SAN BERNARDINO COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2010

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February 26, 2010

No. 2010/013

TO COUNTY ASSESSORS:

SAN BERNARDINO COUNTY
ASSESSMENT PRACTICES SURVEY

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

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from February through July 2008. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum amount of funding 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 (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the San Bernardino County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and to the San Bernardino 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 Dennis Draeger, San Bernardino County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code[1] section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the San Bernardino 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 San Bernardino County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2007-08 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

EXECUTIVE SUMMARY

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

Over the last five years the San Bernardino County Assessor's office has undertaken a variety of projects with the effect of improving operations and public services. Listed below are some of their accomplishments during this period:

Public Services

- An improved assessor's website provides the public with direct contact with the assessor's staff, facilitating quick responses to taxpayer questions. The website includes access to forms and answers to Frequently Asked Questions. The website is monitored daily by staff dedicated exclusively for this purpose.
- Public information computer kiosks have been set up in all district offices to assist with customer service and information requests.
- The assessor's calamity management system was put to the test when three large wildfires necessitated swift reassessment of damaged property. The reassessments and corrections to reduce the values were accomplished within 30 days of the fires.[2]

Assessment Services

- The assessor implemented enhancements to the existing Property Information Management System (PIMS) to image, route and process documents electronically. The new system has resulted in a reduction of over 100,000 documents being printed annually. Deeds, Preliminary Change of Ownership Reports, and exclusion requests are all reviewed, routed, and processed electronically and are viewable by all assessor's staff.
- Notices and letters sent to property owners are imaged and saved electronically for easy retrieval and archival purposes.
- The assessor's mapping system has been linked directly with the County GIS basemap.

Real Property Assessments

- Assessment Valuation Services (AES) implemented a computer software system to automate valuations of single family residences. The system allows appraisal staff to search for comparable sales, plot comparables on maps, make comparability adjustments, and perform appraisals in shorter timeframes with a high degree of reliability.
- A drawing software tool --APEX-- was made available to all appraisal staff. Building diagrams are created electronically and saved for easy retrieval and updates. The system provides for fewer calculation errors, and high quality, easy to read diagrams.
- Staffing levels in the Appeals Division were increased to reduce the time from application to hearing date.
- All building records have been imaged and saved electronically for retrieval and archival purposes.

[2] The three large wildfires referenced are: Old Fire-October 2003, Sawtooth Fire-July 2006, and Slide/Grass Valley Fires-October 2007.

Business Property Valuations

- The assessor implemented an E-Filing system for annual filing of Business Property Statements (BPS). Businesses can now file an annual BPS electronically.
- A system was introduced for the online processing of BPSs.
- All BPS and Landlord Lease Letters are imaged and available electronically.
- An automated interface with the Department of Motor Vehicles (DMV) was executed to improve vessel assessments.

With respect to the assessor's administrative policies and procedures, we found the exemptions, assessment appeals, and disaster relief programs to be effectively run. Additionally, we did not find problems with roll changes, the low value property tax exemption, racehorse tax administration, or forms. However, we do note one area for improvement under the training and certification program. In the area of real property assessment, the assessor has effective programs for new construction, declines in value, supplemental assessments, timeshares, taxable government-owned property, leasehold improvements, water company property, and pipeline rights-of-way. We note, however, other program areas where improvement is needed, including change in ownership, California Land Conservation Act (CLCA), taxable possessory interests, historical properties, and mineral rights.

The assessor has effective programs for auditing, processing business property statements, business equipment valuation, handling leased equipment, and the assessment of manufactured homes. Two areas needing improvement, however, are the vessel program and the use of non-certified staff in valuing aircraft.

Since our survey fieldwork, the Honorable Dennis Draeger was appointed to the office of San Bernardino County Assessor, which was vacated by the former Assessor Bill Postmus.

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

The San Bernardino County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2007-08 assessment roll indicated an average assessment ratio of 100.21 percent, and the sum of the absolute differences from the required assessment level was 1.47 percent. Accordingly, the BOE certifies that San Bernardino County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Ensure a certified auditor-appraiser or appraiser reviews all assessments prepared by noncertified staff.....8

RECOMMENDATION 2: Ensure that all changes in control of legal entities are reappraised timely.....20

RECOMMENDATION 3: Do not include confidential sale price information taken from a PCOR or COS on the list of transfers. 21

RECOMMENDATION 4: Improve the CLCA assessment program by: (1) sending CLCA questionnaires to property owners; and (2) annually reviewing all CLCA parcels. 29

RECOMMENDATION 5: Improve the taxable possessory interest assessment program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; and (2) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach. 32

RECOMMENDATION 6: Annually assess restricted historical properties at the lowest of factored base year value, current market value or the restricted value. 34

RECOMMENDATION 7: With respect to mineral property, allocate current market value of the total property appropriately among each component of the appraisal unit. 37

RECOMMENDATION 8: Perform a situs inspection for large audit accounts. 41

RECOMMENDATION 9: Improve the vessel reporting program by: 1) requiring vessel owners to file annual vessel property statements for all boats costing $100,000 or more; and 2) utilizing available BOE-prescribed vessel property statements and assessing late-filing penalties, when legally justified, pursuant to section 463. 52

OVERVIEW OF SAN BERNARDINO COUNTY

Situated in Southern California, San Bernardino County is geographically the largest county in California. The county encompasses approximately 20,105 square miles, of which approximately 53 square miles are covered by water. San Bernardino County is bordered by Arizona and Nevada on the east, Inyo County on the north, Kern and Los Angeles counties on the west, and Orange and Riverside counties on the south. On April 26, 1853, San Bernardino County was created from parts of Los Angeles, San Diego, and Mariposa counties. In 1854, the city of San Bernardino was incorporated as the county seat. In 1893, Riverside County was created out of parts of San Bernardino and San Diego counties.

As of 2007, San Bernardino County has a population of about 1,963,000 people and has 24 incorporated cities.

The following table displays information pertinent to the 2007-08 assessment roll:

	PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	705,750	$122,028,906,729
	Commercial/Industrial	47,395	$39,593,441,835
	Agricultural	7,340	$2,182,603,093
	Other Secured	7,748	$8,204,903
	Total Secured	**768,233**	**$163,813,156,560**
Unsecured Roll	Personal Property & Fixtures	52,293	$9,131,465,440
	Total Assessment Roll	**820,526**	**$172,944,622,000**

The next table illustrates the growth in assessed values over recent years:[3]

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2007-08	$172,944,622,000	15.9 %	9.6 %
2006-07	$149,194,222,000	17.9 %	12.3%
2005-06	$126,507,972,000	14.5 %	11.1%
2004-05	$110,531,247,000	10.8 %	8.3%
2003-04	$99,717,566,000	8.3%	7.3%

[3] 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 tax exemption, exemptions, the racehorse administrative tax, and assessment forms.

Budget and Staffing

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 the assessor can produce a timely assessment roll, 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.

The assessor's budget has grown approximately 90 percent over recent years. The gross budget figures reflect the funding for appraisal services and related administration and support services only.

The assessor has nine district offices to serve the public: Barstow, Big Bear Lake, Fontana, Needles, Ontario, San Bernardino, Twin Peaks, Victorville, and Yucca Valley.

The following table shows the approximate budget levels over recent fiscal years:

BUDGET YEAR	GROSS BUDGET	ANNUAL INCREASE	PERMANENT STAFF
2007-08	$20,983,159	1.0%	231
2006-07	$20,000,661	54.4%	207
2005-06	$12,951,425	3.5%	204
2004-05	$12,518,341	13.9%	193
2003-04	$10,986,443	2.6%	187

For the 2007-08 roll year, the number of employees totals 231 and includes 10 supervisors/managers, 71 real property appraisers, 19 auditor-appraisers, 8 mapping staff, and 123 clerical and support staff.

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 BOE. 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 chief appraiser is the Appraiser Certification Coordinator and monitors the appraisal staff's training hours through the use of the BOE's training reports. He ensures training and certification requirements are met by communicating directly with appraisers and their supervisors. The assessor's office offers a variety of opportunities for training including BOE training courses and in-house training. Currently, the training unit is developing new training modules for their new and future hires. All new appraisers have completed their certification requirements.

In addition, a county human resource vendor provides verification of education and experience qualifications and conducts criminal background and credit checks.

Overall, we found the assessor's appraiser training and certification program is actively and efficiently monitored. However, we did note one problem with the use of noncertified staff in preparing aircraft assessments.

RECOMMENDATION 1: Ensure a certified auditor-appraiser or appraiser reviews all assessments prepared by noncertified staff.

We found a noncertified appraisal technician processes the majority of the aircraft property statements. A certified auditor-appraiser reviews a sampling of the generated value conclusions but the majority of statements processed by noncertified staff proceed to data entry for enrollment without being individually inspected and signed off by a certified appraiser.

Section 670(a) provides that "No person shall perform the duties or exercise the authority of an appraiser for property tax purposes as an employee of the state, any county or city and county, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificated issued by the BOE." In addition, Letter To Assessors 2003/068, dated October 29, 2003, provides guidance for the use of non-certified assistants in the assessment of business property. It provides that assistants may input the year of acquisition and cost information from source documents, and select and apply full value and percent good factors, subject to instruction and review by a certified auditor-appraiser or appraiser. However, at no time should an assistant make decisions as to property classifications, and at all times, an appraiser must review any resulting value estimates an assistant creates.

The assessor's practice of using noncertified staff in the valuation process of business property is contrary to section 670 and the above guidance, lacks the recommended elements of oversight and review, and could lead to erroneous value conclusions.

Assessment Appeals

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

San Bernardino County has three assessment appeals boards and is anticipating setting up a fourth. Each board has three members and the boards typically meet once a week to conduct appeal hearings. All members, with the exception of two, have completed the training required by section 1624.02. The two exceptions are new members who have one year to complete the required training pursuant to section 1624.01(a).

All applications for changed assessment are filed with the Clerk of the Board of Supervisors. The clerk is responsible for receiving applications, reviewing all applications for completeness, and providing copies of the applications to the assessor. The clerk maintains the original applications, and tracks the progress of appeals to ensure they are resolved within the two-year time limit.

Once the assessor receives a copy of an application, he reviews the case and contacts the taxpayer in an attempt to resolve the disagreement. If no agreement can be reached, the appeal process continues and a hearing is scheduled.

The following table represents the appeals workload for recent years:

APPEALS	2007-08	2006-07	2005-06	2004-05	2003-04
Appeals Filed	5,551	1,947	1,979	1,967	2,203
Appeals Carried Over From Prior Year	1,226	996	959	1,033	762
Total Appeals Workload	**6,777**	**2,943**	**2,938**	**3,000**	**2,965**
Resolution:					
Withdrawn	589	659	628	905	782
Stipulation	3	5	33	292	187
Appeals Reduced	400	415	428	238	200
Appeals Upheld	66	60	92	131	154
Appeals Increased	14	3	3	8	1
Invalid Applications	494	321	446	137	313
Non Appearance by Applicant	499	254	312	330	295
Total Resolved	**2,065**	**1,717**	**1,942**	**2,041**	**1,932**
Carried Over	**4,712**	**1,226**	**996**	**959**	**1,033**

We found the assessor's assessment appeals program to be well administered.

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 any assessee whose property suffers damage exceeding $10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

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

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

The disaster relief ordinance approved by the San Bernardino County Board of Supervisors conforms to all current statutory provisions. The assessor discovers calamities through permits, newspaper articles, other media reports, fire reports, taxpayers, and field investigations. The assessor requests monthly reports from all 24 of San Bernardino County's fire protection agencies asking for information concerning any fires and other misfortunes or calamities.

The following table represents the number of disaster relief claims filed over the last five years:

ROLL YEAR	CLAIMS FILED
2007-08	614
2006-07	176
2005-06	108
2004-05	133
2003-04	1,447

San Bernardino County experienced a major calamity in 2007 due to forest fires in the Big Bear area. There were 495 damaged properties in the areas of Running Springs, Green Valley Lake and Lake Arrowhead. The County's disaster relief ordinance authorizes the assessor to reassess damaged property without application from affected property owners. Assessor's staff, along with personnel from other agencies, coordinated the inspection, identification and listing of the damaged properties as soon as conditions allowed such inspections.

We randomly reviewed several records of properties having suffered a calamity. We found the disaster relief claim forms were date-stamped upon receipt, and that all of the reassessment calculations were accurate. The assessor noted the disaster information on the records, properly calculated the value reduction, and reduced the assessed values of damaged properties. The assessor handled each case properly and processed mid-year tax relief for the property owners.

We found the assessor's current practice is correct in providing disaster relief according to section 170.

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 by the assessor over recent years:

ROLL YEAR	NUMBER OF ROLL CHANGES
2006-07	63,726
2005-06	74,812
2004-05	61,349
2003-04	62,535
2002-03	69,317

The assessor uses an automated roll change system displaying current and historical value information. The program contains a list of standardized reason codes with appropriate legal citations.

The assessor initiates assessment roll changes to rectify errors discovered during field inspections, reviews of business property statements, audits, and examination of death notices.

Appraisers, title transfer technicians, and exemption staff determine the need for a roll change, cite the authority for the change, and estimate the current values when applicable.

Pending roll revisions are placed into an electronic queue that is either reconciled or rejected by the supervisor. The approved values are routed to the clerical unit for data entry. When roll changes are finalized the automated system computes the amount of the change and generates the appropriate notices to the taxpayer and auditor. Assessment roll changes are processed according to the event date. The computer system catalogues all events chronologically on the record for each parcel.

For escape assessments, the assessor uses prescribed BOE-approved Form BOE-66-A, *Notice of Proposed Escape Assessment*. The notice is mailed to taxpayers at least ten days before changes

are entered onto the roll in accordance with section 531.8. After the ten day statutory period has passed, the values are enrolled and transmitted to the auditor-controller for billing. The assessor also uses the prescribed BOE-approved Form BOE-66-B, *Notice of Enrollment of Escaped Assessment*. The notice is mailed to taxpayers immediately after enrollment of the escape assessment.

The assessor processes escape assessments for changes in ownership and completion of new construction within the statute of limitations pursuant to section 532. There appears to be no delays in processing escape assessments. We found the assessor gives proper notification to taxpayers of the enrollment of an escape assessment, and advises them of their rights to both an informal review of the assessment and the right to file a formal appeal. The notices meet all statutory requirements in accordance with section 534.

As to enrolling corrections, we found the assessor has procedures in place to apply penalties and interest for escaped homeowner's exemptions where the taxpayer's error caused the exemption to be allowed pursuant to section 531.6. The assessor adds the appropriate amount of penalty provided in section 504, and includes an interest date and rate on the computer roll correction forms as applicable. The forms are transmitted electronically to the auditor, who uses them to compute section 506 interest.

The assessor electronically adds penalties on the roll as provided in Rule 261(a). These files include digitally imaged letters addressed to the taxpayer. The letters list penalty amounts, referencing applicable code sections together with the tax-rate area code, the words "penalty added pursuant to Sec. ____, R&T Code," and a cross reference to the place on the computerized roll at which the assessed values are entered. The assessed values are displayed within the assessor's Property Information Management System's (PIMS) public Internet website, as well as the non-public PIMS internal computerized roll, which contains a "roll value history" page with penalty amounts listed. On the non-public internal PIMS website, penalty amounts are accompanied by corresponding correction codes displaying a brief description of the reason for the correction.

The assessor has adopted a low-value property tax exemption for unsecured property with a full value of $4,000 or less; however, there is no exclusion for real property. All escape assessments for secured property are enrolled regardless of value.

We reviewed a number of secured and unsecured roll changes. Overall, the assessor's roll change process and procedure system appear to be operating effectively. We found no problems with the assessor's assessment roll change program.

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 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 from taxation property with a total base year value or full value of more than $5,000 (effective January 1, 2010, the maximum amount that can be exempted under a "low value" local ordinance was increased to $10,000), or more than $50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property tax 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 board of supervisors has adopted a resolution that incorporates the provisions of section 155.20 by allowing for the exemption from taxation all unsecured property having a taxable value of $4,000 or less. Since the resolution applies only to unsecured properties, the assessor enrolls all taxable secured property regardless of value. For secured property, the tax collector does not issue bills for less than $10.

The assessor has automated procedures for processing the unsecured roll. If an unsecured assessment is $4,000 or less, the system deactivates the account, excluding it from assessment. The account remains in the database and is re-evaluated in subsequent years.

We found that the assessor is correctly processing low-valued properties.

Exemptions

Church and Religious Exemptions

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

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

The assessor processed 268 church exemption claims and 990 religious exemption claims for the 2006-07 assessment roll.

The following table illustrates the number of church and religious exemptions and their exempted values for recent years:

ROLL YEAR	CHURCH		RELIGIOUS	
	Number	Exempted Value	Number	Exempted Value
2006-07	268	$115,651,763	990	$547,435,688
2005-06	296	$115,448,120	962	$483,330,293
2004-05	207	$86,894,094	932	$474,016,893
2003-04	313	$111,490,641	859	$399,974,281

In San Bernardino County, there is an assessment services supervisor and one full-time staff member to process all church and religious exemption claims, welfare exemption claims, and disabled veterans' exemption claims. The office specialist independently coordinates workload duties while maintaining and updating policies and procedures for processing exemption claims. After assigning appropriate exemption codes representing the type of exemption claim filed, the office specialist examines each initial and annual exemption claim, reviews any other attached documents, and re-confirms exemption coding with the appraiser's field inspection reports, detailing organizational activities and property use for each claimant filing for exemption. Currently, the office specialist is Treasurer of the California Assessors Administrative Services Association (CAASA) and is an instructor at the statewide workshops, encouraging organizational skills, knowledge, and qualifications required in properly assessing exemption claims.

Our current review indicates the assessor properly processes church and religious exemption claim filings. The assessor has written procedures for processing these exemptions, refers to the Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*, the newly published *Property Tax Welfare Exemption*, Publication 149, dated March 2008, and to other advisory information distributed at the BOE's exemptions workshop. We found no problems with the assessor's church and religious exemption programs.

Welfare Exemption

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

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

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC or valid SCC issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table shows the number of welfare exemptions processed and their exempted value for recent years:

ROLL YEAR	WELFARE	
	Number	Exempted Value
2006-07	1,920	$2,525,791,425
2005-06	1,995	$2,262,685,830
2004-05	1,842	$1,869,286,804
2003-04	1,637	$1,791,488,957

We reviewed a variety of welfare exemption claims, including first time filings and annual filings. Our review indicated the assessor is properly administering the welfare exemption, obtaining an OCC from each claimant requesting a welfare exemption, reviewing each claim and any supporting documents before granting an exemption, appropriately examining an organization's property holding a valid SCC, and correctly allocating exemption values and taxable values of properties receiving partial exemptions. We have no recommendations in this area.

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 a deceased disabled veteran's unmarried surviving spouse). The amount of exemption is $100,000; however, for qualifying low-income disabled veterans, the amount is $150,000. Both of these amounts are adjusted annually by a cost of living index factor.

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 disabled veteran's exemption at the $100,000 basis requires a one-time filing; annual filing is required for those exemptions at the $150,000 low-income basis to determine continued eligibility.

The assessor processed 256,328 homeowners' claims and 1,401 disabled veterans' exemption claims for the 2006-07 assessment roll.

The following table illustrates the number of homeowners' and disabled veterans' exemption claims processed and their exempted value for recent years:[4]

ROLL YEAR	HOMEOWNERS'		DISABLED VETERANS'	
	Number	Exempted Value	Number	Exempted Value
2006-07	256,328	$1,790,813,000	1,401	$128,110,000
2005-06	254,450	$1,777,529,000	1,319	$116,479,000
2004-05	254,694	$1,779,075,000	1,184	$99,073,000
2003-04	251,838	$1,759,907,000	1,082	$86,632,000

Our review of the homeowners' and disabled veterans' exemption records indicates the assessor is properly processing these exemptions. The assessor submits information regarding homeowners' exemption claims to the BOE in the appropriate manner. Accordingly, we have no recommendations in this area.

Racehorse Administrative Tax

Racehorses domiciled in California are subject to an annual tax in-lieu of ad valorem property taxes. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 through 1047. Rule 1045(c) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax no later than December 15th every year.

Racehorses within the state are registered with the California Horse Racing Board (C.H.R.B.). For property tax purposes, and according to section 5703, racehorse means a "horse … that is or will be eligible to participate in … a horseracing contest in California wherein pari-mutuel racing is permitted…." Qualifying horses include stallions, mares, geldings, ridgelings, colts, fillies, and foals.

[4] Board of Equalization Annual Report, Tables 8 and 9.

Discovery

Each year the assessor sends Form BOE-571-J1, *Report of Boarded Racehorses*, to owners of ranches and stables that board racehorses in San Bernardino County. The forms are sent out in mid-December, prior to the calendar year in which the tax is due. The form instructs the ranch and stable owners to list all boarded racehorses at their location as of 12:01 AM January 1. When the forms are returned, an office assistant cross-references the reported boarded racehorses against the assessor's database of known racehorses sited in the county. Any new racehorse owners discovered are added to the assessor's database and mailed a Form BOE-571-J, *Annual Racehorse Tax Return*. As an additional form of discovery, the assessor has repeatedly requested annual listings of registered racehorses from the C.H.R.B. To date, however, the C.H.R.B. has not responded to these requests. If the assessor is able to obtain this listing, he plans to cross-reference this information against known racehorses in the county. Overall, the assessor's discovery program is administered with due diligence.

Administration

Form BOE-571-J, *Annual Racehorse Tax Return*, is mailed to all known owners of racehorses located in San Bernardino County as of January 1. Rule 1045(c)(2) requires the assessor to maintain a record of those persons believed to be liable for the annual racehorse tax and to whom the assessor has furnished copies of the forms. A copy of this record must be delivered to the tax collector's office within ten days of the date when copies of the forms are furnished so the tax collector can be cognizant of taxpayers who may file a return. The tax returns, along with payments, are submitted directly to the tax collector. If applicable, the tax collector applies the appropriate late filing and interest penalties.

Rule 1045(d)(1) requires the assessor perform an audit of the tax records of any racehorse owner who, according to the assessor's records, had a gross tax liability (before addition of any penalties) exceeding $4,000 for each of four consecutive years. We reviewed a listing of all racehorse owners in the county, as well as a listing of all owners with tax liabilities for the 2007 lien date, and found there were no racehorse owners currently in San Bernardino County whose tax liabilities exceeded the statutory threshold for a mandatory audit.

In summary, we found the assessor correctly carries out his statutory responsibilities in his administration of the annual racehorse tax program. We have no recommendations regarding this topic.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.[5] Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms that are

[5] Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

required to be used, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

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

Our review of the forms used by the San Bernardino County Assessor's Office for the year 2007 found no problems.

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, except that it can be adjusted annually for inflation by a factor not to exceed two percent.

Change in Ownership

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

Document Processing

The assessor receives copies of all recorded documents electronically from the Recorder's Office. A component of the assessor's computer system filters through all documents received and retains those which are relevant to assessor functions. Documents relating to a change in ownership are electronically forwarded to the workflow system where they are reviewed by document transfer technicians. These technicians are responsible for making changes in ownership determinations for deeds, Preliminary Change in Ownership Reports (PCORs), and Change of Ownership Statements (COSs).

If a transfer is deemed reappraisable, the transfer technician creates a transfer event in the workflow system. The transfer event includes the date of sale, the indicated sale price from the documentary transfer tax, and, if available, the purchase price listed on the PCOR. This information is entered into the computer system, which sorts the transfers by the appraiser's geographically assigned work areas and automatically forwards them to the appraiser's work queues.

When the appraisers open their work queues, they see a list of events which require review. An appraiser selects a transfer event to review and is provided with access to the relevant information, including electronic images of the deed, the PCOR or COS, and any exclusion forms filed by the taxpayer. The appraiser can review this information to confirm the transfer technician's decision regarding reappraisability as well as comparable sales data in the area to determine the market value of the property.

Once a property is reappraised, the value is entered into the computerized PIMS system. Supplemental tax bills are automatically generated and the roll value is updated to reflect the change in value.

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. Subdivisions (c) and (d) of Rule 462.180 provides 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 changes in legal entity ownership.

To help assessors, the BOE'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.

The chief appraiser is responsible for reviewing all LEOP information the assessor receives from the BOE. If a transaction is determined to be a valid change in control, the LEOP information is sent to the Transfer Section, where a legal transfer event is created for each associated parcel. The transfer is then routed to an appraiser in the same manner as all other transfers. The LEOP form is scanned into the computer system so it may be viewed by the appraiser performing the valuation. Our review of the assessor's processing of LEOP listings found one area needing improvement.

RECOMMENDATION 2: Ensure that all changes in control of legal entities are reappraised timely.

We reviewed several large corporate changes in control and noted some had not been processed. In these cases, the BOE had notified the assessor of the changes in control well over a year before our fieldwork began. We found the transfers had been received but were still awaiting initial review.

The BOE's LEOP Unit periodically sends to all counties a list of legal entities having experienced changes in control. It also provides each county with questionnaires submitted by

transferees that include assessor's parcel numbers of properties in the county having changed control. The questionnaires and the listing provide adequate notice to county assessors of changes in control needing to be investigated.

The assessor's failure to timely enroll corporate changes in control may result in escape assessments. We, therefore, recommend that the assessor process transfers due to corporate changes in control in a timely manner.

Section 408.1 Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list available to the public for review at a charge of $10. It is available on microfiche at the public service counter in the San Bernardino district office. Information on the transfer list is updated quarterly as required by section 408.1(b) and includes fields for all required information. Our review, however, noted a problem with the assessor's transfer list.

RECOMMENDATION 3: Do not include confidential sale price information taken from a PCOR or COS on the list of transfers.

We found the transfer list frequently includes a confirmed sale price taken from a PCOR or COS. The transfer list states the sale price as indicated by the documentary transfer tax when neither a PCOR or COS is available. In addition, coding on the transfer list indicates whether the information was obtained from the deed or from a confirmed confidential source such as a PCOR or COS.

Section 408.1(f) states that the assessor must not include information on the transfer list furnished in a change in ownership statement by the transferee and is not otherwise public information. Additionally, section 481 states all information furnished in the COS or PCOR must be held secret by the assessor. The COS or PCOR are not public documents. Likewise, statements made in these documents are not subject to public disclosure. By including on the transfer list information from the PCOR or COS, the assessor is making confidential information available to the public, which is contrary to statute. Therefore, we recommend that the assessor exclude any confidential information reported on the PCOR or COS.

Change in Ownership Exclusions

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

In addition, section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property and property owner meets certain requirements, including that the property owner must be at least 55 years of age or severely and permanently disabled, the owner files a claim timely, and the properties are within the same county. A county board of supervisors may, by ordinance, allow transfers of base year values from properties located in other counties. San Bernardino County, however, does not currently have such an ordinance, but is taking the issue under consideration.

In San Bernardino County, exclusion claims are first reviewed by office assistants in the transfer section. They are responsible for researching the claim and making a preliminary determination regarding its validity. In each case, once the determination is made, the office assistant generates a letter informing the taxpayer of the assessor's decision. If the exclusion has received preliminary approval, the letter informs the taxpayer that the claim is being processed. If more information is required, the letter indicates what information is needed. If the claim is denied, the letter informs the taxpayer of the reason for denial.

Office assistants are also responsible for entering the taxpayer's social security number into PIMS. This allows the assessor to automatically track the total value of section 63.1 claims within San Bernardino County. If a section 63.1 claim exceeds the $1 million limit for a non-principal residence, the system will not allow the full exclusion to be granted. PIMS will alert the office assistant the exclusion limit has been exceeded and will calculate the percentage of exclusion allowable for the property.

If a claim receives preliminary approval from the office assistant, the transfer is forwarded to the appraisal staff with an indication the exclusion has been approved. The appraisal staff reviews the transfer and is responsible for enrolling the proper value. If the claim is denied, the office assistant will make a note of it in PIMS, and the transfer will be forwarded to an appraiser to be worked in the same manner as all other transfers.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties having transferred and met certain criteria with minimal appraisal involvement. In San Bernardino County, the property types qualifying for direct enrollment may be a condominium or a single-family residence with a sale price confirmed by a PCOR or COS, or indicated by the documentary transfer tax. The parcel must also have a total land area of less than five acres. The sale must have involved a fee simple 100 percent interest transfer.

If a transfer fits the above criteria, it is automatically enrolled by the system. Each month a Master Appraisal Document (MAD) is printed for each parcel that was directly enrolled. The MAD is given to the appraiser responsible for that property type and map book for review. If the appraiser finds a problem with a value, the appraiser can enroll a corrected value before any bills are generated.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements, such as sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that encumbers the land and binds the owner and all successors in interest in accordance with the 1911, 1913, or 1915 Improvement Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of the improvements financed by these bonds is reflected in the total consideration paid for the property, exclusive of the bond amount. The assessor can overcome this presumption by establishing by a preponderance of the evidence that all or a portion of the value of the improvements is not reflected in the

consideration paid for the property. We reviewed sales of parcels encumbered with improvement bonds and found the assessor properly values these sales in accordance with 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. Section 70 further establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

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

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

Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from 25 permit-issuing agencies. All of these agencies forward copies of building permits and building plans to the appropriate district office on a monthly basis. Other discovery methods include field inspections, canvassing activities, newspaper articles, and business property statements.

The following table shows the assessor's building permit workload for recent years:

ASSESSMENT YEAR	PERMITS RECEIVED	PERMITS RESULTING IN NEW ASSESSMENTS	TOTAL VALUE ADDED
2006-07	68,938	27,994	$4,858,566,723
2005-06	81,519	28,202	$4,274,500,265
2004-05	60,783	17,661	$3,261,090,773
2003-04	68,941	22,554	$2,192,946,141
2002-03	50,688	12,478	$1,989,050,012

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The appraiser determines the completion status of new construction from an on-site review, notice of completion from the building department, or from the taxpayer. Several cost sources are used in valuing new construction, including Assessors' Handbook Section 531, *Residential Building Costs*, local costs, the Marshall & Swift Valuation Service, and reported historical costs. Income and sales comparison approaches are also used in determining the value of new construction.

The assessor has a self-reporting program for permits, other than new home permits, with values under $50,000. These property owners are sent a *Property Owner's Statement of New Construction* (POSNC). When returned, the new construction statement is matched with the permit and sent to the appropriate district office for review. The assessor's staff compares the costs reported on POSNCs and building permits with the locally developed cost factors used in valuing residential improvements such as patios, decks, and pools. All permits are field reviewed unless determined to be maintenance or replacement or when a construction statement provides all the appropriate information.

For commercial and industrial properties, the assessor's staff uses the Marshall & Swift Valuation Guide to prepare replacement cost estimates. The staff also compiles an internal comparable sales database that is available to appraisers in all districts. This database contains sales, which have been verified by appraisers, and property information, such as property characteristics, current rents, land to building ratios and sales information.

We reviewed several residential and commercial parcels with new construction. We found the assessor has effective procedures and controls for discovery, permit processing, and valuation of new construction.

Construction in Progress

Pursuant to section 71, on each lien date, construction in progress (CIP) must be assessed at current fair market value. On subsequent lien dates, if the construction is still incomplete, the

CIP must again be assessed at current fair market value. This process continues until the new construction is completed, at which time the entire portion of property which was newly constructed is reappraised at fair market value and a base year value is assigned.

We found assessment records were properly documented both on the appraisal record and on the assessor's system for the valuation of new construction. We found no problems in the valuation of construction in progress.

Declines in Value

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

The following table illustrates the number of declines in value processed in San Bernardino County and the total value reduction for recent years:

ROLL YEAR	DECLINES PROCESSED	VALUE REDUCTION
2006-07	10,684	$279,332,834
2005-06	7,003	$28,020,907
2004-05	11,600	$152,531,647
2003-04	42,294	$1,300,231,040
2002-03	75,150	$4,230,176,010

Although the number of properties with decline in value assessments has decreased over the time period of our review, those properties continue to represent a significant workload for the assessor's office. The total value reduction represents the sum of the difference between the properties' current market value and their higher FBYV. As the years progressed, appreciating real-estate values allowed the county to reduce a portion of its loss from declines-in-value. However, San Bernardino County continues to recover from an overall depressed market.

The assessor has different ways to discover and value decline in value properties. Discovery occurs when the property owner mails or electronically submits to the assessor the assessor's form ARP068 for decline in value reassessment. A property owner may also submit an informal written request for decline-in-value reassessment. The application for reassessment form and an associated pamphlet are available at the public counter or from the assessor's website. Regardless of how the decline is identified, a reappraisal is made upon discovery.

San Bernardino County has a customized computer program which annually tracks, values, and processes properties with market values less than their factored base year values. This program

annually reviews single-family residential properties, condominiums, and planned unit developments. For other property types, such as commercial, industrial, residential income, and agricultural properties, the assessor uses a manual or systematic trending approach for valuation.

For 2008, the computer program will assess about 160,000 residential properties having sold between 2004 and 2007. The program will select and analyze comparables for the subject properties and compare their FBYV to their current market values. If no comparables are identified for the subject property, the subject property will drop into a work queue to be appraised. If comparables are identified indicating a reduction in value, the subject property, along with the comparables, drop into the appraiser's work queue for the appraiser to confirm or deny the reduction.

Once a property receives a decline in value assessment, it is coded so that it can be identified for annual market value review. Decline in value parcels coded with a "CM" indicate the current fair market value is lower than the FBYV. When the market value exceeds the FBYV, the record is coded with a "CX," the FBYV is restored, and the property is no longer subject to annual review.

To determine current market values for comparison purposes, the assessor relies primarily on the income approach for commercial properties and the market comparison approach for residential or rural properties. Based on appraiser's knowledge of the market area, a percentage increase is applied to certain properties currently in decline in value status. For other properties in decline-in-value status, comparables are found, identified, and an appropriate percentage increase is applied. If the new market value is greater than the FBYV, the FBYV is enrolled.

Property owners are mailed a value notice informing them their taxable value has been temporarily reduced, remains unchanged, or has been partially or fully restored. In accordance with section 619, the letters advise the property owners about their properties' FBYV and market value. The letters also inform the property owners of their rights to appeal, including information about the appeals filing period. For a property that is newly in decline in value status, a value notice is mailed to the property owner the first year.

The assessor's current program appears to be operating well for identifying, tracking, and valuing properties with decline in value status or histories.

Supplemental Assessments

Sections 75 through 75.80 mandate that the assessor issue supplemental assessments for changes in ownership and the completion of new construction that occur after the lien date. 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 1st and May 31st, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, and another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

In San Bernardino County, supplemental assessments are automatically generated by PIMS. When an appraiser values an event, they are also responsible for assigning a change code to that

event. PIMS uses the change code to determine what type of transaction occurred and whether a supplemental bill should be generated.

If an event requires a supplemental bill, PIMS automatically compares the prior values with the new values, determines the pro-ration amount, and sends a Notice of Supplemental Assessment. The system holds the supplemental assessment for 30 days to allow the taxpayer to respond to the Notice of Supplemental Assessment. After 30 days, the supplemental assessment information is electronically forwarded to the county auditor. The auditor then forwards the supplemental assessment information to the tax collector for billing. In more complicated transactions, it may take up to 18 months from the date of the event for the supplemental assessment to be enrolled. However, for simple transactions, such as directly enrolled changes of ownership, the entire process is completed in approximately three months. The assessor processes all supplemental assessments, regardless of dollar amount. Under section 75.41(d) the auditor may cancel any resultant tax bill that is twenty dollars ($20) or less.

We reviewed several types of transactions to verify the assessor processes supplemental assessments in a correct and timely manner. We found the system correctly makes two supplemental assessments for events occurring between January 1st and May 31st, and one supplemental assessment for events occurring between June 1st and December 31st. The processing of negative supplemental assessments properly results in a refund to the taxpayer. The system also correctly applies the inflation factor to the new base year value for the next lien date for events occurring between January 1st and June 30th. The assessor properly makes supplemental assessments for manufactured homes, taxable possessory interests, and the unrestricted portions of California Land Conservation Act and restricted historical properties. The assessor properly does not make supplemental assessments for taxable government-owned properties.

California Land Conservation Act Property

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

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

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

For the 2006-07 assessment roll, San Bernardino County assessed 583 parcels encompassing 13,220 acres under CLCA contract. Of the 583 parcels, 143 are in nonrenewal status. There are

no parcels under Wildlife Habitat, Farmland Security Zone, or Timberland Production Zone restrictions. The amount of nonrenewal acreage has increased recently because of rising values for developable land. For the 2006-07 assessment roll, the total assessed value for CLCA properties, including land and living improvements, was $197,864,336.

CLCA properties are present in six of the nine districts in San Bernardino. One appraiser in each district is responsible for valuing CLCA properties. Appraisers perform the required annual review and three-way value comparison using a spreadsheet program.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner". In other words, the homesite must be valued at the lesser of the factored base year value (FBYV) or the fair market value of a comparable, unrestricted, homesite. We found that this is the assessor's policy and practice for homesites on parcels not in nonrenewal status.

We reviewed the assessor's treatment of homesites and found the assessor is in compliance with applicable statutes.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

The assessor's staff uses information obtained from the annual crop and livestock report to determine the income and expenses attributable to various agricultural property types throughout the county. Every year, new information is entered into a spreadsheet, which tracks the income generated by that crop per acre since 1980. This process allows the assessor to efficiently examine and review long-term crop trends in San Bernardino County. The assessor's staff also enters the expense information, the interest component for open-space land, the property tax rate, and the risk component into the assessor's spreadsheet. The spreadsheet subtracts expenses and capitalizes the remaining income per acre to arrive at a restricted value per acre for land and living improvements. The appraiser enters this restricted value on a second spreadsheet, which tracks the FBYV and compares it to the restricted value of the land. The appraiser then compares

the current market value to the lower of the restricted value or FBYV and enrolls the lowest of the three values.

Capitalization Rates

Section 423(b) prescribes the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization rate shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon, and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

Restricted values are automatically calculated via a spreadsheet as described above. The assessor correctly utilizes an interest component for open-space land at 4.50 percent. The assessor recognizes that the risk component varies according to the risk associated with the development of the income to be capitalized. The spreadsheet uses a base risk component of one percent, which may be adjusted by the appraisers based on their knowledge of the crop and the area.

In our prior survey, we recommended the assessor develop uniform assessment standards for valuing CLCA property. While the assessor has improved the process of valuation through the use of standardized spreadsheets, some weaknesses are still present in the program.

RECOMMENDATION 4: Improve the CLCA assessment program by:
(1) sending CLCA questionnaires to property owners;
and (2) annually reviewing all CLCA parcels.

Send CLCA questionnaires to property owners.

We found the assessor has not sent CLCA questionnaires to property owners for several years. Accurate assessment of lands under CLCA contracts depends on accurate estimates of income attributable to the land. Section 423(a)(1) provides that the annual income to be capitalized shall be determined, where sufficient rental information is available, by using the fair rent which can be imputed to the land being valued based upon rent actually received for the land by the owner and upon typical rentals received in the area for similar land in similar use. The crop report is a useful tool for developing income information when no actual rent is available; however, the assessor has not attempted to determine the actual rent. Additionally, without the questionnaire, the assessor may fail to discover valuable compatible uses of CLCA lands. To aid in the discovery of current rental and compatible use income, we recommend the assessor send questionnaires to the owners of CLCA property.

Annually review all CLCA parcels.

We found several instances where the assessor did not annually determine a new CLCA restricted value for the property. In some cases, he enrolled the prior year's roll value. In other instances, the assessor enrolled a restricted value and then applied the CPI trend factor to that restricted value for all subsequent years. These errors occurred in separate district offices, highlighting the inconsistencies in practices among the district offices.

Section 423(a) requires the assessor to determine a value estimate by capitalizing the annual income attributed to land and living improvements. Section 423(b) provides that the capitalization rate to be applied shall include components for the BOE-announced interest rate, risk, property taxes, and, where appropriate, for amortization of any investment in perennials.

If the imputed annual income remains the same, and the risk, property taxes, and amortization components of the capitalization rate are held constant, a fluctuation in the interest rate component will cause a difference in the appropriate taxable value for CLCA parcels. Similarly, the fluctuation of the interest rate component alone does not produce an increase equal to the CPI trend factor for several years. 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 two years in succession or allowing the CPI trend to be applied to restricted values will result in inappropriate assessments. Our review found no such evidence. We therefore recommend the assessor ensure all district offices annually review CLCA parcels and perform the three-way value comparison as required by statute.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in 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 2007-08, the San Bernardino County assessor valued 1,222 parcels owned by government agencies located outside of their boundaries. These parcels are owned by various cities. The 1,222 parcels have a total assessed value of $32,568,305.

The assessor determines the taxability of government-owned properties at the time of acquisition by the local agency by comparing tax-rate area maps to the county's list of government agencies located within each tax-rate area. We randomly reviewed several parcels on the county's list of 53,221 zero value properties, which includes government-owned properties. We compared the parcels to the BOE's list of tax rate areas and verified all of the properties reviewed were tax exempt and not taxable government-owned properties.

The assessor uses a computerized spreadsheet to annually update the factored land and improvement value of each taxable government-owned property. The computerized valuation spreadsheet contains all of the taxable government-owned parcels and identifies the Phillips

values (restricted values) and the base year values used for comparison in determining the lower of the two values. The assessor correctly determines the base year value when a property transfers, and correctly does not issue supplemental assessments when there is a change in ownership of taxable government-owned properties.

We found the spreadsheet program does not compare the market values of government-owned properties to their restricted or base year values in order to determine the lowest of the three values. Although market value is rarely the lowest of the three values, the assessor should periodically make the three-way comparison to ensure proper assessment.

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.

In San Bernardino County, the assessor enrolled 6,242 taxable possessory interests on the 2007-08 roll totaling $659,316,348. The following table shows the number of taxable possessory interests and their total value for recent years:

ROLL YEAR	ASSESSMENTS	ROLL VALUE
2007-08	6,242	$659,316,348
2006-07	6,009	$558,093,593
2005-06	6,104	$536,321,265
2004-05	6,054	$524,960,642
2003-04	6,090	$515,134,422

The assessor has written procedures and developed specialized forms for dealing with the assessment of taxable possessory interests. The assessor discovers taxable possessory interest properties by reviewing recorded documents, sending business property statements, field reviews by appraisers, and reviewing public agency reports.

We reviewed several types of taxable possessory interest properties, including commercial airlines in public airports, cable television, rights of way, pollution control systems, cabins on national forest lands, possessory interests in taxable government-owned property, possessory interests in property owned by public retirement systems, property owned by a redevelopment agency, satellite wagering facilities, and a casino on Indian land.

We provide the following recommendations for improving the taxable possessory interest assessment program.

RECOMMENDATION 5: Improve the taxable possessory interest assessment program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; and (2) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach.

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

For taxable possessory interests that have a contract with a stated term of possession, we found the assessor does not use the stated term of possession when determining the market value of a taxable possessory interest for each lien date. It is the assessor's practice to enroll the FBYV until the expiration of the contract term of possession or until there is a change in ownership.

Section 51 requires the assessor to value a taxable possessory interest at the lower 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(a)(6) 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 this value with the FBYV, and in each case enroll the lower of the two.

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.

Deduct allowed expenses from gross income when valuing taxable possessory interests by the income approach.

The assessor deducts incorrect expenses when using the discounted cash flow method to value taxable possessory interests. Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, at page 37 and Rule 21(e)(3)(C), subparagraph (c), under paragraph entitled "Economic rent," provide that allowed expenses paid by the public owner should be deducted from the estimated economic rent. A public owner will incur some management expense with each taxable possessory interest. Other lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By estimating the fair market value using incorrect allowable expenses, the assessor is inflating these assessed values.

Restricted Historical Property

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

Section 50280.1 of the Government Code provides that in order for a property to qualify as restricted 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 BOE;
- A risk component of two percent (four percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

For the 2007-08 roll year, there were 191 historical properties in San Bernardino County with a net taxable value of $31,479,239. There are currently no historical property contracts in nonrenewal status.

The following table illustrates the most recent data available for historical properties and their roll values:

ROLL YEAR	HISTORICAL PROPERTIES	ROLL VALUE
2007-08	191	$31,479,239
2006-07	172	$28,206,370
2005-06	144	$23,283,789
2004-05	118	$18,208,475
2003-04	80	$12,125,100

The assessor uses a computer generated worksheet to process the income stream into an indicator of the restricted value of the historical property. The appraisal files contain copies of the contracts with the local governments and the ordinances establishing an historical preservation district or historical preservation zone.

In our 2004 survey, we made a three-part recommendation to improve the assessor's restricted historical property valuation program. The assessor implemented two of the three parts of this recommendation; however, the assessor has not implemented the remaining portion of the recommendation, and, it is, therefore, repeated here.

RECOMMENDATION 6: Annually assess restricted historical properties at the lowest of factored base year value, current market value or the restricted value.

We found instances wherein historical properties had an initial restricted value determined, but for subsequent assessment roll years, the restricted value was increased by the inflation factor or remained unchanged. According to section 439.2(d) restricted historical property must be assessed annually at the lowest of factored base year value, current market value, or the restricted value.

The assessor's procedure results in inaccurate assessments.

Leasehold Improvements

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

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

When real property is reported on Form BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate 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.

Attempts to discover leasehold improvements include identifying tenant improvement construction permits, review of business property statements, and coordination between the business property and real property staff. Schedule B of the BPS is used specifically for reporting real property installed by the tenant. Such taxpayers are annually required to list additions or deletions of real property.

When it is determined there is an existing leasehold improvement, the San Bernardino County Assessor's office policy is to determine whether or not these improvements are classified as secured real property. If they are not classified as secured real property, then they are classified

as either unsecured fixtures or processed by the audit section of the Business Division as business personal property. We have no recommendations in this area.

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 non-real-property items. Examples of non-real-property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

San Bernardino County has six timeshare projects with 11,948 intervals. The total assessed value for these intervals was $66,864,722 for the 2007-08 roll year. Each assessment is identified as a "T" parcel type for timeshare.

The assessor maintains timeshare appraisal records in his computerized PIMS system. Master files for each project contain building schematics, building costs, build-out projections by phase, inventories, and base year calculations. Timeshare projects are catalogued by development name and parcel number. Individual timeshares are assigned an assessment number. The published roll of assessments references the district office, assessor's parcel number, owner's name, address, and season.

Changes in ownership of individual timeshares are valued by the sales comparison approach. With this information, the assessor can review timeshares for declines in value annually and be consistent in the assessment of units located in each specific timeshare project based on market data. 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 no significant deficiencies in the assessment of timeshares.

Water Company Property

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

Regulated Water Companies

Private water companies, both regulated and unregulated, are utility companies that earn a profit from the sale of water. The California Public Utilities Commission (CPUC) regulates the rates charged by private water companies, limiting profits to an authorized return on each company's investment. The market values of real property owned by regulated companies are tied directly to those rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value (FBYV).

We obtained a list of all water supply sources annually available from the California State Department of Health Services' branch of Drinking Water Field Operations, and the CPUC. In addition, the assessor provided a list of all San Bernardino County water entities.

San Bernardino County has ten regulated water companies on the 2006-07 assessment roll, with a total assessed value of $127,264,453. The assessor annually updates the historical cost less depreciation method to develop a fair market value indicator for the real property. The market value indicator is then compared to the FBYV and the lower of the two values is enrolled. To assist in the valuation process, the assessor obtains the annual CPUC reports.

Our examination of the assessment of the regulated water companies in San Bernardino County indicates that the assessor is properly assessing these properties.

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, improvement, or delivery systems owned by the water company, since 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 those served parcels.

San Bernardino County has 28 mutual water companies on the 2006-07 roll with an assessed value of $762,259. We found the assessor is properly valuing mutual water company property. Additionally, we found the government-owned water system property was properly exempted.

Mineral Property

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

San Bernardino County is one of the richest and most diverse mineral counties in the state. The county produces cement, potash, rare earths, petroleum, sand and gravel, and limestone. Although not currently in operation, the county also has gold and silver mines. The county has some limited amounts of petroleum, and some geothermal production.

Mineral properties are appraised by the Special Properties Section (SPS). There are three senior appraisers and a supervising appraiser assigned to this section. In addition to the mineral properties, the SPS appraises shopping malls, cogeneration power plants, and other complex properties.

There is a large concentration of cement manufacturing plants in San Bernardino County. The United States Department of the Interior, United States Geological Survey (USGS) classifies cement as a mineral commodity. The vertical integration of the cement manufacturing process generally requires the existence of a limestone quarry close to the cement plant to supply a key component. The other material required to make cement can be acquired on the open market.

Based on the nature of the market for cement, its classification as a mineral commodity, and the vertical integration of the manufacturing process, the San Bernardino County Assessor identifies the total appraisal unit as the entire manufacturing operation. In addition, when determining declines in value, he calculates and compares the current market and the FBYV of the appraisal unit as required by Rule 469(e)(2)(C). However, we found one problem with the procedures employed to allocate the total property value when the current market value is lower than the FBYV.

RECOMMENDATION 7: With respect to mineral property, allocate current market value of the total property appropriately among each component of the appraisal unit.

When the current market value is lower than the FBYV of the total property, the assessor enrolls the current market value for the land and improvements (other than fixed machinery and equipment), the FBYV for the mineral rights, and allocates the residual to the fixed machinery and equipment. The assessor assumes the mineral rights component of the total appraisal unit cannot exceed the FBYV.

By allocating the residual value to the fixed machinery and equipment, in many cases the assessor is valuing these items in excess of their current market value, confusing the taxpayer and generating a number of assessment appeals solely on the fixed machinery and equipment.

We believe the appropriate allocation procedure is to apply the residual value to the mineral rights. This technique is discussed in Assessors' Handbook Section 560, (AH 560) *Assessment of Mining Properties*, at pages 6-11. If the current market value is lower than the FBYV, except for the mineral rights, the value of all the other components can be determined using an appropriate appraisal method, thus, leaving the residual value to the value of the mineral rights.

We recommend the assessor follow the residual technique set forth in AH 560 to allocate the total property value appropriately.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority.[6] The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, which govern the valuation of intercounty pipeline lands and rights-of-way.

[6] *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

The Assessor's Special Properties section values pipeline right-of-ways. Six intercounty pipeline companies have rights-of-way in San Bernardino County with a total assessed value of $8,205,233 for the 2006-07 roll year. We found rights-of-way within San Bernardino County are being valued 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 audit, business property statement processing, business property valuation, and leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, and vessels.

Audit Program

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

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

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

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

DESCRIPTION	2006-07	2005-06	2004-05	2003-04
AUDITS SCHEDULED				
MANDATORY	591	493	589	524
NON-MANDATORY	46	34	22	36
CONTRACT AUDITS (CCASE)	156	109	115	112
TOTAL AUDITS SCHEDULED	793	636	726	672
UNFINISHED FROM PRIOR YEARS	370	643	386	953
TOTAL AUDIT WORKLOAD	1,163	1,279	1,112	1,625
AUDITS COMPLETED				
MANDATORY	636	625	447	445
NON MANDATORY	46	34	22	36
TOTAL AUDITS COMPLETED	682	659	469	481
AUDITS CARRIED FORWARD	442	370	643	386

The Business Property Division is comprised of thirty-five permanent staff. Audit responsibility falls upon one supervising auditor-appraiser and fifteen line staff auditor-appraisers, which are all under the direction of the principal appraiser. Additionally, San Bernardino County subscribes to California Counties Cooperative Audit Service Exchange (CCCASE). The assessor completes audits of locally sited taxpayers for other participating California counties and, occasionally, contracts with other counties to complete audits of remotely sited taxpayers on their behalf. The 636 mandatory audits completed during 2006-07 include 136 audits contracted for, and completed by, other CCCASE participating counties.

Based on recent audit history, the assessor is in compliance with the number of audits mandated pursuant to section 469.

Statute of Limitations

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

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 sampled a number of waivers, signed by property owners, for scheduled audits not completed during the current year 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 the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. We sampled several recently completed audits and found in all cases audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. However, we did find one area for improvement.

RECOMMENDATION 8: Perform a situs inspection for large audit accounts.

The majority of the audits we reviewed did not include a situs inspection conducted by the auditor. A situs inspection is an essential aspect of any complete audit. It should be standard procedure, especially for audits involving large commercial and industrial operations, or in situations involving excess capacity, functional obsolescence, idle plants, and other unusual circumstances. By foregoing a physical inspection of the property, the auditor risks missing assets that have dropped from the books and cannot gain a full appreciation of the overall condition of the taxable property. A physical inspection is a fundamental component of the audit process and can be a pivotal step in reaching an informed value conclusion.

Business Property Statement Program

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

Workload

The following table displays the assessor's workload for secured and unsecured business property statements for the 2007-08 roll:

TYPE OF PROPERTY STATEMENTS	TOTAL	SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
Agriculture	208	$6,540,441	$44,822,335	$51,362,776
Service Stations	441	$13,105,232	$124,733,348	$137,838,580
General Business	23,138	$2,011,587,019	$7,843,814,387	$9,855,401,406
Vessels	14,640	$0	$206,789,064	$206,789,064
Leased Equipment	5,635	$0	$690,702,916	$690,702,916
Aircraft (General)	1,312	$0	$220,693,480	$220,693,480
Totals	45,374	$2,031,232,692	$9,131,555,530	$11,162,788,222

The assessor's Business Property Division is comprised of thirty-five permanent staff. Business personal property appraisal functions are the direct responsibility of an Auditor-Appraiser III, three Property Appraisers, seven Appraisal Technicians, and nine support staff. Additionally, fifteen auditor-appraisers, who are normally assigned to audits, are routinely called upon for valuation duties.

General Statement Processing

Business property statement processing begins with office assistants, who review the submitted statement for completeness and record the submittal of the completed return using bar code technology incorporated in the assessor's document tracking system. Any changes in an owner's name, DBA, situs, or mailing address are also noted and updated in the Property Information Management System (PIMS). Once this initial review is complete, property statements are sorted and forwarded to an auditor-appraiser, property appraiser, or appraisal technician for processing. A certified appraiser completes the valuation worksheets or reviews any value calculations prepared by the appraisal technicians before a value determination is enrolled. Actual data input is conducted by data entry personnel.

We reviewed the business property statement program, including processing procedures, use of BOE-prescribed forms, processing by non-certified staff, taxpayer interactions, completeness of the property statements, authorized signatures, application of penalties, real property division coordination, and record storage and retention. In addition, we reviewed several active business property statements. We found that all statements sampled evidenced the proper usage of BOE-prescribed forms, and were properly signed.

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. Taxpayer self-reporting and periodic field canvassing are significant means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing city and county business licenses, fictitious business name filings, real property appraiser referrals, business directory services, and BOE notifications. Additionally, the assessor utilizes a proactive form of discovery by sending requests for tenant information to all commercial rental property owners prior to the annual mailings of property statements. This practice has proven to be a highly productive form of information gathering for the assessor. We found the assessor employs effective methods for discovering business personal property.

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

Our review also included verification of the assessor's procedures for processing late-filed and non-filed statements. We found the assessor properly applies the late-filing penalty as required by section 463. Additionally, habitual non-filers are contacted in an attempt to collect accurate assessment information. If no other information is available, the assessor will conduct a field review.

Direct Billing

Many 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 the value for several years. In San Bernardino County, a property statement is sent to the participating businesses every four years to update assessment information. A letter is also sent annually to property owners to establish whether significant changes have occurred affecting taxability or situs of the business property. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes and 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 processed annually by the assessor's staff, thereby increasing time available for the auditor-appraisers to perform other required duties.

The assessor maintains a significant direct billing program with 5,558 participating accounts for the 2007 lien date. The program is well regulated and appropriate controls are in place to reduce the chance of escape assessments.

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 topic.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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

The following table displays the assessor's current secured and unsecured business property assessments enrolled for 2007-08:

	SECURED		UNSECURED		TOTAL	
CATEGORY	**NO.**	**ASSESSED VALUE**	**NO.**	**ASSESSED VALUE**	**NO.**	**ASSESSED VALUE**
General Business	434	$2,024,692,251	28,746	$8,241,918,694	29,180	$10,266,610,945
Agricultural	37	$6,540,441	171	$44,822,335	208	$51,362,776
Vessels	0	$0	14,640	$206,789,064	14,640	$206,789,064
General Aircraft	0	$0	1,312	$220,693,480	1,312	$220,693,480
Certificated Aircraft	0	$0	34	$417,331,957	34	$417,331,957
TOTAL	**471**	**$2,031,232,692**	**44,903**	**$9,131,555,530**	**45,374**	**$11,162,788,222**

The assessor uses a codification system with Business Classification Codes (BCCs) to classify business property accounts in the computer system. We reviewed the written procedures and standardized valuation policies related to business property valuation and found them to be in order.

Minimum Percent Good Factors

Section 401.16(b) prohibits the assessor from using minimum percent good factors not determined in a supportable manner. The California Assessors' Association recommends the use of minimum percent good factors to recognize property having a minimum fair market value. The minimum percent good factors recommended for most commercial and industrial equipment are based on the study by Marshall Valuation Services. The Marshall study indicates an average nine percent minimum percent good factor should be applied for all industrial property and an average ten percent minimum percent good factor should be applied for all commercial property. For the surveyed tax year, the assessor is using a 25 percent minimum percent good factor when valuing ATMs. This factor is based upon a separate study conducted by the Los Angeles County Assessor's Office.

In our 2004 survey, we recommended the assessor discontinue using arbitrary minimum valuation factors. During the current survey, we found the assessor has implemented this recommendation by adopting the CAA-recommended minimum percent good components in the generation of his valuation tables.

Application of BOE Recommended Index Factors

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, the CAA recommends should not be trended. We found the assessor's application of BOE recommended valuation tables is both consistently and accurately applied. We have no recommendations in this area.

Mobile Construction and Agricultural Equipment Valuation Factors

The assessor currently utilizes separate and appropriate factor tables for new and used mobile agricultural and construction equipment pursuant to the instructions on Table 5 and Table 6 in 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. When the condition is known, the assessor should use the "new" or "used" tables. We reviewed the assessor's factor tables related to this issue and found the BOE recommended cost index and depreciation tables to be correctly applied.

Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, the item will remain annexed indefinitely. In order to ensure consistent pro-ration of reported machinery and equipment to fixtures and personal property, the assessor has prepared a schedule to provide guidance to business property statement processors when estimating fixed machinery and equipment allocations. We found no problems either in the processing of the statements or the classification of machinery and equipment.

Computer Valuation

Pursuant to section 401.5, the BOE issues valuation factors for computer equipment (see AH 581, "Table 7: Non-Production Computer Valuation Factors").

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

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*.

Assessees are required to report all leased property (taxable property in their possession, but belonging to others) on their annual property statement. They are also 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 San Bernardino County, the assessor sends a county-developed supplemental form, APP024, along with the Business Property Statement, to accommodate the reporting of numerous leased assets. Once the completed statements are received, an appraisal technician scans the identifying bar code to reflect the submittal into the assessor's document tracking system. Then, the technician reviews the statement for address or ownership changes, an authorized signature, and completeness of required information. The returns are then forwarded to a certified appraiser or auditor-appraiser for processing. Current reported cost information is cross referenced against previously enrolled assessment data. New taxable equipment information is updated into the system and new assessments are created as necessary.

Additionally, a database of enrolled leased equipment data is maintained on the larger lessors operating in the county. This database serves as an important control in Business Property Statement processing. When processing lessee's statements, which includes leased equipment reported on Part III of the BOE-571, an appraiser forwards a copy of the statement to the leasing section, whose personnel cross references the reported information against either the above noted database or the Property Information Management System (PIMS) to determine if the equipment is already assessed to the lessor of the property. If the reported equipment appears in the database, or in PIMS, as already enrolled, the processor is able to make the appropriate notation in the system. If the reported leased equipment does not appear in the database, or in PIMS, the processor will enroll the equipment and assess the lessee and/or contact the lessor. This exercise further helps to prevent possible double assessments and to facilitate the comparison of leasing information reported on the lessor's property statement with information provided by the lessee

to ensure the accuracy of the reported cost and acquisition data used as a basis for the calculation of a value indicator.

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 processing procedures. The assessor maintains strong procedures for the enrollment and tracking of leased equipment. We found the assessor's staff properly distinguishes between leases and conditional sales contracts, and follows correct appraisal and assessment procedures.

Expired Leases

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, 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, the assessor should confirm that the lessee reports the property on his or her property statement. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information. In San Bernardino County, once the assessor receives notice from a lessor that a lease has been cancelled, the related enrollment is deactivated, and a note is placed in the lessee's note screen provided in PIMS. This information provides the processor with the information necessary to ensure continued enrollment of the formerly leased equipment if acquired by the former lessee. The assessor has strong procedures in place to minimize the possibility of escape assessments occurring subsequent to the transfer of off-lease equipment from the lessor to the lessee.

Overall, the assessor's leased equipment program is well managed and efficiently controlled. We have no recommendations in this area.

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.

For the 2007-08 roll, there were 27,886 manufactured homes in San Bernardino County with a total roll value of $405,366,291. Each appraiser in the assessor's office is responsible for the appraisal of manufactured homes located within his or her assigned geographical work areas.

The following table shows the number and assessed values for manufactured homes in San Bernardino County for recent years:

ROLL YEAR	NUMBER OF HOMES	ASSESSED VALUE
2007-08	27,886	$405,366,291
2006-07	27,239	$370,364,804
2005-06	26,079	$314,243,668
2004-05	24,666	$291,505,968
2003-04	23,661	$280,802,650

The assessor's office discovers sales of manufactured homes through the Department of Housing and Community Development reports, building permits, dealer reports of sale, and field inspections.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, takes into consideration sales prices listed in the recognized value guides for manufactured homes. In San Bernardino County, the assessor uses the *N.A.D.A. Manufactured Housing Appraisal Guide (NADA*) in the valuation of manufactured homes.

In our prior survey, we recommended the assessor improve manufactured home assessment procedures by: (1) classifying manufactured homes as personal property; and (2) annually enrolling manufactured homes at the lower of their factored base year values (FBYV), or current market value.

Section 5801(b)(2) provides that manufactured homes shall not be classified as real property. This requirement is explained in detail in LTA No. 92/57 and in Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks*.

Section 5813 requires the assessor to annually enroll manufactured homes at the lesser of their FBYV or full cash value as defined in section 5803. The recognized value guides referred to in section 5803(b), all indicate the market values of manufactured homes typically decrease over time due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value.

Our research indicates that the first prior recommendation was due primarily to the lack of the assessor's computer system to recognize homeowners' exemptions for manufactured homes unless the parcel is classified as real property. We concluded in this current survey that the actual valuation and assessment of manufactured homes in San Bernardino County are in accordance with statute. In addition, we concluded that the second recommendation has been implemented by the assessor and that the assessor is consistent with section 5803 and 5813.

Aircraft

General Aircraft

General aircraft are privately owned aircraft used for pleasure or business but 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 BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest* (*Bluebook*) as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2007-08 roll, the assessor enrolled 1,575 general aircraft with a total assessed value of $220,693,480.

An office assistant, an appraisal technician, and an auditor-appraiser are responsible for processing general aircraft property statements. The assessor discovers aircraft through airport operators' reports, referrals from other counties, sales tax reports, periodic field canvassing, audits of business owners, and Federal Aviation Administration reports.

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

Upon receipt of the completed aircraft property statement, an appraisal technician processes the returned statements of all aircraft valued under $400,000 and generates a value conclusion based upon value indicators published in the computerized version of the *Aircraft Bluebook-Price Digest*. An auditor-appraiser reviews a sampling of processed aircraft statements as time permits. Furthermore, the auditor-appraiser values all aircraft valued over $400,000.

We tested several aircraft statements for proper valuation methodology and legally prescribed application of late-filing penalties. We found one problem during our review. This matter is discussed under the Appraiser Certification portion of this report.

Certificated Aircraft

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

There were thirty-four commercial air carriers that flew in and out of the Ontario International Airport during the 2007 calendar year. The auditor-appraisers responsible for appraising certificated aircraft process the annual business property statements and calculate the pro-rated value.

We reviewed the certificated aircraft appraisal procedures, in addition to a sample of processed air carrier property statements, and found the program to be correctly administered and the estimates of values to be properly calculated pursuant to section 401.17. Furthermore, we reviewed the assessor's procedures for exempting certain aircraft located in California on the lien date solely for repairs, overhauls, modifications, or servicing pursuant to Rule 138. We found the assessor's staff has a thorough knowledge of both the history and implementation of this exemption and is applying it when appropriate.

Historical Aircraft

Aircraft of historical significance can be exempt 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 the exemption is claimed.

There were 195 historical aircraft assessed on the 2007-08 roll in San Bernardino County with a total value of $32,176,164. The assessor properly obtains signed affidavits, in the format prescribed by the BOE, and certification of attendance for historical aircraft exemptions claimed within the county pursuant to section 220.5(c). We reviewed several historical aircraft assessments and exemption claims. We found the assessor has properly granted the exemption when the legal conditions are met. We also were able to confirm the assessor correctly denied the exemption when the statutory requirements were not met. In addition, we found the assessor accurately calculated and granted the partial exemption when circumstances merited it. In conclusion, we found no problems in the administration of the assessor's historical aircraft exemption program.

Vessels

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

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 1st lien date. The assessor sends a vessel property statement to the owner of all vessels newly enrolled in the county, as well as those subject to a change in ownership. He then applies a market derived depreciation rate to arrive at values for subsequent lien dates. San Bernardino County has a low value property tax ordinance exempting property valued at less than $4,000. We found vessels with values below the ordinance amount are properly exempted.

San Bernardino County is an inland community with an active pleasure boat and personal watercraft industry. The county has two major recreational lakes and also borders the Colorado River.

The following table shows the number and value of vessels assessed in San Bernardino County during recent years:

	PLEASURE VESSELS	
ROLL YEAR	**NUMBER**	**ASSESSED VALUE**
2007-08	14,640	$206,789,064
2006-07	14,100	$194,625,832
2005-06	13,489	$185,682,946
2004-05	12,224	$160,603,068

One appraiser, assisted by two appraiser technicians and an office assistant, under the direction of a supervising auditor-appraiser, administer the assessor's vessel program. The assessor values new vessels with the aid of a computerized online version of the *National Automobile Dealers' Association Marine Appraisal Guide* (NADA). 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 several vessel assessments in detail. Our sampling included vessels with values in excess of $100,000, those subject to the assessor's application of an annual depreciation rate, and vessels that were appraised. We found the assessor is properly assessing vessels in a timely manner. However, we did find room for improvement within this program.

RECOMMENDATION 9: Improve the vessel reporting program by: 1) requiring vessel owners to file annual vessel property statements for all boats costing $100,000 or more; and 2) utilizing available BOE-prescribed vessel property statements and assessing late-filing penalties, when legally justified, pursuant to section 463.

Require vessel owners to file annual vessel property statements for all boats costing $100,000 or more.

We found the assessor does not send Form BOE-576-D, *Vessel Property Statement*, to all owners of vessels costing over $100,000. Section 441 requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of $100,000 or more for any assessment year, to file a signed annual property statement with the assessor. Additionally, Rule 171(d) provides that the assessor shall furnish property statement forms and instructions to every person required by law or requested by the assessor to file a property statement. These provisions also apply to all vessels, including non-commercial vessels. The information provided by the taxpayers in the property statements provides the assessor with current and accurate information regarding replacement engines and new accessories when making vessel appraisals. Failure to require property statements filings from owners of such vessels increases the risk of inaccurate assessments based on insufficient information.

Utilize available BOE-prescribed vessel property statements and assess late filing penalties, when legally justified, pursuant to section 463.

When a boat changes ownership or attains situs in San Bernardino County, a county-developed vessel statement, or ASSR 02, is mailed to the new owner requesting the necessary assessment information. This form, while an effective assessment tool, is not a BOE-prescribed form. Penalty assessments cannot be applied for the failure to file a non-prescribed form. Penalties, authorized by section 463, can help motivate property owners in complying with information requests and lead to more accurate value determinations. We recommend the assessor's staff use form BOE 576-D, *Vessel Property Statement*, for pleasure boats.

APPENDIXES

A. County-Assessed Properties Division Survey Group

San Bernardino County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang	Principal Property Appraiser

Survey Team Supervisor:

Jody Henning	Supervising Property Appraiser

Survey Team Leader:

David Dodson	Senior Specialist Property Appraiser

Survey Team:

Mike Ash	Associate Property Appraiser
Jeff Arthur	Associate Property Auditor-Appraiser
Paula Eagleman	Associate Property Appraiser
David Kim	Associate Property Appraiser
James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Ardeshir Noroozkhani	Associate Property Appraiser
Jennifer Prince	Assistant Property Appraiser
Bryan Roth	Assistant 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[7] activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

The BOE's County-Assessed Property 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.)[8]

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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[7] 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.

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

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. **Survey by board of county assessment procedures.**

(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

(b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.

(c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

(d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.

(e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.

(f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. **Audit of records; appraisal data not public.**

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

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

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

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

15642. **Research by board employees.**

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

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

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

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

15644. **Recommendations by board**.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. **Allocation for administration**.

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

(b) For purposes of this section:

(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.

(2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:

(A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

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

Title 18, California Code of Regulations

Rule 370. **Random selection of counties for representative sampling**.

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

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

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

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

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

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

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

Rule 371. **Significant assessment problems**.

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

(1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or

(2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

(1) Uniformity of treatment for all classes of property.

(2) Discovering and assessing newly constructed property.

(3) Discovering and assessing real property that has undergone a change in ownership.

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

(5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

(6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.

(7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.

(8) Discovering and assessing property that has suffered a decline in value.

(9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

OFFICE OF ASSESSOR

172 West Third Street • San Bernardino, CA 92415-0310
www.sbcounty.gov/assessor

County of San Bernardino

DENNIS DRAEGER
Assessor

January 12, 2010

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

Subject: San Bernardino County Assessment Practices Survey – Assessor's response

Dear Mr. Kinnee:

The following is my response to the State Board of Equalization Assessment Practices Survey of the San Bernardino County Assessor's Office. I appreciate and welcome the opportunity to provide a written response as allowed in accordance with Government Code Section 15645.

I would like to personally express my sincere gratitude and commend the Board's Survey Team in their performance of completing the arduous task of the assessment survey. I was appointed Assessor in July 2009 and I was not present for the initial stages of the survey but my management staff informs me that the Survey Team was professional and considerate during the time they spent in my office. The Survey Team, then under the leadership of Team Supervisor Ms. Jody Henning and Team Leader Mr. David Dodson, assimilated into our daily operations with minimal intrusions while conducting staff interviews and follow-up consultations. Your team members exhibited excellent subject-matter expertise and conducted their interviews with my staff objectively and were willing to consider our views in discussion. Their thoroughness and competency speaks well for themselves, your team leaders, and the State Board of Equalization.

Finally, I would like to thank and give credit to my staff for their dedication, hard work and professionalism in providing excellent service to the taxpayers of San Bernardino County. It is through their efforts that an equitable and quality assessment roll was produced which is evident by the 100.21 percent county assessment ratio as determined by your sampling.

Very truly yours,

Dennis Draeger

Dennis Draeger
San Bernardino County Assessor

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

RECOMMENDATION 1: Ensure a certified auditor-appraiser or appraiser reviews all assessments prepared by noncertified staff.

RESPONSE 1: We hesitantly concur with this recommendation but feel that appraisals performed by noncertified appraisal technicians were individually reviewed and signed off by a certified appraiser. The problem was aircraft property statements were processed by an appraisal technician and reviewed by a certified appraiser who signed off on the input batch sheets that were not archived thus we could not document the appraisal review to the BOE.

RECOMMENDATION 2: Ensure that all changes in control of legal entities are reappraised timely.

RESPONSE 2: We concur with this recommendation and will process the SBE-100-B forms timely to ensure corporate changes are enrolled to minimize escapes assessments.

RECOMMENDATION 3: Do not include confidential sale price information taken from PCOR or COS on the list of transfers.

RESPONSE 3: We concur with this recommendation. On April 17, 2008 our office made the required changes to display only sales prices as indicated by the documentary transfer tax on recorded documents.

RECOMMENDATION 4: Improve the CLCA assessment program by: (1) sending CLCA questionnaires to property owners; and (2) annually reviewing all CLCA parcels.

RESPONSE 4; We concur with these recommendations and will endeavor to design a questionnaire for obtaining income, expenses, and production from CLCA property owners and to annually review all CLCA parcels.

RECOMMENDATION 5: Improve the taxable possessory interest assessment program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; and (2) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach

RESPONSE 5: We concur with these recommendations and will attempt to review all taxable possessory interests for declines in value contingent on staffing levels and workload. Also, when valuing taxable possessory interests utilizing the income approach we will deduct allowed expenses paid by the public owner from the income stream.

RECOMMENDATION 6: Annually assess restricted historical properties at the lowest of factored base year value, current market value or the restricted value.

RESPONSE 6: We concur with these recommendations and will perform the three-way comparison to ensure proper assessment.

RECOMMENDATION 7: With respect to mineral property, allocate current market value of the total property appropriately among each component of the appraisal unit.

RESPONSE 7: We concur with this recommendation and have already implemented it for the 2010 assessment roll.

RECOMMENDATION 8: Perform a situs inspection for large audit accounts

RESPONSE 8: We concur with this recommendation and will implement.

RECOMMENDATION 9: Improve the vessel reporting program by: (1) requiring vessel owners to file annual vessel property statements for all boats costing $100,000 or more; and (2) utilizing available Board-prescribed vessel property statements and assessing late-filing penalties, when legally justified, pursuant to section 463.

RESPONSE 9: We concur with recommendation (1) and will mail BOE-576-D *Vessel Property Statement* to all owners of vessels costing over $100,000. We concur with recommendation (2) to the extent that we will send the Board-prescribed form when a boat changes ownership or attains situs in San Bernardino County but will continue to utilize our county-developed vessel notice for the lien date mailing to all boat owners in which we request any changes pertaining to the assessee or the vessel.