adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul, to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

The assessor uses the *Aircraft Bluebook-Price Digest* value guide. We reviewed a number of aircraft statements that had been processed. We found that, in the instances where an annual appraisal was conducted, the value conclusions made by the auditor-appraisers were sufficiently supported. We also reviewed a number of late-filed aircraft statements for the proper application of the late-filing penalty and found that the assessor consistently applies the penalty pursuant to section 5367.

### **Certificated Aircraft**

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the Board). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

Ten commercial air carriers fly in and out of the Palm Springs International Airport in Riverside County. One auditor-appraiser, with specialized experience, is responsible for the appraisal and audit functions related to certificated aircraft. Appraisals are predicated upon the reported costs indicated on the air carrier business property statements. The auditor-appraiser applies the percentage of time the aircraft is situated in Riverside County based on the representative period to the airline's total audited fleet estimate of value to derive a pro rata estimate of the certificated aircraft value.

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

### **Historical Aircraft**

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as: (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or

(2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

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

There were 207 historical aircraft assessed on the 2006-07 assessment roll in Riverside County with a total value of \$16,237,582. The assessor properly obtains signed affidavits, in the format prescribed by the Board, and certification of attendance for historical aircraft exemptions pursuant to section 220.5(c). We reviewed several historical aircraft assessments and exemption claims and found the assessor has properly granted the exemption when the legal conditions are met. We also were able to confirm that the assessor correctly denied the exemption when the affidavit was not filed. However, we did find one problem.

**RECOMMENDATION 11:** Apply a reduced exemption to qualifying historical aircraft when an affidavit is not timely submitted.

We reviewed a number of historical aircraft exemption claims and found the assessor is not accurately reducing the exempt value to 80 percent of full value when the claim is not timely filed. Of the late-filed claims inspected, we found that the full exemption was allowed in most cases. In other case, where a partial exemption was allowed, the exemption value was not reduced to 80 percent of full value as required.

Section 255(a) provides that the historical aircraft exemption claim must be submitted no later than 5:00 p.m. on February 15 each year. Section 276.5 provides for a partial exemption of 80 percent for claims filed after February 15 but on or before August 1. By allowing for a full exemption in cases where claims are not timely filed, the assessor is neither enforcing taxpayer compliance with section 255 nor complying with the provisions of section 276.5.

## **Vessels**

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include State Department of Motor Vehicles' (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. For the purposes of California property taxation, vessels are valued at their fair market value every year as of the January 1 lien date. Sections 401 and 401.3 require the assessor to assess boats at market value each year. The assessor appraises vessels when newly arrived in the county. Riverside County has a low-value property resolution

exempting personal property valued at less than \$5,000. Therefore, vessels with values that fall below the low-value exemption threshold are exempt from taxation.

The following table shows the vessels assessed in Riverside County for recent years:

ROLL YEAR	PLEASURE	ASSESSED VALUE
2006-07	9,308	\$148,236,005
2005-06	10,270	\$180,762,707
2004-05	12,687	\$101,720,538
2003-04	13,276	\$107,908,502
2002-03	13,519	\$113,864,322

Riverside County is an inland community with an active pleasure vessel and personal watercraft industry. The county has a total of seven lakes. The assessor enrolled 9,308 vessels on the 2006-07 assessment roll, with a total assessed value of \$148,236,005.

Two auditor-appraisers, assisted by a technician, administer the assessor's vessel program. The assessor values new vessels with the aid of a computerized version of the *ABOS Marine Bluebook* and the *Marine Appraisal Guide*. The assessor correctly adds a sales tax component of value, makes adjustments for vessel condition, motor and motor condition, accessories, and deductions for trailers, as appropriate.

The assessor primarily utilizes DMV reports and referrals from other counties as methods of discovery. The assessor's office has developed an automated process whereby a computer tape provided by the DMV is cross-referenced with currently enrolled vessel information to update ownership records and to identify vessels entering or leaving the county. New vessel information is printed out for review and processing.

We reviewed a random sample of vessel assessments. The sample included vessels whose values fell below the threshold specified in the low-value property resolution, vessels whose values were subject to the assessor's application of an annual depreciation rate, and vessels with initial assessments. We found that the assessor is properly assessing the vessels in a timely manner.

## APPENDIXES

### A. County-Assessed Properties Division Survey Group

#### Riverside County

*Chief*

Dean Kinnee

*Survey Program Director:*

Arnold Fong

Principal Property Appraiser

*Survey Team Supervisor:*

Jody Henning

Supervising Property Appraiser

*Survey Team Leader:*

David Dodson

Senior Specialist Property Appraiser

*Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Jeffrey Arthur

Associate Property Auditor-Appraiser

Maureen Spurlock

Associate Property Auditor-Appraiser

Mike Ash

Associate Property Appraiser

Paula Eagleman

Associate Property Appraiser

Tom McClaskey

Associate Property Appraiser

Ardeshir Noroozkhani

Associate Property Appraiser

Samantha Stewart

Tax Technician

## **B. Assessment Sampling Program**

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing<sup>6</sup> activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)<sup>7</sup>

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

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

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

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<sup>6</sup> 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.

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

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

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

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

**Unsecured properties.** Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County-Assessed Properties 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 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 the assessee's property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

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

**15642. Research by board employees.**

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

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

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 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 Board a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the Board's comments on the assessor's response, if any, constitute the final survey report.

The Riverside County Assessor's response begins on the next page. The Board has no comments on the response.



COUNTY OF RIVERSIDE  
ASSESSOR-COUNTY CLERK-RECORDER  
P.O. BOX 751  
RIVERSIDE CA 92502-0751  
(951) 486-7450

CATHY COLT  
ASSISTANT  
Administrative Division

TAUNA MALLIS  
ASSISTANT  
County Clerk-Recorder Division

FRIT SWAIN  
ASSISTANT  
Valuation Division

LARRY W. WARD  
Assessor-County Clerk-Recorder

September 9, 2008

Mr. Dean R. Kinnee, Chief  
County-Assessed Properties Division  
State Board of Equalization  
PO Box 942879  
Sacramento, California 94279-0062

RECEIVED  
SEP 11 2008  
County-Assessed Properties Division  
State Board of Equalization

RE: Assessor's Response - Riverside County Assessment Practices Survey Report

Dear Mr. Kinnee:

Enclosed are the Riverside County Assessor-County Clerk-Recorder's responses to the State Board of Equalization's Assessment Practices Survey and sample of the 2006-07 assessment roll. Section 15645 of the Government Code requires a written report to the assessor, and allows a response.

I, together with my staff, would like to commend the Board's Survey Team for their professionalism and consideration during the survey visit. The team, headed by Jody Henning and David Dodson, conducted interviews and staff consultation with minimal impact to our daily departmental functions. We welcome the objective review of our office and the results of the survey will have a positive impact on a number of our business procedures.

Riverside County, over the period from 2003 through 2007, has experienced unprecedented assessment growth. Our assessment roll almost doubled during that time going from \$123 billion to over \$240 billion. This increase in assessment activity has thrust our department into new and more efficient processes that expedite our business functions while maintaining our high standards for quality. To that end we, in partnership with the Tax Collector and Auditor, are in the process of developing a new property tax system to replace the existing mainframe platform. Many of our procedural limitations will be addressed with this new tax system.

Finally the survey's assessment accuracy ratio of 99.9 percent gives credit to the hard work and dedication of our staff during an incredibly aggressive assessment period.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry W. Ward".

Larry W. Ward

**RIVERSIDE COUNTY ASSESSOR'S OFFICE  
RECOMMENDATIONS AND RESPONSES  
TO  
BOARD OF EQUALIZATION ASSESSMENT PRACTICES SURVEY AND AUDIT  
AUGUST 2008**

RECOMMENDATION 1: *Reference the controlling statutes when enrolling penalties on the assessment roll.*

RESPONSE 1: We do agree that we are not strictly complying with Rule 261 and are looking into the possibility of amending how the penalty is delineated on the tax roll and on assessment roll changes so as to adhere to Rule 261 requirements.

RECOMMENDATION 2: *Timely appraise property owned by legal entities that have undergone a change in control.*

RESPONSE 2: We do agree and have allocated staff resources specifically to dissolve the backlog of legal entity transfers. Our office is working with SBE (Theresa Quintano) to obtain timely information regarding LEOP transfers. The backlog of transfers has declined each year since 2006 and will be eliminated for the 2008 assessment year.

RECOMMENDATION 3: *Revise the transfer list to include all the information required by section 408.*

RESPONSE 3: The only information not included on the transfer list required by section 408 are the names of the transferor and transferee. This information is not captured on the Assessor's database and is not readily available for inclusion on the list. However, the information is available at all public service locations through the County Recorder's program (RecIndex). We are hopeful that the new property system currently in development will allow for the names to be included on the transfer list.

RECOMMENDATION 4: *Improve the processing of section 69.5 base year value transfers by: (1) filing quarterly reports with the Board as required by section 69.5(b)(7), and (2) properly applying the inflation factor to section 69.5 transfers.*

RESPONSE 4: We agree with this recommendation. Quarterly reporting of section 69.5 transfers and the proper application of the inflation

RESPONSE 4: factors began in February 2007. Our office has coordinated with SBE staff, Paula Eagleman and Glenna Schultz, for this process.

RECOMMENDATION 5: *Improve the CLCA program by: (1) developing appropriate risk rates for CLCA property, and (2) calculating restricted values for living improvements using the current interest component as required by section 423.*

RESPONSE 5: We agree with this recommendation. (1) our office now develops annual risk rates as described in AH 521. (2) For 2007, per LTA 2006-040, we utilized the current interest component of 4.5% for living improvements per section 423.

RECOMMENDATION 6: *Periodically review all taxable possessory interests with stated terms of possession for declines in value.*

RESPONSE: We agree with this recommendation and will attempt to review taxable possessory interests for declines in value as our staffing and workload constraints allow. We are currently working with our IT section to create a database that will track possessory interests as well as automate the process of annual valuations due to declining terms of possession.

RECOMMENDATION 7: *Value structural improvements made by tenants in the same manner as other real property.*

RESPONSE 7: We agree with this recommendation. Our BPP Division and Commercial Division will coordinate to develop a process to value all structural improvements in the same manner.

RECOMMENDATION 8: *Improve the water company assessment program by: (1) collecting and reviewing relevant data for the assessment of water company properties, (2) identifying and assessing properties owned by regulated water companies, and (3) assessing all water company property at the lower of its factored base year value or its full cash value.*

RESPONSE 8: We agree with this recommendation. Our office has revised procedures to send BOE forms 540S and 571L to all identified water company assesses allowing collection and review of relevant data. We have improved our identification process by researching data provided by the Public Utilities Commission and the Riverside County Public Health Department. We are also reviewing assessments annually to measure market value compared to factored base year value.

RECOMMENDATION 9: *Revise the mineral assessment procedures by: (1) identifying and treating each leach pad, settling pond, and tailings facility as a separate appraisal unit, and (2) measuring declines in value as required by Rule 469.*

RESPONSE 9: We agree with (1), but we are not aware of any leach pads or tailings within Riverside County. We will extract the value of the settling ponds from the economic unit in the future.

We agree with (2) and will improve the coordination between the Commercial and BPP Divisions to ensure compliance with Rule 469.

RECOMMENDATION 10: *Improve the assessment of manufactured homes by: (1) valuing resident interests in manufactured home parks by allocating the residual sales price to the land and common structures, and (2) using recognized value guides when assessing manufactured homes in rental parks located on rented or leased land.*

RESPONSE 10: We agree with both aspects of this recommendation. We have already implemented the process of allocating the residual sales price to land and/or common structures when using a market value approach. We are currently using the NADA value guides both in hard copy and on disk.

RECOMMENDATION 11: *Apply a reduced exemption to qualifying historical aircraft when an affidavit is not timely submitted.*

RESPONSE 11: We agree with this recommendation and have begun the implementatn of this process.