

SAN BERNARDINO COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2004

CALIFORNIA STATE BOARD OF EQUALIZATION

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July 29, 2004

TO COUNTY ASSESSORS:

No. 2004/046

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 Donald E. Williamson, 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 Property Tax Division from March through August 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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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 comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address 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 of (surveys) 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 the San Bernardino County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Donald E. Williamson, 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 Appendices.

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

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 Code¹ section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

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

This survey also included an assessment sample of the 2002-03 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 survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

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

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.

In our 1999 San Bernardino County Assessment Practices Survey, we made 16 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented nine of the recommended changes. Six recommendations have not been implemented and are repeated in this survey and, one of the prior recommendations has been partially implemented.

We found significant improvements in the assessor's office since our last assessment practices survey. Purchases of information technology hardware and software, and improvements in efficiency have greatly improved productivity and the assessor's interface with other county departments.

The statements below summarize the findings of the current survey:

- Although the San Bernardino County assessment roll value increased by more than 23 percent between fiscal years 1998-99 and 2002-03, staffing levels increased by 8 percent over the same period.
- The assessor installed a new Property Information Management System (PIMS), which produced its first annual assessment roll in July 2000. The PIMS maintains descriptions, ownership, and property tax valuations for approximately 755,000 parcels.
- Administrative elements of the assessor's office, including assessment appeals, low-valued property exemptions, the exemption program, and assessment roll changes, conform to statutory requirements.
- The assessor's programs for assessing new construction, decline-in-value properties, taxable government-owned properties, leasehold improvements, timeshares, water company properties, and pipeline rights-of-way are consistent with the requirements of property tax law.
- The assessor has an effective business property statement program, equipment valuation program, aircraft valuation program, and racehorse return processing program.
- The assessor uses non-BOE certified staff to value property.
- The assessor's written procedures fail to conform to section 170 and San Bernardino County disaster relief ordinance.
- The assessor does not file quarterly section 69.5 reports with the BOE.

- The assessor inconsistently assesses California Land Conservation Act (CLCA) properties.
- The assessor fails to assess all possessory interests, and erroneously reappraises possessory interests whenever there is only a change in the annual rent.
- The assessor lacks uniform procedures for valuing historical property.
- The assessor fails to create separate appraisal units for leach pads, settling ponds, and tailing facilities as required in section 53.5. In addition, the assessor fails to determine market value for mining claim possessory interests to compare with the adjusted base year value.
- The assessor's mandatory audit program continues to be in arrears.
- The assessor uses unsupported minimum percent good factors and inappropriately uses untrended valuation factors in the appraisal of certain high-tech property types.
- The assessor continues to use an unsupported fixed depreciation rate for all vessels.
- The assessor continues to erroneously classify manufactured homes as real property and does not annually enroll manufactured homes at the lesser of the factored base year value or the current market value.

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 2002-03 assessment roll indicated an average assessment ratio of 99.56 percent, and the sum of the absolute differences from the required assessment level was 2.65 percent. Accordingly, the BOE certifies that San Bernardino County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Use only BOE-certified staff to perform the duties of a property tax appraiser as required by section 670.13

RECOMMENDATION 2: Conform the assessor's written procedures to the county's disaster relief ordinance.16

RECOMMENDATION 3: Report all approved section 69.5 claims to the BOE on a quarterly basis as required by section 69.5(b)(7).21

RECOMMENDATION 4: Develop uniform assessment standards for assessing CLCA property.25

RECOMMENDATION 5: Revise the possessory interest program by (1) appraising possessory interests only upon change in ownership, and (2) assessing all taxable possessory interests.26

RECOMMENDATION 6: Develop uniform assessment standards for assessing historical property.....28

RECOMMENDATION 7: Create separate appraisal units for leach pads, settling ponds, and tailing facilities as required by section 53.5.32

RECOMMENDATION 8: Revise the mining claims assessment procedures by: (1) annually enrolling mining claims at the lower of current market value or factored base year value, and (2) determining the reasonably anticipated term of possession for mining claims as provided in rule 21.32

RECOMMENDATION 9: Audit the books and records of professions, trades, or businesses pursuant to section 469.35

RECOMMENDATION 10: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.37

RECOMMENDATION 11: Annually assess vessels at fair market value.40

RECOMMENDATION 12: Improve manufactured home assessment procedures by (1) classifying manufactured homes as personal property, and (2) annually enrolling manufactured homes at the lesser of the factored base year values or the current market values.41

RESULTS OF 1999 SURVEY

Low-Value Property Exemption

We recommended the assessor request that the county board of supervisors conforms its low-value property exemption resolution to section 155.20. On November 7, 2000, the San Bernardino County Board of Supervisors, upon the request of the assessor, adopted Resolution No. 2000-249, *Exemption of Low Value Unsecured Property*. The resolution is now consistent with section 155.20 and results in uniform treatment of low-value property.

Assessment Roll Changes

We recommended that the assessor include the caption required by section 531.8 when providing taxpayers with notices of proposed escape assessments. The appropriate wording is now contained on notices of escaped assessment and generated by the PIMS.

Change in Ownership

We recommended that the assessor reduce the fee for public inspection of the two-year transfer list to the amount specified in section 408.1. On July 11, 2000, the board of supervisors, upon the recommendation of the assessor, adopted Ordinance 3794, amending section 16.023 of the San Bernardino County Code to reduce the charge to \$10.00 as provided in section 408.1.

New Construction

We recommended that the assessor include an imputed interest charge for owner-supplied construction funds in cost approach estimates, use updated local replacement cost factors, revalue construction in progress on the lien date, and value completed new construction at market value on the date of completion.

Currently, the assessor considers imputed construction loan interest when analyzing historical construction costs reported by property owners or developers, uses accepted cost guides, and uses current replacement cost factors to value construction in progress on each lien date, and new construction as of the date of completion.

Tenant Improvements

We recommended that the assessor properly classify tenant improvements. The assessor has instituted formal written procedures to delineate appraisal responsibility for tenant improvements to ensure their uniform assessment.

Decline in Value

We recommended that the assessor not apply the inflation factor to decline-in-value properties. The PIMS has eliminated this problem by assigning codes to all properties having decline-in-

value assessments. This new procedure ensures that the computer program will not apply the inflation index to enrolled values.

California Land Conservation Act Properties

We recommended that the assessor:

- Value individual properties based on their production capability and use an appropriate income premise when appraising producing orchards and vineyards in transition from agricultural to urban use.
- Deduct charges for return on and of investment in non-living improvements and make provision for recapture of irrigation wells from the gross income being capitalized.
- Revise desert grazing land valuation procedures by (1) using current market rents in determining animal unit month (AUM) rents and (2) calculating rent per acre as outlined in Assessors' Handbook Section 521, *Appraisal of Agricultural and Open Space Properties*.
- Identify, classify, and assess permanent irrigation systems and new wells according to the provisions of rule 124.²

The assessor has failed to fully implement these recommendations.

Manufactured Homes

We recommended that the assessor classify manufactured homes as personal property. The assessor has not complied with this statutory requirement.

Timeshares

We recommended that the assessor ensure that timeshares are being assessed at market value. In our current survey, we found that timeshares are currently being assessed at fair market value.

Mining Properties

We recommended that the assessor appraise mineral properties as a unit. We found that the assessor is in compliance with rule 469(e)(2)(C) and identifies the correct appraisal unit as a combination of land and improvements. The assessor now appraises mineral properties as a unit.

Audit Program

We recommended that the assessor bring his mandatory audit program to current status. In our current survey, we again found the mandatory audit program to be in arrears.

² All rule references are to the California Code of Regulations, Title 18, Public Revenues.

Vessels

We recommended that the assessor improve the mass appraisal technique used to determine the market value of vessels and apply the late filing penalties only when using BOE-prescribed forms. As to the mass appraisal technique, the assessor continues the practice of applying a single depreciation rate to the taxable value of all vessels on an annual basis. The second issue has been resolved. The assessor uses a locally developed form without the penalty provisions.

OVERVIEW OF SAN BERNARDINO COUNTY

Situated in Southern California, San Bernardino County is the largest geographical 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 the States of 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.

San Bernardino County has a population of about 1,765,000 people and has 24 incorporated cities.

The following table summarizes data from the 2002 assessment roll:

PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
<u>Secured Roll</u>		
Residential	643,298	\$62,437,491,806
Commercial/Industrial	40,961	21,167,606,774
Agricultural	6,019	734,022,333
Other Secured	7,386	772,185,666
Total	697,664	\$85,021,306,579
<u>Unsecured Roll</u>		
Personal Property & Fixtures	45,047	\$9,034,944,420
Manufactured Homes	12,393	304,469,390
Total	57,440	\$9,339,413,810
<u>Total Assessment Roll</u>	755,104	\$94,360,720,389

The next table illustrates the growth in assessment roll values during the past five years:

ASSESSMENT YEAR	TOTAL ASSESSMENT ROLL VALUE	INCREASE
2002-03	\$94,360,720,389	7.74%
2001-02	\$87,585,039,552	6.80%
2000-01	\$82,007,883,189	4.38%
1999-00	\$78,569,660,550	3.16%
1998-99	\$76,160,114,553	

ADMINISTRATION

This portion 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. We examined the assessor's budget and staffing, Property Tax Administration Grant Program, appraiser certification, exemptions, disaster relief, and assessment forms. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares for and presents assessment appeals.

Budget and Staffing

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 table below summarizes the assessor's office budget over the last the last five years.

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE
2002-03	\$10,704,022	(4.85%)
2001-02	\$11,249,921	5.00%
2000-01	\$10,714,193	15.84%
1999-00	\$9,249,475	9.78%
1998-99	\$8,425,159	

During the same period of time, the staff size increased from 183 positions to 196, which includes 30 positions funded by the Property Tax Administration Program. The staff consists of the assessor, an assistant assessor, a chief appraiser, a chief of assessment services, a department of information services manager, a principal appraiser in charge of real property, and a principal appraiser in charge of business property. This management team oversees a business property staff of 26, a real property staff of 71, and a support staff of 92.

The assessor has instituted several new programs and systems that have improved operations. Two of the programs are described below.

Property Information Management System

The Property Information Management System (PIMS) maintains descriptions, ownership, and property tax valuations on San Bernardino County's approximately 755,000 parcels. The assessor's office is responsible for the system; however, other county departments, cities, special assessment districts, title companies, and the general public can also access parts of the system for research purposes either directly or via the Internet. Interested parties can also purchase certain data. In July 2000, the first annual assessment roll was extracted through their new system. The mainframe-based programming allows jobs to run 24 hours a day, seven days a week.

Special Properties Unit

The assessor's special property unit (SPU) is staffed with a supervising appraiser and three property appraisers. The SPU makes total property appraisals of large, unique, and the most difficult properties, such as, taxable government-owned properties, mining properties, oil properties, power plants, large possessory interests, cable television, pipeline rights-of-way, cemeteries, water companies, large shopping malls, airport properties, and golf courses. It is responsible for the annual assessment of between \$3 and \$4 billion dollars of property.

State-County Property Tax Administration Grant Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program initially provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001 and was replaced with a grant program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

San Bernardino County has participated in the PTAP since February 1996. For fiscal year 2002-03, the assessor was granted \$2,139,938. The county's required base funding and staffing levels for the assessor's office are \$8,100,953 and 153 positions, respectively. The San Bernardino County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for the grant.

The assessor has effectively used these funds to reduce backlogs of new construction, changes in ownership, assessment appeals, and declines in value. However, mandatory audits continue to experience a backlog. The assessor has increased the auditor-appraiser staff from 11 positions to 14 positions since our last survey. As the new auditor-appraisers gain experience, the mandatory audit backlog should decrease.

In addition, funds have been used to fill appraiser, appraiser technician, and administrative and clerical support positions. Funds have also been used to develop and maintain the PIMS, improve the assessor's office interface with the tax collector, auditor, and planning and engineering departments, and purchase hardware and software replacements and upgrades. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

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. There are a total of 84 certified appraisers on staff, of whom 56, including the assessor, hold advanced certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the 16 auditor-appraisers performing mandatory audits meet the academic requirements referenced in section 670(d). The assessor does not use contract appraisers.

RECOMMENDATION 1: Use only BOE-certified staff to perform the duties of a property tax appraiser as required by section 670.

The assessor uses non-certified staff to inventory, value, and enroll manufactured homes without a review by a certified appraiser. Non-certified staff value new construction reported at \$50,000 or less, while certified appraisers review problem appraisals on an exception basis.

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 certificate issued by the State Board of Equalization.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This provision implemented by section 206 of the Revenue and Taxation Code, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and necessarily required for church parking is exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for church-owned property as well as leased property meeting the requirements in section 206.1

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes and owned or held in trust by corporations or other entities that meet the following requirements: (1) are organized and operated for those purposes; (2) are non-profit; and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual. The Legislature has acted upon such authorization by enacting the religious exemption in section 207 which exempts property owned by a church and used exclusively for religious worship and school purposes.

The assessor administers the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. However, the religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

There were 310 church exemption claims and 843 religious exemption claims processed for the 2002-03 assessment roll. The following table shows the assessor's church exemption claims and religious exemption claims for the last five years:

ASSESSMENT ROLL	RELIGIOUS		CHURCH	
	Number	Exemption Value	Number	Exemption Value
2002-03	843	\$381,086,438	310	\$103,328,452
2001-02	806	\$356,684,482	269	\$86,421,314
2000-01	610	\$280,027,752	467	\$138,204,219
1999-00	602	\$266,678,337	549	\$132,840,225
1998-99	574	\$252,275,098	548	\$127,472,446

Welfare Exemption

The welfare exemption from local property taxes is available for the property of organizations formed and operated exclusively for qualifying purposes (religious, hospital, scientific, or charitable), which use its property 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. Effective January 1, 2004, the BOE is responsible for determining whether an organization itself is eligible for the welfare exemption, and issues Organizational Clearance Certificates to qualified nonprofit organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and approves or denies exemption claims without review by the BOE.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid Organizational Clearance Certificate issued by the BOE. The assessor may deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's Organizational Clearance Certificate issued by the BOE.

There are 657 properties receiving the welfare exemption for the 2002-03 assessment roll in San Bernardino County. The following table shows the welfare exemption claims and roll values for the last five years:

ASSESSMENT ROLL	WELFARE	
	Number	Exemption Value
2002-03	657	\$1,491,203,527
2001-02	1,042	\$1,605,497,454
2000-01	1,508	\$1,567,007,525
1999-00	1,423	\$1,411,729,336
1998-99	1,677	\$1,450,239,243

We reviewed the assessor's files and procedures for the welfare, religious, and church exemptions and found that exemption claims are timely processed and the program is well administered. Accordingly we have no recommendations in this area.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors has no authority to exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. The board of supervisors must adopt any such 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.

In our prior survey, we recommended the assessor request that the board of supervisors revise the county's low-value property exemption resolution to conform to section 155.20 (i.e., make the exemption threshold uniform for classes of property). The resolution in effect at the time exempted all unsecured properties, except manufactured homes, with a value of \$2,000 or less.

The assessor requested that the board of supervisors revise the county's low-value property exemption and on November 7, 2000, the San Bernardino County Board of Supervisors adopted Resolution No. 2000-249, *Exemption of Low Value Unsecured Property*. The resolution incorporates the provisions of section 155.20 by allowing for the exemption of *all* unsecured property having a taxable value of \$4,000 or less. The assessor estimated that, for the 2001-02 assessment roll, the revised resolution would exempt approximately 15,140 properties with a total assessed value of \$45,427,000.

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

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assesses whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared by the Governor to be in a state of disaster, or to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

Immediately after the terrorist attacks of September 11, 2001, access to airport property was restricted. The assessor properly applied rule 139 to airport property to include diminution in the value of the property resulting from a period of restricted physical access to the property.

The San Bernardino County Board of Supervisors adopted Ordinance No. 1940 in 1974 to provide disaster relief. The ordinance has been subsequently updated three times. The latest update is Ordinance No. 3881, effective March 4, 2003.

During the past five years, the assessor has granted disaster relief to an average of 74 parcels annually. The assessor discovers disasters and calamities through newspaper articles and other media; building permits; information from taxpayers; and through word of mouth. The assessor also makes public appearances in areas that have experienced major disasters, encouraging taxpayers to file for disaster relief.

RECOMMENDATION 2: Conform the assessor's written procedures to the county's disaster relief ordinance.

The assessor's written disaster relief procedures are more restrictive than San Bernardino County's Ordinance. Section 1(B)(2) (Rev. 8/19/02) of the assessor's written procedures provides that eligible damage may also include non-physical damage such as restricted access to property located in a disaster area. The procedures manual further defines this as that area proclaimed a disaster area by the Governor.

Section 170 allows the county to provide for disaster relief in an area proclaimed by the Governor to be in a state of disaster, to any misfortune or calamity, or both. The county has adopted a general disaster relief ordinance applying the relief to any misfortune or calamity. Therefore, the restriction in the written procedures limiting damage resulting from restricted access to only those areas proclaimed disaster areas by the Governor is incorrect. However, we found that the assessor's practice is correct. He is providing disaster relief for restricted access according to rule 139.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. The BOE currently prescribes 76 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance of a prescribed form but cannot

add to, change, or delete the specific language on the form. The assessor may also rearrange a form provided the assessor submits that form for BOE approval.

Assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, no penalty may be imposed upon a property owner for failure to file such a form or questionnaire.

The BOE annually sends three checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, and return the property statements and miscellaneous forms checklists by October 15, and the exemption forms checklist by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.

The assessor has 23 items on his Web site, which includes forms, letters, and informational sheets. A review of the forms used by the San Bernardino County Assessor's Office during 2002 showed that the assessor used 67 forms and rearranged nine. A review of the forms used, county developed and BOE suggested, revealed no problems.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, the assessment roll may not be changed except as authorized by statute. All assessment roll changes are based on specific statutes, and any assessment 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 on the original assessment roll, for any reason. 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 assessment roll changes processed in San Bernardino County for the last five years:

FISCAL YEAR	ASSESSMENT ROLL CHANGES
2001-02	86,320
2000-01	75,015
1999-00	58,315
1998-99	74,315
1997-98	80,577

The assessor initiates assessment roll changes to correct errors noted during field inspections, reviews of business property statements (BPS), audits, and examination of death notices. Assessment roll corrections are processed according to the event date. The PIMS catalogues all events chronologically on each assessor's parcel number.

The prior survey recommended citing the proper caption as required by section 531.8 when providing taxpayers with notices of proposed escape assessments. The appropriate wording is now contained on notices of escaped assessment generated by the PIMS.

We found no problems with the assessor's assessment roll preparation procedures.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal 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 functioning of the assessment appeal process.

San Bernardino County Ordinance No. 3264 established two assessment appeals boards, each with five members appointed by the county board of supervisors. Each of the five supervisors appoints two appeals board members who have requisite qualifications as outlined in section 1624.

The clerk of the assessment appeals board receives and reviews assessment appeal applications and forwards copies to the assessor. The appeals agenda is prepared by the clerk of the board and coordinated with the assessor.

Appeals on special properties are assigned to an appraiser in the SPU to handle. All other business property appeals are assigned to one auditor in the business property division. All other real property appeals are assigned to one real property appraiser in the real property division.

The following table illustrates the assessments appeal workload for the last five years:

	2002-03	2001-02	2000-01	1999-00	1998-99
Appeals:					
Applications Received	2,144	2,476	2,595	2,807	NA
Carried forward	357	11	17	2	NA
Total Appeals	2,501	2,487	2,612	2,809	4,620
Resolution:					
Hearing-reduced		439	640	547	1,564
Hearing-upheld(no change)		1,691	1,961	2,245	3,054
Total Resolution	Pending	2,130	2,601	2,792	4,618
Carried over to next year	Pending	357	11	17	2

Overall, the assessor's assessment appeal program is well administered and appeals are being completed within the two-year limit. We found no problems with the assessor's assessment appeals program.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following 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 land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

Article XIII A of the California Constitution provides that, unless there has been a change in ownership or new construction, the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

Change in Ownership

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

Document Processing

The assessor's primary means of discovering properties that have changed ownership is the review of deeds and other documents recorded at the county recorder's office. The assessor supplies the recorder with codes to apply to documents that indicate potential transfers. The recorder images all recorded documents, applies the assessor's codes to the documents, and sends the assessor an electronic file containing potential transfer documents.

The property transfer division receives the electronic files along with Form BOE-502A, *Preliminary Change of Ownership Report* (PCOR), and analyzes the documents to determine if a change in ownership has occurred. In those cases, the staff identifies the parties and the interest transferred, processes and approves claim forms for exclusions, and processes homeowners' exemptions.

Transfer documents are sent to appraisers to work. If a PCOR or *Change in Ownership Statement* (COS) reports a legitimate sales price, the amount will be shown as "confirmed" on the computer screen.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and implements section 64.

Since there is usually no recorded notice of the transfer of an interest in a legal entity, discovery of changes in ownership resulting from such transfers is often difficult.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities. The unit transmits to each county a listing, with corresponding property schedules, of the 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 detailed information about the property they own. Because of the lack of reliable data provided by the entities, the LEOP unit advises assessors to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly assessed.

The San Bernardino County Assessor uses the LEOP unit's periodic listing as the primary method for discovering changes in ownership of properties owned by legal entities. Upon receipt, the assessor's staff reviews the list and confirms the change in ownership of the real property involved. We reviewed all the properties reported on the most recent LEOP list for San Bernardino County and found the assessments to be timely and accurate.

We found no problems with the LEOP program.

Transfer of a Base-year Value to a Replacement Dwelling

Section 69.5 allows a qualified homeowner over age 55 to transfer the base-year value of their principal residence to a replacement dwelling of equal or lesser value purchased or newly constructed within the same county on or after November 6, 1986, provided a claim is timely filed.

Claims are reviewed by the assessor's staff, and applicants not qualifying for the exclusion are properly denied. In 2002, the assessor processed 352 section 69.5 claims, of which 116 were granted.

RECOMMENDATION 3: Report all approved section 69.5 claims to the BOE on a quarterly basis as required by section 69.5(b)(7).

The assessor failed to furnish quarterly section 69.5 reports to the BOE as required by Section 69.5(b)(7).

In order to prevent statewide duplication of claims, section 69.5(b)(7) requires assessors to report quarterly to the BOE specified information to identify all claimants who have received relief under this section.

New Construction

For newly constructed real property, section 71 requires the assessor to determine a new base year value upon the date of completion of construction. If the new construction is in progress on the lien date, it is valued at its current market value. Rule 463 governs the assessment of new construction by interpreting and making more specific the requirements of section 71. Chapter 6 of Assessors' Handbook Section 502, *Advanced Appraisal*, provides additional guidance for assessing new construction.

Discovery

The primary sources for the discovery of new construction in San Bernardino County are the building permits issued by various local government agencies. Permits are received from 25 permit-issuing agencies. Approximately once a month, all of these agencies send copies, either by mail or electronically, of all new construction permits to the appropriate district office. Staff also discovers new construction activity while canvassing their assigned areas and reviewing business property statements. The following table shows the assessor's building permit workload:

ASSESSMENT YEAR	PERMITS RECEIVED	PERMITS RESULTING IN NEW ASSESSMENTS	CONSTRUCTION DISCOVERED WITHOUT PERMITS
2001-02	22,807	12,352	250
2000-01	28,447	12,676	215
1999-00	37,988	11,554	250
1998-99	45,978	N/A	280
1997-98	34,020	N/A	250

Valuation

The assessor's staff relies primarily on the market approach to value newly constructed residential properties. For low-value permits (under \$50,000), a *Property Owner's Statement of New Construction* (POSNC) is sent to the taxpayers. The POSNC is then matched with the permit and sent to the appropriate district office for review.

The staff uses the BOE's residential cost factors in valuing custom or unusual homes, and locally developed cost factors in valuing residential improvements such as patios, decks, and pools. The assessor's staff also compares these factors with costs reported on POSNC's and building permits.

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

In our prior survey, we recommended that the assessor review and update local cost factors; impute interest charge for owner-supplied construction funds, value construction in progress at market value on the lien date, and value completed new construction at market value on the date of completion. The assessor has implemented these recommendations.

The appraisal staff now correctly revalues construction in progress on each lien date. The staff has also significantly improved the quality of the replacement cost estimates prepared for new construction. Staff compiles an internal comparable sales database that is available to appraisers in all districts. In addition, the staff considers imputed construction loan interest for projects built using owner-supplied funds.

The assessor's new construction program appears to be effective.

Supplemental Assessments

Section 75 et seq. require the assessor to issue an assessment (i.e., a supplemental assessment) to reflect any increase or decrease in assessed value resulting from a change in ownership or new construction. The supplemental tax bill covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction.

The San Bernardino County Assessor's Office has a completely automated, event-driven supplemental assessment system. Values for change in ownership and new construction events are entered into the computer system and the values are compared with the existing taxable values to determine the amounts of the supplemental assessments. For multiple events, the system arranges the proper sequencing to produce the correct supplemental assessment and assigns it to the responsible party. Computer screens display both pending supplemental assessments and several years of history of supplemental assessments. These supplemental assessments are forwarded to the county auditor-controller's office and any resultant tax bill that is twenty dollars (\$20) or less can be cancelled under section 75.41 (d). Our review has found this automated system is effective in producing accurate and timely supplemental assessments.

We found that the assessor properly enrolls supplemental assessments for fixtures, manufactured homes, nonrestricted portions of Williamson Act properties, and other properties for which supplemental assessments are required. We did find, however, that the assessor improperly enrolls supplemental assessments on historical properties. This issue is addressed in that portion of this report.

Decline in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501, *Basic Appraisal*, January 2002, p. 140.)

A recommendation in our previous survey addressed the fact that the assessor inappropriately indexed decline-in-value assessments by the inflation factor. Once the PIMS became operational in July of 1999, the problem was eliminated.

San Bernardino County continues to recover from a depressed real estate market. The rise in property values still lags about two to three years behind values in Los Angeles and Orange counties. Although the number of properties with decline-in-value assessments is decreasing, those properties continue to represent a significant workload for the assessor's office.

The following chart depicts the decline-in-value workload for the last six years:

ASSESSMENT YEAR	DECLINE-IN-VALUES PROCESSED	APPROXIMATE TOTAL VALUE REDUCTION
2002-03	75,150	\$8,500,000,000
2001-02	90,836	\$10,500,000,000
2000-01	107,391	\$12,500,000,000
1999-00	109,066	\$14,700,000,000
1998-99	113,877	\$13,700,000,000
1997-98	114,235	\$11,800,000,000

The assessor has a computer program that annually identifies, values, and processes properties with market values that are 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.

The automated program selects up to 25 sales and then from these sales, selects three comparable sales for each property based on adjustable parameters. The sales used appear on the master appraisal document (MAD). An appraiser code (001) indicates that the computer program has performed the annual review. Overall, the assessor's decline-in-value program is effective and well run.

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 ("Williamson Act") contracts with property owners.

Property owners in an agricultural preserve 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 based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, the current market value, or the factored base year value.

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

According to the County Agricultural Commissioner's 2001 *Annual Crop and Livestock Report*, there were just over 41,000 acres of orchards, vineyards, and irrigated croplands in San Bernardino County. For the 2002-03 assessment roll, San Bernardino County had only 13,532 acres under CLCA contract, 6,839 of which were inside city borders. This is approximately 890 acres fewer acres than were on the 2001-02 assessment roll. For the 2002-03 assessment roll, the total restricted value was \$110.4 million; this compares to \$172.5 million assessed on the 1996-97 assessment roll.

RECOMMENDATION 4: Develop uniform assessment standards for assessing CLCA property.

In our prior survey, we recommended that the assessor:

- Revise the CLCA program by: (1) valuing individual properties based on their production capability; and (2) using an appropriate income premise when appraising producing orchards and vineyards in transition from agricultural to urban use.
- Deduct charges for (1) return on and of investment in nonliving improvements; and (2) recapture of irrigation wells from the gross income being capitalized.
- Revise desert grazing land valuation procedures by: (1) using current market rents in determining animal unit month (AUM) rents; and (2) calculating rent per acre as outlined in Assessors' Handbook section 521, *Appraisal of Agricultural and Open Space Properties*.
- Identify, classify, and assess permanent irrigation systems and new wells according to the provisions of rule 124.

We found the Ontario district office fully implemented all of our previous recommendations regarding CLCA property. The Ontario district office designed and mailed a questionnaire to each agricultural landowner in the district to obtain a broader range of income, expense, and production data. Individual computerized spreadsheets, one for active CLCA contracts and another for land in the non-renewal process, catalog all parcels and calculations by contract number. In addition to these two computerized spreadsheets, a well-designed agricultural sales spreadsheet was recently put into use.

The other two district offices that handles CLCA properties have failed to implement the recommendations from the previous survey. We believe that if the assessor adopts the standards implemented by the Ontario district office, all prior recommendations will be fully implemented.

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 of article XIII provides that land, and the improvements thereon, located outside a local government's boundaries are taxable 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.

The assessor has 1,137 taxable government-owned properties on the 2002-03 assessment roll with a total assessed value of \$16,522,135. One appraiser is responsible for identifying and valuing these properties. The appraiser maintains a spreadsheet of all taxable government-owned properties and revalues them on an annual basis. Our review of the taxable government-owned properties in San Bernardino County confirmed that the current program is well managed and in compliance with existing property tax law.

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.

San Bernardino County enrolled approximately 6,500 taxable possessory interests with a total value of \$609,612,092 on the 2002-03 assessment roll. The primary sources of discovery are reports from government agencies, field inspections, and recorded leases or agreements. Annually, the assessor sends an information request to each of 170 public agencies owning property in San Bernardino County. Agencies are asked to report all private users of real property, and to include a description of leased property, date of transaction, and the rental amount. The assessor also requests that the agencies send copies of the leases or license agreements for any new possessory interests.

Possessory interests are assigned geographically to district offices or by property type. The SPU oversees large possessory interest properties, including airport interests, golf courses, and cable television franchises. This unit also conducts annual studies, analyzing rents and rates of return to be used in the district offices. Small possessory interests, such as cabins and fairgrounds, are the responsibility of district offices where the properties are located. Our review found that the terms of possession used are reasonable, rents are market-derived, and appraisals are well documented; however, there are some areas of concern.

RECOMMENDATION 5: Revise the possessory interest program by (1) appraising possessory interests only upon change in ownership, and (2) assessing all taxable possessory interests.

Appraise possessory interests only upon change in ownership

We found that the assessor reappraises cabins located on U.S. Forest Service land whenever the U.S. Forest Service increases the annual rent. Under section 110.1(a), the full cash value of real property, including taxable possessory interests, is its fair market value as of the date of the most recent change in ownership. Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. An increase in rent is not by itself a change in ownership and does not cause a reappraisal of a possessory interest. Reappraisal of these properties based solely on an increase in rent is contrary to statutory provisions.

Assess all taxable possessory interests

The assessor assesses no possessory interest on Big Bear Lake. Big Bear Lake is owned by the Big Bear Municipal Water District, a public agency. There are approximately 450 private docks, marina slips, and timeshare slips located at the lake. Dock users pay an annual fee to the water district. The amount of the fee depends on the size of the dock and the amount of maintenance (weed abatement) needed for the private use of the dock or slip. These taxable possessory interests have escaped assessment.

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. Section 50280.1 provides that in order for a property to qualify as a 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.

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. 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 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and,
- A component for amortization of the improvements.

For the 2002-03 assessment roll year, there were 56 historical properties in San Bernardino County with a net taxable value of \$7,523,618.

RECOMMENDATION 6: Develop uniform assessment standards for assessing historical property.

We found several problems in the assessor's historical property program. The assessor includes the amortization component in the capitalization rate when valuing enforceably restricted property. The assessor capitalizes the net income of the property by an overall rate. This overall rate includes an interest component, a risk component, a property tax component, and an amortization component.

Section 439.2(c)(4) provides that the capitalization rate shall include a component for amortization of improvements. Since this component accounts for a return of improvements, it should not be included in an overall capitalization rate that converts land income into value. Standard appraisal practice would employ a method similar to the building residual method. This allows the assessor to separately develop a building capitalization rate, including an amortization component for the income to the building.

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. A restricted historical property value is to be determined annually, each January 1, and should not be trended by the inflation factor. Once a contract is signed, accepted, and recorded, then that property must be assessed annually at the lowest of factored base year value, current market value, or the restricted value under section 439.2(d) on the ensuing lien date.

The assessor issues supplemental assessments for new construction affecting historical properties. Section 52 provides that qualified historical property in a Mills Act contract is enforceably restricted pursuant to section 8 of article XIII. Furthermore, section 75.14 provides that supplemental assessments shall not be made for any property not subject to the assessment limitations of article XIII A.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the lessee. (Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, October 2002, p. 89). Leasehold improvements include structure items and fixtures paid for by the lessee. Improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant 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 a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

When real property is reported on the business property statement, coordination between the real property and business property divisions of the assessor's office is important. Both an appraiser in the real property division and an auditor-appraiser in the business property division should examine the reported cost. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double

assessments. The assessor's office 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 if additions are properly enrolled. Additionally, both divisions must agree on which items will be assessed by which division; otherwise, escapes or double assessments may result.

When a taxpayer reports structural costs on Schedule B of Form-BOE-571-L, *Business Property Statement* (BPS), the business property division typically completes an "APP112-Structure/Fixture Record" and sends it to the real property division for identification and review prior to valuation and assessment. However, for structural improvement costs reported by the tenant that are under \$100,000, the business property division typically assesses these costs directly to the tenant on the unsecured assessment roll.

In our prior survey, we recommended that the assessor properly classify leasehold improvements. Currently, the assessor uses spreadsheets, taxpayer reports, and the business property statement to help classify and value leasehold improvements. We found that the assessor now has an effective program for assessing leasehold improvements.

Timeshares

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable nonreal property items (considered non-taxable). Examples of nonreal property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

San Bernardino County has five timeshare projects with 11,864 intervals. The total assessed value for these intervals was \$60,259,843 for the 2002-03 assessment roll year. Each assessment is identified as a *T* parcel type (timeshare).

The assessor maintains timeshare appraisal records in PIMS. 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 assessment parcel number. Individual timeshares are assigned an assessment number. The published roll of assessments references the district office (Twin Peaks, Big Bear, or Victorville), assessor parcel number, owner's name, address, and season.

The property transfer division processes changes in ownership of timeshares. Valuation of individual timeshares is by the sales comparison approach. Sales are catalogued on the assessor's computerized sales analysis program. Sales from developers to individuals are discounted for non-real property items such as financing, exchange rights, furniture, club memberships, and maintenance fees.

In our previous survey, we recommended that the assessor review all timeshare assessments to ensure that all nonassessable items were not being assessed and that declines in value are recognized. Currently, there are no problems with the assessor's timeshare program.

Water Company Property

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

Property owned by water companies was assessed at \$137,196,254 for the 2002 lien date. This includes a total assessed value of \$1,222,859 for 21 mutual water companies and \$135,973,395 for 9 regulated water companies.

The SPU is responsible for valuing water companies and requires mutual and private water companies to file annual property statements, which are vital for accurate assessments.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its owners. If incorporated, those property owners served by the system hold shares of that company's stock. An incorporated mutual water company can enter into contracts, incur obligations, and own property. However, if unincorporated, it may perform those acts only in the names of all its members.

Mutual water company shares are typically appurtenant to the parcels that the company serves. In such cases, the value of the mutual water company assets is typically reflected in the assessed values of the properties it serves and to which the shares attach. 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. The assessor applies the proper procedures when assessing mutual water companies located within the county.

Regulated Water Companies

Private water companies, both regulated and unregulated, are utility companies that earn 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 the companies' investment. The market values of the properties owned by regulated companies are tied directly to those rates. Rate regulation may result in the current market value of a water company's property being less than its factored base year value.

The assessor applies the proper procedures when valuing private water companies.

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.³ 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 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

The SPU values pipeline rights-of-way. Five intercounty pipeline owners have rights-of-way in San Bernardino County with a total assessed value of \$7,202,487 for the 2002-03 assessment roll year. We found rights-of-way within San Bernardino County are being valued in accordance with sections 401.8 through 401.12.

Mineral Property

By statute and case law, mineral properties are taxable as real property. In general, they are subject to the same laws and appraisal rules as all other real property in the state. However, there are three mineral-specific property tax rules that need to be reviewed and followed when appraising mineral properties. They are rule 468—Oil and Gas Producing Properties, rule 469—Mining Properties, and rule 473—Geothermal Properties. The rules interpret statutes and case law with respect to the assessment of mineral properties.

San Bernardino County is one of the most diverse mineral counties in the state. It contains a rare earth mine, as well as a gold mine, sand and gravel operations, and limestone quarries. In our previous survey, we recommended that the assessor value mining properties as an appraisal unit, to comply with rule 469. The assessor has instituted this change.

The SPU performs all mineral appraisals. For 2002-03, the assessed values of these properties exceeded \$1 billion. The SPU also appraises the cogeneration plants in the county. Several of these plants are associated with mineral properties. In many cases, where there is common ownership, the assessor has taken the position to appraise these plants as part of the related property (i.e., the plants and the associated mineral properties are valued as a single appraisal unit). When the plant and the associated mineral properties are under separate ownership, they are appraised as separate units. The assessor's practice is acceptable.

The San Bernardino County Assessor is one of the few county assessors that correctly aggregates the entire appraisal unit to determine whether to enroll the adjusted base year or current market value. A characteristic of mineral properties is that equipment is often utilized well past what would seem to be its useful life. Thus, when valuing mining equipment, a more detailed analysis of the expected life of the equipment will be necessary.

Another characteristic of mineral properties is that they often suffer from external obsolescence due to the fluctuating nature of commodity prices. This type of obsolescence is difficult to measure when valuing equipment using a cost approach. By using the income approach, the assessor is reasonably able to estimate obsolescence. We commend the assessor for creating the Special Properties Unit to appraise unique properties. However, we did find two problems that we address below.

³ *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

Appraisal Unit

RECOMMENDATION 7: Create separate appraisal units for leach pads, settling ponds, and tailing facilities as required by section 53.5.

While primarily associated with gold mining operations, leach pads, settling ponds, and tailing facilities can be found in many mining operations. We found that the assessor has not created separate appraisal units for these facilities. Section 53.5 requires that these components of mineral properties be enrolled as separate appraisal units. The assessor's practice is contrary to existing law.

Mining Claims

RECOMMENDATION 8: Revise the mining claims assessment procedures by: (1) annually enrolling mining claims at the lower of current market value or factored base year value, and (2) determining the reasonably anticipated term of possession for mining claims as provided in rule 21.

Annually enroll mining claims at the lower of current market value or factored base year value

After the assessor established the base year value for mining claims, in subsequent years, he inappropriately enrolls the factored base year value without considering the current market value. He doesn't estimate the current market value to determine the lower of the current market value or the factored base year value.

Section 51 requires the assessor to enroll the lower of a property's factored base year value or its current market value on each lien date. Each year, the assessor should estimate the market value for the mining claim. Once the assessor establishes the current market value, he should compare it to the property's factored base year value and enroll the lower of the two values. Since the current market value has remained unchanged for a number of years, by enrolling the factored base year value each year the assessor is overassessing the mining claim.

Determine the reasonably anticipated term of possession for mining claims as provided in rule 21.

The assessor estimates the market value of mining claims by capitalizing the rent into perpetuity. Mining claims are possessory interests in government-owned property. Therefore, the government's interest (i.e., the reversion and any other interests excluded from the possessory interest) should not be included in the possessory interest assessment. The assessor should only value the interest of the holder of the mining claims by using a reasonably anticipated term of possession.

For properties, such as mining claims that have no stated term of possession, rule 21(d)(2) provides that the reasonably anticipated term of possession shall be demonstrated by the intent of

the public owner and the private possessor, and by the intent of similarly situated parties, using the following criteria:

- (1) The sale price of the subject taxable possessory interest and sales prices of comparable taxable possessory interests.
- (2) The rules, policies, and customs of the public owner and of similarly situated public owners.
- (3) The customs and practices of the private possessor and of similarly situated private possessors.
- (4) The history of the relationship of the public owner and the private possessor and the histories of the relationships of similarly situated public owners and private possessors.
- (5) The actions of the parties to the subject taxable possessory interest, including any amounts invested in improvements by the public owner or the private possessor.

Rule 21 requires that the assessor determine the value of the mining claim using a reasonably anticipated term of possession. Valuation of the unpatented mining claims by capitalizing the annual rental payment into perpetuity results in overvaluing the mining claim.

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.

Annually, the assessor's business property staff processes about 55,000 business property statements, performs an estimated 480 audits, and assesses approximately 13,500 vessels and aircraft. Excluding manufactured homes, the total value of personal property and fixtures on the 2002-03 assessment roll was approximately \$6.26 billion.

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.

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

ASSESSMENT ROLL	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	TOTAL VALUE CHANGE
2001-02	473	450	23	\$261,588,424
2000-01	485	476	9	\$516,881,041
1999-00	496	486	10	\$178,351,948
1998-99	306	291	15	\$195,434,118

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

San Bernardino County has a total workload of approximately 2,600 mandatory audit accounts, or an average of about 650 audits per year.

RECOMMENDATION 9: Audit the books and records of professions, trades, or businesses pursuant to section 469.

Our prior survey recommended that the assessor bring the mandatory audit program to current status. The assessor still has a number of mandatory audit accounts that have not been audited.

MANDATORY AUDIT BACKLOG			
2001-02	2000-01	1999-00	1998-99
992	981	849	866

The assessor has increased the auditor-appraiser staff from 11 positions to 14 auditor-appraisers since our prior survey. However, he still has a backlog of mandatory audits.

By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to permanently escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit 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, 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.

In our review, we discovered that the assessor's practices have not deviated from the prior survey. Whenever the assessor's office is unable to complete an audit within the statutory time allowed, staff requests a waiver of the statute of limitations from the taxpayer. When the taxpayer refuses to sign a waiver, the assessor directs available staff to complete the audit. This is accomplished through a desk review procedure for those audit years in danger of being lost.

In performing a desk review, audit staff analyze business property statements and prior audits, and make escape assessments. While this procedure may partially mitigate the loss in revenue when mandatory audits are not completed on a timely basis, it should not be performed in lieu of performing mandatory audits.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer-reporting errors, a nonmandatory audit program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

The assessor completed 23 nonmandatory audits during 2001-02, and the quality appears to be very good. We found the assessor's nonmandatory audit program to be effective.

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 business property.

We reviewed several recently completed audits to determine whether the assessor performed change in control (ownership) reviews, verified leased equipment, enrolled construction in progress, accounted for supplies, and properly classified equipment. In all cases, the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation, including a comprehensive review by a supervising auditor-appraiser.

Business Property Statement Program

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

For the 2002-03 assessment roll, the business property division processed 55,044 business property statements, including direct billings that produced \$6,257,242,075 in assessed value.

As part of our survey, we randomly reviewed selected business property statements to determine whether the stated policies and procedures were correctly applied to the processing of business property statements. We then reconciled the actual property statement processing practices to pertinent authoritative citations to determine whether the practical application of the policies and procedures were in compliance with statutory law and BOE guidelines.

We found the assessor's business property statement processing to conform to statutory provisions and BOE guidelines.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors' offices use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that will promote uniformity in appraisal practices and in assessed values throughout the state. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment.

Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to historical cost produces an estimate of market value.

RECOMMENDATION 10: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

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 the AH 581 with the exception of specific types of equipment (e.g., pagers, facsimile equipment and photocopiers), which the CAA recommends should not be trended. The percent good factors also parallel the AH 581 factors with the exception that the CAA factors provide an unsupported minimum percent good factor for older equipment.

Because the assessor uses the CAA tables, he employs unsupported minimum percent good factors for older equipment. Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner. The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good factor. The assessor has no supporting evidence for using such minimum factors; hence, the manner is not supportable as required by section 401.16.

Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA is not supported by a study. Therefore, the assessor should discontinue the use of the unsupported minimum percent good factors and untrended valuation factors.

Leased Equipment

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

At the time of our prior survey, the assessor's leased equipment unit consisted of one full time technician responsible for the assessment of leased equipment with appraisal assistance during the processing season from one auditor-appraiser. Currently, the assessor has two full time technicians working on leased equipment with appraisal assistance and oversight during the processing season from two auditor-appraisers.

The assessor cross checks the lessors' and lessees' filing of their business property statements. We have no recommendations in this area.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

The San Bernardino County Assessor's Office uses such a program. The accounts that are direct-billed are generally stable and less than \$100,000 in full cash value of reportable business property. Direct billing accounts are also subject to routine update within the statute of limitations. Every three to four years, the assessor's office conducts a field check of an account to determine if there has been any substantial unreported changes of business property including addition or deletion of equipment, change in ownership, and change in location. They then decide whether the account is still of a type that would be suitable for direct billing. If not, they convert the account to a regular account and resume yearly business property statement mailings. We found no problems with the direct billing program.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, 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*, as an alternative guide for aircraft not listed in the *Bluebook*.

The San Bernardino County Assessor's Office assessed 1,493 general aircraft for the 2002-03 assessment roll with a total value of \$161,848,794.

A certificated auditor-appraiser is responsible for valuing general aircraft. An aircraft property statement is mailed each year to the known owner of each aircraft in the county requesting information to be filed. The form lists the aircraft and requests the owner to report added or

deleted equipment, engine air hours since last major overhaul, date of last overhaul, overall condition, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the aircraft property statement, the auditor-appraiser incorporates adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul, to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft. Field situs checks are made on a case by case basis according to taxpayer claims of deferred maintenance, airworthiness, etc.

We found the procedures to be correctly administered and the estimates of value to be properly calculated.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers, including air taxis that are operated in scheduled air taxi operation. Unlike general aircraft, that are 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 (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

Several commercial airlines fly in and out of Ontario International Airport, which is located in San Bernardino County. The auditor-appraiser in charge of aircraft predicates his appraisals of certificated aircraft on the audited costs of the business property statements of the airlines. The auditor-appraiser then applies the percentage of time the aircraft was situated in San Bernardino County based on a one week sample, ground time and air time, to the airline's total audited fleet estimate of value, to derive a pro rata estimate of the certificated aircraft value.

We reviewed the certificated aircraft appraisals and audits and found the procedures to be correctly administered and the audited estimates of values to be properly calculated.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

In order to qualify for the historical aircraft exemption, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, and pay a filing fee of \$35 upon the initial application for exemption. Aircraft of historical significance can be exempted from taxation only if all of the following conditions are satisfied: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and (3) the aircraft was available

for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

For the 2002-03 assessment roll, the assessor granted exemption to 234 historical aircraft with a total value of \$26,610,660. We reviewed the declarations of historical aircraft claimants and found no problems.

Vessels

The assessor valued more than 10,850 vessels on the 2002-03 assessment roll, with a total assessed value of \$134,969,860. The primary discovery sources are Department of Motor Vehicle (DMV) reports and referrals from other counties.

In our previous survey, we recommended that the assessor revise vessel assessment procedures by: (1) improving the mass appraisal technique used to determine the market value of pleasure boats, and (2) applying late filing penalties only when using BOE-prescribed forms. The assessor implemented the second recommendation by eliminating the penalty provision from the locally developed form.

RECOMMENDATION 11: Annually assess vessels at fair market value.

The assessor still uses a single depreciation rate for all vessels. In our previous survey, we found that the assessor applied a single depreciation rate to the prior year's taxable value of all vessels on an annual basis. Currently, the assessor uses the *National Automobiles Dealers Association's Small and Large Boat Appraisal Guide* in vessel valuation. Once the initial value is calculated, future assessments are annually reduced by a percentage developed by calculating the market values for a large sample of over 100 randomly selected boat sales and personal water craft. The sales are broken down into several categories according to size and type. The results are compared to a similar, but larger sales analysis from the San Diego County area. From this information, the assessor determines a depreciation adjustment for all vessels.

While this is an improvement over previous procedures, the use of a single depreciation rate for all vessels in the county is inappropriate due to the different types and ages of vessels. As the assessor maintains a large database of vessel sales, a more valid approach would be to determine a depreciation rate by size and type. Another method would be to first categorize all vessels into groups of new and used and then by types within those groups, (i.e., cruiser/powerboat, sailboat, inboard, outboard, and personal watercraft). Trends in market values for each of these groups could be calculated by comparing a sample of each group in published boat valuation guides for the current year and previous year. The trend factor would then be applied to all vessels within each group.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or upon the owner's request for conversion from vehicle license fee status to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in

Revenue and Taxation Code sections 5800 through 5842. Most manufactured homes are classified as personal property and enrolled on the secured assessment roll.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, the *Kelley Blue Book Manufactured Housing Used Value Guide* (Blue Book) and the N.A.D.A. *Manufactured Housing Appraisal Guide* (NADA).

Most manufactured homes are classified as personal property and enrolled on the secured assessment roll. The assessor is notified of assessable manufactured homes by information from the California Department of Housing and Community Development, dealer reports of sale, tax collector tax clearance certificates, and building permits.

Once the information is received, an assessment technician enters the appropriate data into the computer system and determines whether the manufactured home is already enrolled. If already enrolled, the assessment technician gives the data and appraisal record to the appraisal staff for valuation. If the manufactured home has not been enrolled, the assessment technician gives the data to the appraisal staff for a field check, inventory, and valuation.

In San Bernardino County, there are approximately 13,000 manufactured homes subject to property tax assessment with a total assessed value of \$318,046,763. The assessor's appraisal staff in regional offices are responsible for assessment of all manufactured homes located either in a mobilehome park, leased land, or fee-owned land.

RECOMMENDATION 12: Improve manufactured home assessment procedures by
(1) classifying manufactured homes as personal property, and
(2) annually enrolling manufactured homes at the lesser of the factored base year values or the current market values.

Classify manufactured homes as personal property

In our previous survey, we noted that the assessor classifies and enrolls all manufactured homes as real property. We found that the assessor continues to enroll all manufactured homes as real property on the secured assessment roll even though the assessor's PIMS appraisal manual states that they are to be classified as personal property. We found that the assessor enrolls all manufactured homes as real property improvements in order to circumvent the computer system and grant the homeowner's exemption because the assessor's computer system does not allow the application of a homeowner's exemption to personal property.

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*.

Annually enroll manufactured homes at the lesser of the factored base year values or the current market values

In subsequent years to establishing the base year value, the assessor does not calculate current market value for manufactured homes. The appraisers use NADA to determine the initial fair market value of manufactured homes. After the initial enrollment, the enrolled value remains constant in succeeding years without the benefit of an annual decline-in-value review.

The assessor recognized that this practice was inconsistent with section 5813 and consequently reduced enrolled values of all manufactured homes on leased land for the 1999-00 assessment roll by 10 percent. Manufactured home values were once again reduced by 5 percent for the 2001-02 assessment roll.

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

Racehorse Tax Returns

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

In order to meet the racehorse definition as stated in section 5703:

- A horse must have actually raced;
- A horse must be registered or eligible to be registered as a race-horse in one of the five "eligible to race" breeds stated in rule 1046: thoroughbreds, quarter horses, standard breeds, Appaloosa horses, and Arabians; and
- If the horse is over four years old in the case of Arabians (three years for all others) and never raced, the horse must have been used for breeding purposes in order to produce racehorses during the preceding two years.

The assessor annually sends racehorse tax return forms to prior year owners. In addition, he sends appropriate tax report forms to horse boarding facilities reporting domicile changes. The assessor and tax collector exchange returns, providing effective control. Examinations of returns to tax collector and assessor copies indicated no returns exceeded the threshold for mandatory audit. The following table details the number of racehorses and racehorse owners per assessment roll year:

ASSESSMENT ROLL YEAR	RACEHORSES	OWNERS
2002-03	437	293
2001-02	527	262
2000-01	362	252
1999-00	338	297
1998-99	346	322

We found that the assessor effectively administers the annual racehorse in-lieu tax.

APPENDICES

A. County Property Tax Division Survey Group

San Bernardino County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Lloyd Allred

Associate Property Appraiser

Yvette Barrios

Associate Property Appraiser

David Dodson

Associate Property Appraiser

Judith Henning

Associate Property Appraiser

Michael Hinojos

Associate Property Appraiser

Tina Krause

Associate Property Appraiser

David Mann

Associate Property Appraiser

Laura Ruiz

Associate Property Appraiser

Mark Winters

Associate Property Appraiser

Ancil Aydelott

Associate Property Auditor-Appraiser

Michael Shannon

Associate Property Auditor-Appraiser

Delia Garcia

Tax Technician

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁴ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁵
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁴ 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.

⁵ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

(a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

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

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

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

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

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

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

Rule 371. Significant assessment problems.

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

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

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The 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.

June 18, 2004

Ms. Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento CA 94279-0062

Dear Ms. Stuckey:

Following is my response to the State Board of Equalization Assessment Practices survey of San Bernardino County's Assessor's Office. The replies to the recommendations are respectfully prepared and submitted in accordance with Government Code Section 15645. I appreciate the opportunity to provide a written response. Please include it in the published report.

As the largest and one of the fastest growing counties in the state, the challenges of preparing an assessment roll, which has increased in value in excess of 25% over the past 4 years, while incurring decreases in staff and budgets, have been enormous. I was pleased to see that this survey acknowledged my staff performs efficiently and in accordance with the law. I was also pleased to see that the recommendation issues did not involve any major duties and functions of the department, and involve only a very minor percentage of the total parcels that we assess. I will however, continue to strive to comply with each and every aspect of Revenue and Taxation law in the execution of my official duties.

I would like to express my sincere gratitude for the manner in which the Survey Team conducted themselves in their difficult task of completing the assessment practices survey. Under the leadership of Mr. Arnold Fong and Mr. Carlos Zaragoza, the survey team created a minimal intrusion in our normal operations. Each member of the team was professional, attentive to their duties, respectful of my staff and their roll preparation duties, understanding of our constraints, reasonable and willing to consider our views in discussion. Their conduct speaks highly of the competency of the State Board appraisal staff. They would be welcome as members of my staff.

Finally, I would like to thank my own staff for their professionalism, dedication and consistently performing in a manner that results in San Bernardino County Assessor's Office being ranked amongst the highest in the state. The comparative ratio of assessments to full value from the survey was an incredible 99.56 percent. Such a high ratio clearly reflects the outstanding accomplishment of the staff in the efficient performance of the business of this office in this fiscally challenging period. I applaud their achievement of excellent service to the constituency of the county.

Very truly yours,

/s/ Donald E. Williamson

Donald E. Williamson
San Bernardino County Assessor

County Response to Recommendations

Recommendation 1: Use only BOE-certified staff to perform the duties of a property tax appraiser as required by Section 670.

We agree that only certified appraisers should perform the duties of an appraiser, but the assessor does not believe the conclusions drawn about our current practice are entirely correct. The assertion by the SBE survey team is that the assessor uses non-certified Appraiser Technicians to enroll manufactured homes and value new construction additions without review by a certified appraiser. The assessor has relied upon LTA 2003/068 for general direction on the appropriate “Participation of Non-Certified Staff in Valuation Activities.” On pages 9-10, Real Property, Replacement Cost Estimate, Item #6, the LTA states that non-certified staff may “Calculate a manual or automated cost value for review by a certified appraiser, but not make a judgment as to the quality of characteristics.” This is the assessor’s practice.

Appraiser Technicians are not allowed to exercise independent judgment. The assessor employs the NADA Manufactured Housing Appraisal Guide for manufactured home valuations. Low value new construction additions are valued by the cost approach using locally developed manual or computer assisted cost tables researched and developed by certified appraisers. Utilizing the NADA Guide cost data by manufacturer/model/year and the certified appraiser devised addition cost guidelines and parameters, Appraiser Technicians apply these resources to compute and enroll values. Problems and exceptions are referred to an appraiser, and certified staff review the daily report of roll value updates to the assessor database for each Appraiser Technician. Thus, the assessor contends that the use of non-certified staff complies with the guidelines described in LTA 2003/068 and is not out of compliance with Section 670.

Recommendation 2: Conform the assessor’s written disaster relief procedures to the county’s ordinance.

The SBE staff concluded that the assessor’s written disaster relief procedures are more restrictive than the county’s ordinance. However, they comment that the assessor’s practice is correct.

The survey’s conclusion is based upon the semantic interpretation of wording in one sentence in the assessor’s damaged property assessment procedure which was intended to provide for the unique circumstances relating to Section 69 Governor declared disasters and the new Rule 139 restricted physical access provisions created for the 09/11 disaster. We will review the wording for revision to prevent future misunderstanding of the assessor’s procedural intent. We appreciate that the SBE response acknowledges the assessor’s valuation practice is correct.

Recommendation 3: Report all approved Section 69.5 claims to the BOE on a quarterly basis as required by Section 69.5(b)(7).

We agree. San Bernardino County has developed a systematic means of reporting claims to the SBE quarterly as required.

Recommendation 4: Develop uniform assessment standards for assessing CLCA property.

San Bernardino County includes over 20 thousand square miles of area. Much of the farm land is in transition to urban development. The remaining agricultural spot areas are dispersed throughout the county. The survey found that one of the three field offices that assess CLCA property is in full compliance with prior SBE valuation recommendations. The assessor agrees that standardization of processes is essential. We are making the changes to apply uniform assessment methodology.

Recommendation 5: Revise the possessory interest program by (1) appraising possessory interests only upon change of ownership, and (2) assessing all taxable possessory interests.

The SBE survey found that possessory interest procedures and valuations in San Bernardino County are well done as the whole. The survey reported concerns only about the handling of small PI's valued by an appraiser in one field office. Cabins on U.S. Forest Service leased land (1) and recreational boat docks (2) in the Big Bear area were determined to be inappropriately assessed. We agree on issue #1. The appraiser now uses the appropriate procedure. On issue #2, the possessory interest value computed from the annual fee paid to the municipal water district results in valuations below the county's low-value exclusion threshold, and therefore have not escaped assessment.

Recommendation 6: Develop uniform assessment standards for assessing historical property.

The assessor accepts the recommendation but has an alternate interpretation of Section 439.2 as pertains to the capitalization rate. We will, however, revise our procedure to comply with the recommendation.

Recommendation 7: Create separate appraisal units for leach pads, settling ponds, and tailing facilities as required by Section 53.5.

We acknowledge Section 53.5, but contend that creating separate appraisal units for the leach pads, settling ponds, and tailing facilities is not rational. These components are integral parts of the mining operation economic unit. It is noteworthy that there has been no SBE letter or update to AH560 providing a suggested means of accomplishing the separation of the designated units since Section 53.5 became effective in January 1999. Written direction is needed. We would also appreciate the SBE considering the sensibility of Section 53.5 and sponsoring legislation to reverse this provision.

Recommendation 8: Revise the mining claims assessment procedures by (1) annually enroll mining claims at the lower of the current market value or factored base year value, and (2) determining the reasonably anticipated term of possession for mining claims as provided in Rule 21.

All mining claims held as part of an ongoing mining operation are appropriately assessed. We will review and revise our valuation procedural guidelines for the unpatented mining claims that are held as active.

Recommendation 9: Audit the books and records of professions, trades, or businesses pursuant to Section 469.

We concur. An audit program is essential for accurate and equitable personal property and fixture assessments. The SBE Survey Team reported that the sampled San Bernardino County Assessor's Office audits are "accurate, well documented, and supported by a comprehensive audit checklist defining all area

of investigation.....” Based on the number of audits performed per auditor-appraiser reported in the SBE “Report of Budgets, Workloads, and Assessment Appeals” publication, the San Bernardino County audit program is one of the most efficient of the counties in the State.

The real issue in this recommendation is an inability to retire a backlog of audits to be performed. San Bernardino County is in a fast growth cycle. Many large businesses are locating in the county. In spite of automation improvements, more efficient procedures, and a rise in the mandatory audit threshold from \$300,000 to \$400,000, the increase in the number of new mandatory audit accounts has exceeded the ability of the existing staff to perform the required audits. Prior County administrators did not support the addition of auditing staff to keep pace with the mandated audit workload volume.

Recommendation 10: Use Assessor’s Handbook Section 581, Equipment Index and Percent Good Factors, as intended.

The San Bernardino County Assessor’s Office has participated with many other assessors in devising the price indices and percent good factors prepared by the California Assessor’s Association for business property valuations. The alternative is the BOE prepared and prescribed “Equipment Index and Percent Good Factors” offered in AH 581. Value computations from both resources provide very similar results for most equipment. The BOE contends that the CAA tables include unsupported minimum percent good factors and untrended valuation factors. We assert that the development of the CAA factors has been driven by the judgment and experience of county auditors gained from business data analyzed in the audit and assessment appeal processes, and thereby more closely reflect the realistic market value of older equipment. We encourage the CAA to publish the documented basis for their factors. We believe that would facilitate agreement between the BOE and CAA on a standard set of equipment valuation factors.

Recommendation 11: Annually assess vessels at fair market value.

The assessor agrees that the appropriate standard is to assess vessels at fair market value. In the pursuit of that objective, a current value for new and used vessels is established upon each change in title using the NADA Small and Large Boat Appraisal Guide. Additional enhancements to our automated assessment process would be beneficial for succeeding years. System functionality and resource limitations prevent segregation by vessel size and type, and the use of multiple factors. Therefore, adjustments to the base value are made by applying a single factor derived from a sales analysis conducted annually by the San Diego County Assessor’s Office. Many counties apply a similar methodology for vessel valuation.

Recommendation 12: Improve manufactured home assessment procedures by: (1) classifying manufactured homes as personal property, and (2) annually enrolling manufactured homes at the lesser of the factored base year value or the current market values.

Systematic accommodations have been made to treat manufactured homes as personal property in every aspect except that the values are displayed on the roll as improvements to provide for application of the Homeowner’s Exemption when appropriate. We concede that our practice does not technically conform to the letter of the law and intend to pursue database modifications allowing the HOX to be applied to personal property valuations. We have no automated means to annually review manufactured home values to determine the lesser of the current market or factored base value. An annual comparison of sales prices and NADA value computations is manually done to determine if it is appropriate to uniformly apply a depreciation factor to manufactured home assessments.