

# SAN DIEGO COUNTY ASSESSMENT PRACTICES SURVEY

**FEBRUARY 2006**

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NO. 2006/012

February 28, 2006

TO COUNTY ASSESSORS:

SAN DIEGO COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the San Diego 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 Gregory J. Smith, San Diego County Assessor/Recorder/County Clerk, 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 Diego 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 February through August 2004. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Smith 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 Diego 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 Diego 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 Gregory J. Smith, San Diego Assessor/Recorder/County Clerk,<sup>1</sup> elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

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<sup>1</sup> This report covers only the assessment functions of the assessor's office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

In addition, pursuant to Revenue and Taxation Code<sup>2</sup> section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purpose 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 Diego 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 Diego County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2003-04 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 over assessments, 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.

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

## EXECUTIVE SUMMARY

In our 2000 San Diego County Assessment Practices Survey, we made 17 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented 14 of the recommended changes, but did not implement three recommendations, which are repeated in this survey.

In the area of general administration, we noted the following:

- San Diego County has participated in the State-County Property Tax Administration Program (PTAP) since its inception. The San Diego County Auditor-Controller has verified the assessor's success in meeting the contract requirements each year.
- The county's General Regulations have not been updated to reflect the current requirements and limitations of section 170.
- The assessor did not submit the BOE form checklists by the required due date, did not submit the final prints of BOE-prescribed forms for approval, and locally-developed forms do not contain proper penalty reference within the accompanying instructions.

In real property assessment, the assessor has effective programs for change in ownership, California Land Conservation Act property, historical property, water company property, mineral property, and pipeline rights-of-ways. However, we noted the following deficiencies in his real property program:

- The assessor does not enroll construction in progress at its market value on each lien date.
- The assessor's *Notification of Supplemental Assessment* does not contain all of the information required by section 75.31.
- The assessor's notice of a decline in value does not include the factored base year value or the notice of the stipulation process.
- The assessor does not establish a base year value for taxable government-owned property according to BOE guidelines.
- The assessor revalues possessory interests leased on a month-to-month agreement even though there has been no change in ownership or expiration of the assessor's reasonably anticipated term of possession. The assessor does not periodically review all taxable possessory interests with stated terms for declines in value. And, the assessor incorrectly assesses possessory interests of properties used exclusively for public schools.
- The assessor does not assess wireless communication tower sites that are delegated to the county for local assessment.

In the area of business property assessment, the assessor has effective programs for leased equipment, vessels, animals, and racehorses. However, we noted the following deficiencies:

- The assessor continues to have a backlog of uncompleted mandatory audits.
- The assessor uses unsupported valuation factors for biopharmaceutical equipment and fixtures and does not assess taxable pollution control devices or facilities financed by state bonds.
- The assessor does not apply adjustments to the listed retail price of aircraft as outlined in Assessors' Handbook Section 577, *Assessment of General Aircraft*.
- The assessor does not apply penalties timely when manufactured home owners fail to file a *Change of Ownership Statement* and classifies manufactured homes as real property.

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

The San Diego County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2003-04 assessment roll indicated an average assessment ratio of 99.95 percent, and the sum of the absolute differences from the required assessment level was 0.42 percent. Accordingly, the BOE certifies that San Diego 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:** Request that the board of supervisors amend the county's General Regulations to reflect the current requirements and limitations of section 170.....14

**RECOMMENDATION 2:** Comply with requirements of BOE-prescribed forms by: (1) submitting timely all BOE checklists, (2) submitting a printed copy of each property statement and mineral production report form and its accompanying instructions by February 10, and (3) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them.....17

**RECOMMENDATION 3:** Enroll construction in progress at its fair market value on each lien date.....26

**RECOMMENDATION 4:** Revise the *Notice of Supplemental Assessment* to include all information required by section 75.31.....27

**RECOMMENDATION 5:** Revise the value change notice to conform to the requirements of section 619.....28

**RECOMMENDATION 6:** Establish a base year value for taxable government-owned properties according to BOE guidelines. ....30

**RECOMMENDATION 7:** Revise the possessory interest program by: (1) reappraising possessory interests only upon change in ownership or expiration of the reasonably anticipated term of possession as required by section 61(b)(2), (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (3) exempting property used exclusively for public school purposes.....31

**RECOMMENDATION 8:** Assess the wireless communication tower sites that have been delegated for local assessment. ....36

**RECOMMENDATION 9:** Complete all mandatory audits timely in accordance with section 469. ....38

**RECOMMENDATION 10:** Improve the business equipment valuation program by: (1) using Assessors’ Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; and (2) assessing taxable pollution control devices or facilities financed by state bond. ....41

**RECOMMENDATION 11:** Adjust the average retail price as outlined in Assessors’ Handbook Section 577, *Assessment of General Aircraft*. ....44

**RECOMMENDATION 12:** Revise the assessment of manufactured homes by: (1) applying penalties timely for failure to file change in ownership statements as prescribed in section 482, and (2) classifying manufactured homes as personal property in accordance with section 5801(b)(2).....47

## RESULTS OF 2000 SURVEY

In our 2000 San Diego County Assessment Practices Survey, we made 17 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented 14 of those recommendations, but did not implement three recommendations. Our findings with regard to the recommendations made are discussed below.

### ***New Construction***

We recommended the assessor review or spot check building permits from non-automated permit-issuing agencies. This recommendation has been implemented.

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

We recommended the assessor update information periodically by sending a questionnaire annually to all CLCA property owners. The assessor has implemented this recommendation.

### ***Possessory Interests***

We recommended the assessor request that the county counsel make a demand for possessory interest lease information from the United States Department of Agriculture Forest Service (USFS). As a result of a Kern County court decision, the USFS is cooperating with the assessor. This recommendation has been implemented.

### ***Manufactured Homes***

We recommended the assessor classify and enroll manufactured homes as personal property. This recommendation has not been implemented and is repeated.

Additionally, we recommended the assessor document on the appraisal record the source and indicate the value obtained from recognized manufactured home value guides, and mail a *Change of Ownership Statement* to taxpayers who do not return the *Mobilehome Owner's Declaration*. The assessor has implemented these two recommendations.

### ***Mineral Properties***

We recommended the assessor appraise mineral properties as a unit. By changing his method of valuation from the royalty method to the total income approach, the assessor has implemented this recommendation.

### ***Water Company Property***

We recommended the assessor to use the income approach to value regulated private water companies and that the assessor identify and assess all taxable improvements and water rights on water company property. These two recommendations have been implemented.

### ***Mandatory Audit Program***

We recommended the assessor bring the mandatory audit program to current status. The assessor has reduced his backlog significantly. However, the assessor still has not timely completed all mandatory audits. Therefore, we repeat this recommendation.

### ***Non-mandatory Audit Program***

We recommended the assessor expand the non-mandatory audit program. While the assessor's production of non-mandatory audits has declined in the last couple of assessment periods, the assessor does have a good non-mandatory audit program. We consider this recommendation as implemented.

### ***Equipment Index Factors***

We recommended the assessor use the BOE's equipment index factors from Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), as intended. The assessor has not implemented this recommendation; therefore, we repeat it.

### ***Leased Equipment***

We recommended the assessor ensure that leased equipment retained by the lessee upon lease termination continues to be assessed. The assessor has a tracking program that implements this recommendation.

### ***Racehorses***

We recommended the assessor audit racehorse owners as required by Rule<sup>3</sup> 1045. The assessor has implemented this recommendation.

### ***Business-Owned Aircraft and Vessels***

We recommended the assessor include aircraft and marine vessels that have full value of \$300,000 or more in the mandatory audits program. In 2001, required value was increased from \$300,000 to \$400,000. The assessor now maintains a listing of all vessels and aircraft with assessed values of \$400,000 or more and they are included in the mandatory audit program. This recommendation has been implemented.

### ***Historical Aircraft***

We recommended the assessor require the notarization of the affidavit for historical aircraft as required by section 220.5(c). This is no longer a statutory requirement but the assessor had implemented this recommendation by requiring the proper affidavits at the time of filing the claim.

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<sup>3</sup> All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

**Vessels**

We recommended the assessor follow statutory guidelines when exempting late-filed vessel affidavits. The assessor has corrected his procedures and is now in compliance with section 275.5.

## OVERVIEW OF SAN DIEGO COUNTY

San Diego County, located in the most southwest corner of California, was established by the State Legislature on February 18, 1850, as one of the original 27 counties. At the time of its creation, San Diego County covered nearly 40,000 square miles. Included in the original county boundary were the present counties of San Diego, Imperial, Riverside, San Bernardino, and the eastern portion of Inyo.

Today, San Diego County covers approximately 4,255 square miles—65 miles from north to south and 86 miles from east to west. San Diego County is bordered by Riverside County and Orange County to the north, Imperial County to the east, the Pacific Ocean to the west, and Mexico to the south.

San Diego County is the second most populous in the state, with more than 2.6 million people. During 2002, San Diego's labor force averaged just over 1.4 million. The following table illustrates the county's total employment by industry based on the percentage of employment:

INDUSTRY	PERCENTAGE OF EMPLOYEES
Services	29.36%
Trade	14.36%
Government	14.19%
Goods Producing	13.17%
Retail Trade	9.39%
Manufacturing	8.00%
Finance, Insurance & Real Estate	5.11%
Transportation & Public Utilities	3.60%
Life Sciences	2.09%
Farming	0.73%

## 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, workload, State-County Property Tax Administration Program, appraiser certification, exemptions, disaster relief, low-value property exemption, 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***

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

The San Diego County Assessor's Office was merged with the county recorder's office and the county clerk's office in June 1994. The assessor was unable to provide budget amounts that represented only the operation of the assessor's function. The total assessor/recorder/county clerk's budget as of the date of this survey is illustrated in the following table:

FISCAL YEAR	ACTUAL BUDGET	PERCENT CHANGE
2002-03	\$22,322,322	7.4%
2001-02	\$20,779,224	15.2%
2000-01	\$18,035,989	3.8%
1999-00	\$17,371,023	

The above figures do not represent money provided by the State's Department of Finance through the Property Tax Administration Program (PTAP). This funding is addressed in a separate section of this survey report.

### ***Workload***

The assessor produced a local assessment roll for 2003-04 consisting of 967,970 assessment parcels (897,544 on the secured roll and 70,426 on the unsecured roll). This assessment roll had a gross taxable value of slightly more than \$253 billion.

The real property workload consisted of approximately 97,000 changes in ownership and approximately 19,000 assessments of new construction. The roll included slightly more than 19,100 manufactured homes, nearly 4,000 taxable possessory interests, 1,035 parcels under California Land Conservation Act contract, and approximately 26,300 decline-in-value assessments. The assessor also completed a business property workload that included processing

approximately 61,800 business property statements (both secured and unsecured), including over 13,000 vessel assessments, slightly more than 15,000 aircraft assessments, and also completed over 1,200 mandatory audits.

### ***State-County Property Tax Administration Program (PTAP)***

In 1995, the legislature established the State-County PTAP. This program, later designated the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001 and was replaced with the Property Tax Administration 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.

If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. The contract provides that the county must agree to maintain a base funding (\$11,866,370) and staffing level (279 budgeted positions and 42 contract positions) in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to replace an assessor's existing funding.

For most counties, the contract provides that verification of performance be provided to the State Department of Finance by the county auditor-controller.

San Diego County has participated in the PTAP program every year since its inception. For the contract dated December 9, 2003, the State and county agreed to PTAP funding of \$5,413,943. This contract expires on June 30, 2005. Throughout the program, the assessor has maintained his staffing at the minimum level (279 positions) or higher, and gross budget appropriation of \$11,866,370 or higher as required by the contract.

The assessor has estimated that the 2003-04 grant money will be allocated to 56 staff positions (\$3,666,614), services and supplies (\$933,989), automation of assessment programs (\$1,043,020), and fixed assets (\$122,499).

The San Diego County Auditor-Controller verified the assessor's performance of the contract requirements.

### ***Appraiser Certification***

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid appraiser's certificate issued by the BOE. Further, section 670 requires that any person who performs section 469 audits (i.e., audits of businesses, required every four years, that have assessable trade fixtures and tangible personal property in excess of \$400,000) must meet additional qualifications.

The San Diego County Assessor employs 152 certified appraisers (126 real property appraisers and 26 auditor-appraisers) of which 89 hold advanced appraiser's certificates and the remaining

63 hold valid appraiser's certificates. All 26 auditor-appraisers have met the additional requirements that entitled them to perform mandatory audits. The assessor does not employ contract appraisers.

## **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, 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 these 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 of the Revenue and Taxation Code, 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 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. However, the church exemption and the church parking exemption require an annual filing of the exemption.

The San Diego County Assessor processed 140 church exemption claims and 1,281 religious exemption claims for the 2003-04 assessment roll. The following table illustrates religious and church exemption data for the 1999-00 through 2003-04 assessment rolls:

<b>ROLL YEAR</b>	<b>RELIGIOUS</b>		<b>CHURCH</b>	
	<b>Number</b>	<b>Exempt Value</b>	<b>Number</b>	<b>Exempt Value</b>
2003-04	1,281	\$790,030,195	140	\$27,462,686
2002-03	1,077	\$721,561,384	115	\$26,901,891
2001-02	1,013	\$674,195,272	275	\$43,104,405
2000-01	1,092	\$720,721,984	281	\$50,004,543
1999-00	1,084	\$705,502,211	257	\$37,849,135

In San Diego County, first-time claimants for the religious exemption correctly file Form BOE-267-S, *Religious Exemption Claim*. Once established, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, to ensure that the claimants still qualify for the exemption. If a claimant fails to return the

Form BOE-267-SNT, the assessor contacts the claimant by telephone or in person to determine whether the religious exemption should be allowed or adjusted as necessary. We found the assessor's religious exemption program to be well documented and properly administered.

As with the religious exemption program, we found the assessor's church exemption program to be well documented and properly administered.

### Welfare Exemption

The welfare exemption from local property taxes is available for property of organizations formed and operated exclusively for qualifying purposes (religious, hospital, scientific, or charitable), that use the property exclusively for those purposes. Both the organizational and property use requirements must be met for 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 meets the requirements for the welfare exemption. If an organization qualifies, the BOE issues an *Organizational Clearance Certificate* to the organization. The assessor is responsible for determining whether the property of a qualifying organization is exclusively used for exempt purposes. The assessor has authority to approve or deny claims based on proper use without review by the BOE.

The assessor may not grant a welfare exemption claim 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.

The following table shows welfare exemption data taken from the 1999-00 through 2003-04 assessment rolls:

ROLL YEAR	NUMBER OF CLAIMS	EXEMPT VALUE
2003-04	2,494	\$5,055,839,244
2002-03	2,400	\$4,018,137,928
2001-02	2,901	\$4,351,755,224
2000-01	2,749	\$4,060,249,900
1999-00	2,596	\$3,672,061,686

The assessor's exemption staff, one chief (who holds an appraiser certificate), one appraiser III, and one assessment specialist II, processes annual welfare exemption claims. A supervising assessment clerk, one full-time assessment clerk, and one half-time assessment clerk provide support. To judge the effectiveness of the assessor's welfare exemption program, we reviewed an array of applications and exemption files and found that the property uses were within the scope of the exemption.

We found no problems with the assessor's exemption program. The staff handling exemptions is conscientious, well prepared, and works well with the BOE. We believe the assessor's portion of the welfare exemption process is well administered. Accordingly, we have no recommendations in this area.

***Disaster Relief***

Section 170 authorizes a county board of supervisors to adopt an ordinance that provides property tax relief to assessees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any qualifying misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, 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.

The San Diego Board of Supervisors adopted an ordinance that authorizes the assessor to provide tax relief to qualifying property owners who have suffered damage or destruction to their properties. The board of supervisors adopted an additional ordinance that further defined the filing period for a calamity claim.

The assessor processes approximately 300 disaster relief claims a year. Each appraiser is responsible for handling calamity claims within his or her assigned geographic area. The assessor determines separately the full cash value of the land, improvements, and personalty immediately before and after the damage. The actual property tax relief is based on the percentage reductions in value due to the damage or destruction.

In late 2003, San Diego County experienced three major wildfires. The combined fires consumed 375,946 acres, or 585 square miles. There were a total of 3,208 parcels involved in the three fires. Approximately, 2,500 residences and 673 structures were destroyed. These three fires greatly increased the workload of the assessor. The assessor assigned staff members to be present at the Federal Emergency Management Administration (FEMA) command post to assist property owners in filing applications for assessment reductions. In addition, the assessor sent applications to all known property owners that may have been eligible for calamity relief. As of the date of our review, the assessor had received a total of 2,282 calamity claims. We commend the assessor for his proactive response.

In general, the assessor's disaster relief program is well administered. However, we make the following recommendation to improve the program.

**RECOMMENDATION 1:** Request that the board of supervisors amend the county's General Regulations to reflect the current requirements and limitations of section 170.

We reviewed several parcels and found that the assessor's practice correctly reflects the requirements of section 170. The assessor's applications for calamity relief, instructions for completing the application and the procedure for reassessing property are in accordance with section 170. However, the county's General Regulations have not been updated to reflect the current requirements and limitations of section 170.

Effective January 1, 2002, section 170 was amended in several ways. The period for filing an application for assessment relief has been extended from 6 months to 12 months or the time specified in the ordinance, whichever is later. Additionally, section 170 now provides that the amount of property damage necessary to qualify for assessment relief is increased from \$5,000 to \$10,000 and, the period for filing an application contesting the assessor's proposed valuation is increased from 14 days to 6 months.

The board of supervisors has not amended the county's General Regulations to reflect the current changes contained in section 170. Section 15.101 of the San Diego General Regulations defines the limitations that a property must meet in order for the property owner to qualify for disaster relief. This section states that the damage must be in excess of \$5,000. Section 15.103 of the San Diego General Regulations states that the application must be delivered to the assessor within 60 days after the property was damaged or destroyed or within 30 days after notification by the assessor.

The San Diego County Counsel opined that a revised ordinance was not necessary due to the language contained in section 170(k). We disagree with this opinion. Section 170(k) states that any ordinance in effect shall remain in effect according to its terms as if the ordinance was adopted pursuant to section 170, subject to the limitations of subdivision (b). Section 170(b) requires that the property must have suffered damage in excess of \$10,000.

However, the county's General Regulations section 15.103 does not reflect the filing requirements contained in section 170(a) that allows an applicant to file an application within the time specified in the ordinance or within 12 months of the misfortune, whichever is later.

While the assessor's procedure is current with the requirements of section 170, the San Diego County's General Regulations, section 15.103, does not reflect the filing periods of section 170(a). We encourage the assessor to request the board of supervisors to revise the local ordinance to reflect the amended limitations of section 170.

### ***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 cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine the point at which the costs of processing assessments and collecting taxes exceed the funds collected.

San Diego County originally enacted a low-value property exemption resolution on March 6, 1990.<sup>4</sup> It has subsequently been revised several times with the current ordinance (Ordinance 8615) being adopted December 5, 1995. It exempts from property taxation, all personal property, mining claims, possessory interests with a full value of \$5,000 or less; and manufactured home accessories with a full value of \$5,000 or less that are installed on manufactured homes subject to vehicle license fees and are purchased prior to July 1, 1980.

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<sup>4</sup> Board of Supervisor's Ordinance 7731 was adopted March 6, 1990 and exempted all personal property with a full value of less than \$1,000.

For the 2003-04 assessment roll year, the assessor identified approximately 80,360 properties (51,630 business accounts, 27,926 watercraft, 156 aircraft, 135 mining claims, and 513 possessory interests) that qualify for the low-value property exemption. Each property is exempt only until such time as its full value or the factored base year value exceeds the exemption limit.

When the assessor processes Form BOE-571-L *Business Property Statement* (BPS) for low value personal property, auditor-appraisers review the information and code the account as either "T" or "P." The "T" code means the low value exemption is temporary, applied for the current year, and a BPS will be sent to the owner the following year. The 'P' code means the low value exemption is permanent because the value is so low and would probably never achieve the minimum value to be assessed. With these accounts, a BPS will never be sent to the owner. Either coding results in a zero value being entered on the assessment roll. These zero value accounts are deleted from the assessment roll that is turned over to the tax collector in July.

Although we found no problems associated with the administration of the low-value property exemption, there are no written procedures in the procedure manual for the staff to follow regarding this subject. We urge the assessor to include in the appraisal procedure manual a section on the low-value property exemption to promote knowledge and uniformity among the staff.

### **Assessment Forms**

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.<sup>5</sup> For the 2004 lien date, the BOE prescribed 75 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 (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists and any rearranged forms to the BOE by October 15, in the case of property statements and miscellaneous forms, and by December 1, in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

Of the 75 BOE-prescribed forms, the San Diego County Assessor used 52 different forms for the 2003-04 assessment year. Of these 52 forms, the assessor rearranged 26 forms. The assessor's website also includes many of the forms used by the assessor.

We address three areas needing improvement.

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<sup>5</sup> Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

**RECOMMENDATION 2:** Comply with requirements of BOE-prescribed forms by: (1) submitting timely all BOE checklists, (2) submitting a printed copy of each property statement and mineral production report form and its accompanying instructions by February 10, and (3) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them.

**Submit timely all BOE checklists.**

Rule 171 requires the assessor to submit three checklists to the BOE by the established dates. The assessor submitted only the Exemption Claim Forms checklist timely. The Property Statement checklist and the Miscellaneous Property Tax Forms checklist were not submitted for 2003-04.

Failure to submit the checklist timely may result in the assessor using a non-approved BOE-prescribed form. By using a non-approved form, the assessor may not apply appropriate penalties to taxpayers that fail to file.

**Submit a printed copy of each property statement and mineral production report form and its accompanying instructions by February 10.**

The assessor did not submit a printed copy of each property statement and mineral production report form to the BOE for 2003-04. The statements and forms are also to be accompanied with the respective instructions.

Rule 171(a) provides that the assessor must submit these forms on or before February 10 of each year.

**Transmit non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them.**

The assessor enclosed various locally developed supplemental schedules to the BPS. The assessor cannot apply penalties when a taxpayer fails to file a non-prescribed statement or form. When non-prescribed statements or forms are attached to or enclosed with a BOE-prescribed statement or form, the taxpayer may have the impression that if he or she does not complete and file all of the statements and forms, they will be subject to penalty assessments.

Many assessors include a set of forms requesting additional data when mailing a BOE-prescribed property statement, production report, or expense data sheet. The assessor has the authority under section 441(d), to request that a taxpayer make specified information available. The taxpayer may make the information available by completing county-developed forms and questionnaires or by allowing the assessor to inspect his or her records. If the taxpayer fails to make the information available to the assessor, the assessor may seek remedies provided by sections 462, 468, and 501. The assessor may not, however, impose a penalty pursuant to section 463.

Assessors may mail requests for additional information in the same mailings with BOE-prescribed forms, provided that such requests are not made a part of the BOE-prescribed property statement, production report, or expense data sheet, or a part of the instructions that accompany such forms. The assessor must transmit county-developed forms and questionnaires in a manner that does not imply that the section 463 penalty applies to them.

**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 roll to the auditor, if a correction is made that will decrease the amount of the unpaid taxes, the consent of the board of supervisors is necessary. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

The following table shows the number of secured and unsecured roll changes processed by the San Diego County Assessor over a five-year period:

ROLL YEAR	NUMBER OF CHANGES
2002-03	89,728
2001-02	85,246
2000-01	101,519
1999-00	89,869
1998-99	86,317

Most assessment roll changes (also known as board actions) originate with the appraisers who note the changes on the *Property Appraisal Record (PAR)*. The appraisers also attach a yellow form for roll changes that cause an increase in value. This form includes pertinent information such as: current address, date of transaction, year(s) of roll correction(s), whether the change is on secured or unsecured roll, and the notification letter number.

Once the roll changes are approved by a supervisor and have been input into the computerized Assessor Roll Correction System, the roll changes are automatically forwarded to the county auditor. *Notices of Proposed Escape Assessment* are mailed to taxpayers at least 10 days before the changes are entered on the roll. Assesseees are notified by mail only when there is an increase in value.

The San Diego Board of Supervisors adopted a section 1605(c) resolution that allows the tax bill to serve as notice for filing an appeal. The tax bill is accompanied by a separate notice that

includes information regarding the 60 day filing period. The tax bill with the accompanying notice satisfies the requirements of section 534.

We reviewed a number of roll changes and the assessors roll change process and procedures. We found no issues of noncompliance with the actual changes to the assessment roll.

### **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 Diego County Ordinance No. 4953 provides for the establishment and defines the duties of the county's assessment appeals board. Currently, there are four appeals boards each consisting of three members and two alternate members. The board of supervisors appoints members of the assessment appeals board and there are no hearing officers.

Applications are received by the clerk of the assessment appeals board, reviewed and verified, and a copy of the application is forwarded to the assessor. The assessor and the assessment appeals board clerk work closely together using a computer program that tracks appeals through both offices as they are processed, heard or otherwise resolved within the required two-year time frame. An appraiser III is responsible for tracking the progress of assessment appeals, assigning them to the appropriate appraiser, and coordinating the responses to any legal issues associated with the file. On average, 3,700 appeals were filed annually from 1998-99 through 2002-03.

The following table shows the breakdown of appeal findings over the last five years:

	2002-03	2001-02	2000-01	1999-00	1998-99
<b>Total Appeals:</b>					
Applications Received	2,550	2,440	2,186	4,713	4,595
Carried Over	519	514	714	661	n/a
<b>Total</b>	3,069	2,954	2,900	5,374	4,595
<b>Resolution:</b>					
Hearing-Reduced	222	105	67	141	113
Hearing-Increased	1	1	2	5	0
Hearing-Upheld					
Applications-Invalid	78	42	32	87	79
Applications-Stipulated	453	713	1,015	2,385	1,792
Applications-Withdrawn	1,727	1,574	1,270	2,042	1,950
<b>Total Resolution</b>	2,481	2,435	2,386	4,660	3,934
<b>Carried Over to Next Year</b>	593	519	514	714	661

Appeals that are not resolved and carried over by mutual agreement of the parties all have signed time extensions. The assessor's assessment appeal program is effective and well administered.

## 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 revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

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

### ***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 reappraisal purposes.

The San Diego County Assessor and Recorder's Offices use an integrated computer system. Recorded documents are imaged daily into the computer system as they are received at any of the recorder's offices. All recorded documents deemed of interest to the assessor are sent to the assessor's ownership processing unit. In 2003, 213,589 documents were recorded and 12,100 unrecorded documents were processed. Of those 225,689 documents, 97,078 (43 percent) resulted in reappraisal.

The imaged documents and *Preliminary Change of Ownership Reports* (PCOR) are processed by the ownership processing unit. The ownership processing unit is divided into five sections: document processing, change in ownership, title research, legal entities, and parent/child transfers. At document processing, the legal description and current owners are verified and, if the event is determined to be reappraisable, the documents are sent to the change in ownership section for analysis. About 80 percent of the reappraisal events are worked by the change in ownership section. The remaining transfers are investigated by the four other sections in the ownership processing unit. The change in ownership section typically determines ownership within three to four weeks of recordation and appraisal requests are sent on to the real property division.

## Change of Ownership Statements

The recorder's office requires that a PCOR be filed along with the recordation of certain types of documents. A \$20 fee is applied to those documents not accompanied by a completed PCOR. When a PCOR is not received at recordation, a *Change of Ownership Statement* (COS) is sent to the new owner. The change in ownership section begins tracking the response from the date of mailing of the first COS. Three weeks after the first COS is sent, a second COS is sent by certified mail and the taxpayers name is added to a list of property owners who may be subject to a penalty. When a response is received, the name is removed from the penalty list. If no response is received within 45 days from the initial mailing of the COS, a section 482 penalty is levied and sent to the auditor. Once the penalty has been applied, the taxpayer must file with the appeals board to abate the penalty. In 2003, the assessor mailed 6,320 *Change of Ownership Statements* and 926 penalties were levied for failure to file. For the majority nonfilers of change in ownership statements, the penalties are applied timely. However, we found that when a manufactured home changes ownership, the assessor does not apply the penalty timely. This is discussed in more detail in the manufactured homes section of this survey report.

## Direct Enrollment

Direct enrollment is a program used in many assessors' offices to streamline the processing of uncomplicated transfers of residential properties. It requires limited review by the appraisal staff of confirmed sales that meet certain parameters.

The assessor uses a computer program (direct posting) to value property transfers in homogeneous tracts more efficiently. The computer program uses a series of parameters to identify similar properties in the same neighborhood. The program then compares the confirmed sales price to the value range calculated by the program. If the sales price falls into the value range, the sales price will be entered onto a Property Activity Report (PAR) and sent to the regional appraiser for review. If the appraiser finds the sales price acceptable, the value is automatically enrolled. If the appraiser does not agree with the sales price, the property will be appraised. Approximately 12 percent of transfers are enrolled using the direct posting program.

## Improvement Bonds

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

Section 110(b) provides a rebuttable presumption that the value of the improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of the evidence.

The assessor receives reports from the City of San Diego, City of Chula Vista, and bond holding districts. The reports identify the impacted properties by parcel number and include all relevant

information regarding the bonds. The assessor checks the property being appraised with the properties on the bond lists. When an impacted parcel is identified, the present value of the unpaid bond amount will be calculated.

The sales price of the impacted parcel will be compared to similar properties without bonds to determine if the bond amount is reflected in the purchase price. Where it can be shown that there is a difference in market value in the amount of the bond, an adjustment to the sales price is made by adding the present value of the unpaid bond to the sale price.

### Parent/Child Exclusion

Section 63.1 excludes from reassessment changes in ownership of the principal residence and the first \$1,000,000 of other real property transferred between parents and children. The exclusion also applies to certain transfers between grandparents and grandchildren if all parents of the grandchild or grandchildren are deceased as of the date of transfer.

The parent/child transfer section is responsible for tracking and processing all section 63.1 exclusion claims. When a PCOR or COS is marked as a possible section 63.1 exclusion, a claim form is sent to the transferee. The parent/child transfer section sends a reminder letter if there is no response after three weeks. The parent/child transfer section received 7,541 section 63.1 claims in 2003 and the assessor granted 6,735 claims.

We found the assessor's parent/child exclusion program to be well administered.

### Base Year Value Transfer Exclusions

Section 69.5 allows qualified homeowners who are 55 years of age and older, or disabled to transfer the base year value of their principal residence to a replacement dwelling purchased or newly constructed within the same county.

The assessor has a public awareness campaign to alert seniors of the opportunities available for base year value transfer exclusions. In addition, San Diego County has adopted an ordinance to accept base year transfers from other counties. When information is received indicating a potential section 69.5 exclusion, the assessor mails a claim form to the taxpayer.

In 2003, the assessor processed about 1,600 section 69.5 applications. Of these, 386 were transfers from other counties and 27 were transfers by disabled persons. Quarterly reports are regularly sent to the BOE. A review of several section 69.5 applications confirmed the assessor's process is well administered.

### 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 provides a detailed interpretation of section 64, changes in ownership or control, including the application of certain exclusions. Discovery of such changes in ownership may be difficult because ordinarily there is no recorded notice of the transfer.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and 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 a change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to property they own in each county (e.g., the assessor's parcel number and how many parcels they own). Because of the lack of reliable data provided by the entities, the LEOP unit advises assessors to thoroughly research each entity's holdings to ensure that all affected parcels are identified and properly appraised. Between January 1, 1982 through September 30, 2003, BOE notified the assessor of 836 changes in control involving 7,697 parcels.

The legal entities section of the ownership processing unit is responsible for processing ownership changes caused by corporate changes in control or ownership. When the LEOP notices are received, the legal entities unit sends letters to the new owners requesting information on the transfer. In addition, it independently investigates corporate transfers through newspaper articles, trade magazines, and other sources of data. As they become aware of potential transfers, they begin the process of gathering information and corresponding with the entity prior to receiving notification from the LEOP unit.

The legal entities section also sends letters requesting information on the potential transfer. Additional information such as the operating agreement, corporate stock ledger, or partnership agreement may be analyzed. Based upon the response to the letter, the assessor will determine if there has been a change in control. The legal entities section will also determine the property involved in the transfer. If a response to the letter is not received within 30 days and a change in control is suspected, the properties involved will be reappraised. An intra-office memo is sent to the real property division requesting reappraisal of the parcels involved. We reviewed a number of changes in control of legal entities reported on the BOE's LEOP list. We found that the assessor processes LEOP changes in ownership timely and properly.

### Section 408.1 Transfer Lists

Section 408.1 requires the assessor to maintain a list of transfers that have occurred within the preceding two-year period. The list is to be divided into geographical areas and revised each quarter. The list shall contain the following information: transferor and transferee (if available), assessor's parcel number, address of the property, date of transfer, date of recording, recording reference number, consideration paid, and any additional information the assessor may wish to add. This list shall be made available to the public.

The assessor's staff has a microfiche entitled *Sales Listing for Appeal Applicants* available to the public. There is no fee to review this listing, although the public is asked to leave their identification as collateral while they view the microfiche. The microfiche meets all the requirements of section 408.1(c) (1), except the transferor is not listed. The list is updated quarterly and sales price information does not appear to come from confidential information reported on the PCOR or the COS.

We found the assessor's change in ownership program and transfer list section to be efficient and well managed.

## **New Construction**

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Clarification of statutory requirements for defining and valuing new construction is found both in Rule 463 and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property, or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement.

There are several statutory exclusions from new construction; sections 73 through 74.7 address these exclusions.

## **Discovery**

The primary sources for the discovery of new construction in San Diego County are the building permits issued by various local government agencies. Permits are received from 19 permit-issuing agencies. Four of the permit-issuing agencies transmit permit data to the assessor's office through a program known as Building Permit Information System (BPIS). These four agencies account for approximately 80 percent of all the permits that are issued. Of the remaining 15 permit-issuing agencies in San Diego County that are not part of the BPIS program, 11 supply electronic files to the assessor by e-mail. Other discovery methods include newspaper articles, business property statements, and field inspections.

In our prior survey, we recommended that the assessor review or spot check building permits from non-automated permit-issuing agencies. Our supplemental assessment practices survey found that the above recommendation had been implemented.

Since early 2001, the assessor has performed a yearly review to verify that he is receiving all building permits issued by the 15 issuing agencies that are not participating in the BPIS program. A spreadsheet is created listing all permits received. Every year, the assessor selects one of the agencies in each district office and compares every permit on the spreadsheet with all of the permits they have received. Review of the spreadsheet data can also identify gaps in the permit-numbering sequence, which would result in follow-up contact with the agency to account for the apparently missing permits.

The following table shows the number of permits worked and the total value added for recent years:

<b>FISCAL YEAR</b>	<b>TOTAL VALUE ADDED</b>	<b>PERMITS WORKED</b>
2002-03	\$3,936,692,017	19,151
2001-02	\$3,483,776,949	18,052
2000-01	\$3,525,562,292	19,106
1999-00	\$3,082,550,281	17,795
1998-99	\$2,506,752,063	14,779

### Permit Processing

Upon receiving permits from the issuing agencies, the assessor's computer system automatically creates a *Permit Data Sheet*. The data sheets are delivered to the assessor's office where they are separated and sent to the appropriate branch offices. The permits are sorted and those that indicate mechanical, plumbing, and or labor are discarded. Data entry generates and prints a permit run. The permits are then separated and the data sheets and permit applications are distributed to the branch offices for appropriate valuation.

### Self-Reporting Program

In an effort to reduce the necessity for field reviews of low-valued new construction, the assessor uses a self-reporting program to establish a new base value for certain types of new construction. For all building permits valued at \$60,000 or less that are determined to represent new construction, the assessor sends a Property Owner's Declaration of New Construction questionnaire to the property owner. The computer system automatically generates the owner's declaration of new construction.

There are various forms of this declaration based on the type of new construction (e.g. residential, commercial, large projects, tenant improvements, etc.). If the reported costs accurately reflect the value added, the reported costs are added as new construction. The assessor randomly field checks for accuracy of reported information.

### Valuation

The assessor uses several cost sources to value residential properties, including Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), the owner's actual cost, or locally developed market costs for rural and residential properties. The value of new construction of commercial, industrial and special use properties is estimated using the cost approach with information from *Marshall Valuation Service*, the owners actual cost, the income approach, or the sales comparison approach.

We reviewed several residential and commercial parcels that involved new construction and found one area of the program that needs improvement.

**RECOMMENDATION 3:** Enroll construction in progress at its fair market value on each lien date.

We found that the assessor does not determine the fair market value of construction in progress on each lien date as required by section 71. If the construction in progress on lien date has not changed from the prior year and the appraiser does not manually repost the value to be enrolled, the assessor's computer system automatically indexes the incomplete new construction. Ultimately, the property owner is over assessed on incompleting new construction.

Section 51(a) provides that the inflation factor is to be applied to the base year value. Section 75.8 defines base year value as the full cash value of property on the date it changes ownership or the date the new construction is completed. Consequently, no base year can be established until the construction is completed. It is improper to apply the inflation factor to construction in progress.

### ***Supplemental Assessments***

Sections 75 et seq. require the assessor to appraise property at its full cash value on the date the property changed ownership or upon completion of new construction and issue a supplemental assessment. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated assessment that covers the portion of the fiscal year remaining after the date of change in ownership or new construction (the supplemental assessment). Clarification of statutory requirements for supplemental assessments resulting from the completion of new construction is found in Rule 463.500.

The San Diego County Assessor's supplemental assessment system is completely automated. When an appraiser inputs a value and event date into the system, the system automatically generates the appropriate supplemental assessment. The computer system will apply the proper inflation factors for window period events and forward the information to the auditor for calculation of the supplemental tax bill. The assessor enrolls all supplemental values regardless of size; however, the auditor will cancel any resulting taxes of twenty dollars or less, as allowed by section 75.41(d).

We reviewed various parcels subject to supplemental assessments and found that supplemental assessments are being processed in a timely manner and that the assessor's system accurately calculates the supplemental assessment amounts. However, we noted one area not meeting statutory requirements and it is discussed in the following recommendation.

**RECOMMENDATION 4:** Revise the *Notice of Supplemental Assessment* to include all information required by section 75.31.

The *Notice of Supplemental Assessment* does not comply with the requirements of section 75.31. The current notification used by the assessor does not provide the following information:

- The date of the change in ownership or completion of new construction;
- The exempted value on the current roll or the roll being prepared;
- The procedures and filing period for filing an assessment appeal;
- A statement that the supplemental assessment was determined in accordance with article XIII A; and
- That if the supplemental is a negative amount, the auditor must make a refund of a portion of the taxes.

A generic *Notice of Supplemental Assessment* is included with the supplemental tax bill and a generic letter from the Treasurer –Tax Collector. This generic notice contains no specific property information as required by section 75.31. The assessor's practice results in the taxpayer not being provided the information required by law.

### ***Declines 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. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.

Real estate values in San Diego County have risen sharply in recent years. As values have climbed, fewer properties are eligible for decline-in-value assessment. The number of parcels in decline-in-value status has dropped from 208,010 parcels cited in our prior report, to a total of 26,317 parcels as of the 2004 lien date. The vast majority of these (23,274) are timeshare assessments; leaving a very manageable 3,043 other parcels in decline-in-value status.

Properties experiencing a decline in value are generally discovered when the property owner requests a market value review. The assessor conducts a market review using all available sources of market data. The property owner is notified of the results and his/her right to file an appeal. The comparable sales and other market data used in the appraisal are documented in the file. The appraisal staff is assigned to geographical areas, so appraisers become familiar with market values and trends in their assigned areas. When an appraiser reduces a value in a homogeneous subdivision or condominium tract, he/she also reviews similar properties in the same area and identifies other properties experiencing declines in value.

Once a property receives a decline-in-value assessment, it is coded so that it can be identified for annual market value review. Parcels coded with a "W" are in decline-in-value status. When their taxable values are partially restored, they are coded with an "A." When the market value exceeds the factored base year value, they are coded with a "B," the factored base year value is restored and they are no longer subject to annual review.

The computer coding also allows the system to automatically generate the appropriate letter to the taxpayer based upon the type of code. These mandatory letters inform the property owner that their taxable value has been temporarily reduced, remains unchanged, or has been partially or fully restored. The letters advise the property owners about their right to appeal, including a statement of the filing period.

With the exception of the following recommendation, the assessor's current program appears to be operating well for identifying, tracking, and valuing properties with decline in value status or histories.

**RECOMMENDATION 5:** Revise the value change notice to conform to the requirements of section 619.

The value notice used by the assessor does not include the factored base year value or an explanation of the stipulation process. Section 619(c) requires that the value notice includes both the factored base year value and the new assessed value. Additionally, section 619(b) requires an explanation of the hearing and stipulation processes. While the value notice provides information on the appeals filing period, it does not provide the required information on the stipulation process. By omitting this information from the notice, the assessor does not conform to the law and the taxpayer is not aware of all information and taxpayer rights concerning the property's assessment.

### ***California Land Conservation Act Property***

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value (FBYV). Sections 421 through 430.5 prescribe the guidelines for assessing 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.

San Diego County has 1,035 parcels composing 72,820 acres under CLCA contract for the 2003-04 assessment roll. Of the 72,820 acres, 72,577 acres are in continuing CLCA status and

243 acres are in nonrenewal status.<sup>6</sup> Grazing property accounted for 17,670, acres and the remaining 55,150 acres were in agricultural uses other than grazing. The total assessed value for CLCA properties on the 2003-04 assessment roll was \$97,529,531.<sup>7</sup>

San Diego County has no parcels under the farmland security zone contracts, which is a more restrictive form of the CLCA contracts. The computerized CLCA program annually recalculates restricted values for all land subject to CLCA contracts, including those properties in nonrenewal status.

In our previous survey, we recommended that the assessor update income information periodically because he was using information over ten years old. The assessor is now sending a two-page questionnaire annually to all CLCA property owners to obtain current income and expense data.

We found that the assessor has an effective and comprehensive CLCA program. The assessor uses sound judgment when determining risk rates and estimating income.

### ***Taxable Government-Owned Property***

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11. Section 11 of article XIII of the California Constitution provides that land, and the improvements thereon, located outside a local government agency'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.

In 1995, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to taxable government-owned properties.<sup>8</sup> The court's ruling means that such property must be assessed at the lowest of: (1) the current fair market value, (2) the restricted value, or (3) the factored base year value.

For the 2003-04 assessment roll, the San Diego County Assessor enrolled 470 taxable government-owned properties with a total taxable value of \$23,898,313. All but four of these parcels are unimproved land. The assessor annually updates the computer program to show the factored base year and the restricted value (1967 assessed value multiplied by the factor announced annually by the BOE) and enrolls the lower of the two values.

We found one problem that should be addressed.

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<sup>6</sup> Acreage data is from Form 102 of the California Open Space Subvention Act Program report for fiscal year 2003-04.

<sup>7</sup> Total land value was \$41,642,565, and the total improvement value was \$55,886,966.

<sup>8</sup> *City and County of San Francisco v County of San Mateo et al.* (1995) 10 Cal. 4th 554.

**RECOMMENDATION 6:** Establish a base year value for taxable government-owned properties according to BOE guidelines.

We found that the assessor has not properly established the base year value for taxable government-owned properties.

The BOE issued guidance in Letters To Assessors (LTA) No. 2000/037, dated June 23, 2000, regarding the assessment of taxable government-owned land and improvements. These guidelines provide, among other things, that base year values for taxable government-owned properties should be established at the lower of full cash value as of the date of change in ownership or restricted value as of that date. In subsequent years, the base year value is to be adjusted for inflation like other property subject to article XIII A. Factored base year values determined in this manner will generally be lower than either the current market value or the restricted value.

By the assessor not establishing a factored base year value for each taxable government-owned property according to the BOE guidelines, he may be over assessing them.

### ***Possessory Interests***

A taxable possessory interest (PI) is a possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. In the case of privately owned property, a property tax assessment is based on the fee simple value of the property. In the case of a PI, the assessment is based on the value of the rights actually held by the possessor.

The assessor discovers PI's through public agency lists, recorded documents, business property statements, appraisers' observations, reports from 148 government agencies, and 22 school districts within San Diego County. The 2003-04 assessment roll contains approximately 4,500 PI's with an assessed value of almost \$5 billion dollars.

In our prior report, we recommended that the assessor request that county counsel make a demand for PI lease information from the United States Department of Agriculture Forest Service (USFS). Following a court decision between Kern County and the USFS, the USFS agreed to cooperate with all of the assessors. As a result, the San Diego County Counsel did not make the demand for lease information. Because the USFS is providing the requested information to the assessor, the prior recommendation is considered implemented.

Each lien date, the assessor sends a summary of the prior year's assessments with Form BOE-502-P, *Possessory Interests Annual Usage Report*, to each respective agency. The agencies are requested to update the report by adding new possessors and list those possessors who have terminated their holdings. For new PIs, the assessor also requests the agency complete the usage report with the details of the interest held, a description of the used property, term of occupancy, and the rental amount.

We did, however, discover areas where the assessor can improve his PI program.

**RECOMMENDATION 7:** Revise the possessory interest program by: (1) reappraising possessory interests only upon change in ownership or expiration of the reasonably anticipated term of possession as required by section 61(b)(2), (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (3) exempting property used exclusively for public school purposes.

**Reappraise possessory interests only upon change in ownership or expiration of the reasonably anticipated term of possession as required by section 61(b)(2).**

We found the assessor reappraises PI's with month-to-month terms of possession before the expiration of the reasonably anticipated term of possession used to originally value the PI, which is contrary to section 61(b)(2). Properties affected by this practice included boat slips and airport hangars. Taxable PI's that are leased month-to-month may be assigned a reasonably anticipated term of possession. However, unless there is a decline in value, section 61 mandates that the assessor may only revalue these PI's when the anticipated term of possession used to value them has expired or there is a change in ownership.

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

We found the assessor does not use the stated term of possession when determining the market value of a PI for each lien date. For lien dates subsequent to the establishment of the base year value, the assessor does not determine the market value of a PI with a stated term of possession. Instead, the factored base year value is enrolled until the contract term of possession expires or there is a change in ownership.

Section 51 requires the assessor to assess real property, including PI's at the lower of the factored base year value or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a PI with a stated term of possession, Rule 21 provides that the stated term of possession must be used unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term.

Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of PI's with stated terms of possession to ensure that declines in value of PI's are consistently recognized. Failing to assess a PI using the stated term of possession may overstate its taxable value.

**Exempt property used exclusively for public school purposes.**

The assessor has assessed the interest of private concessionaires who provide food at a state university. The BOE has historically held that property used by concessionaires exclusively for providing food service to public schools, community colleges, state colleges, and state universities is exempt from property taxation under article XIII, section 3(d). This constitutional

provision exempts property used exclusively for public school purposes. It does not require that the public school own the property; even privately owned property used exclusively for such purposes may also be exempted.

### ***Timeshare Property***

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 (e.g., furniture, linens, kitchenware, and household items) and nonassessable non-real property items (e.g., vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees). The assessor enrolled slightly more than 66,600 timeshares for assessment year 2003, with a total valuation of approximately \$424 million.

We found that the market for this type of property has remained relatively constant in San Diego County for several years. We reviewed several timeshare properties and compared recent sales of timeshares in each respective project with the assessor's enrolled values. Approximately one-third of the timeshares are assessed at values below the factored base year value. The assessor uses the market approach to value timeshare properties with appropriate adjustments for non-property items. We found no problems with the assessor's timeshare program.

### ***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 stipulates 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 roll, the assessor enrolled 547 qualifying historical properties with an assessed value of \$164,410,486. Of these, 376 are owner-occupied.

We reviewed several historical property records. Most of the appraisal files include a property description record, a copy of the contract, and an annual valuation report. Some contracts are held in an adjacent filing cabinet and all document numbers for new contracts are noted on the appraisal parcel record.

The assessor annually enrolls properties of this classification at the lowest of their factored base year value, current market value, or restricted value. The assessor uses a 4 percent risk component for owner-occupied properties and a 2 percent risk component for non owner-occupied properties. The county's valuation procedures are in compliance with sections 439 through 439.4.

We found the assessor's historical property program to be very effective and well administered. It is one of the outstanding historical property assessment programs in the state.

### ***Water Company Property***

Water company properties assessed on the local tax roll may include private water companies, mutual water companies, and portions of government-owned water systems. Each type presents a different assessment problem.

#### **Municipal Water Systems**

Article XIII, section 3(b) of the Constitution of California exempts from taxation property owned by a local government. The state, county, city, or local governments may own such property. In San Diego County, there are four California water districts, four county water districts, and 14 municipal (local) districts.

#### **Mutual Water Companies**

A mutual water company is a private association created for the purpose of providing water, at cost, primarily to its stockholders or members. When incorporated, an association can enter into contracts, incur obligations, own property, and issue stock. If not incorporated, it can do these things in the names of all of its members. Corporations organized for mutual purposes are not subject to regulation by the California Public Utilities Commission (CPUC) unless they deliver water for compensation to persons other than stockholders and members.

Mutual water company shares are typically appurtenant to the parcels that the company serves. In such cases, the assessed values of these parcels include the value of the mutual water company assets.

The assessor's mutual water company files contain copies of the original articles of incorporation and the current form BOE-540-S, *Mutual or Private Water Company Property Statement*. The value of the properties of mutual water companies appears to be correctly reflected in the assessments of the parcels served by the water company.

At the time of our survey, the assessor identified 32 parcels as being owned by mutual water companies. The assessor sent a letter to owners requesting copies of the original articles of incorporation; by-laws with amendments; list of lands, improvements, and water distribution systems owned by the mutual water company and their approximate location; and a listing of all parcels served by the mutual water company by assessor parcel number or address. The assessor received responses from owners of 15 of those parcels. The assessor has sent follow-up letters to the non-responsive owners in an attempt to obtain the information before levying an assessment, based on the best information available to the assessor.

In our previous survey, we recommended that the assessor identify and assess all taxable improvements and water rights on water company property. The assessor has made a comprehensive examination of the properties by field inspection and aerial photographs. We found that all of the water companies' improvements are well documented in the appraisal file. Since the value of those improvements is typically appurtenant to the parcels that the company serves, none of the improvement value appears to be escaping assessment.

### Private Water Companies Regulated by the CPUC

Regulated water companies are privately owned utilities in business to earn a profit from the sale of water and the CPUC requires regulated water companies to submit financial reports annually. The CPUC regulates the rates charged by private water companies, limiting profits to a return based upon the companies' outstanding investment. Assessed values of these properties may be tied directly to regulated rates, and current market value can be less than the factored base year value. The market value of regulated water company property is often close to the historical cost less depreciation (HCLD) indicator when the income from the property is regulated by law and is based on the company's book cost. Therefore, it is necessary to review these values every lien date.

There are two CPUC regulated water companies in San Diego County. The assessor annually reviews the properties owned by these companies. The assessor continues to request information from water companies and annual reports from the CPUC. However, the information supplied by these sources is often limited, incomplete, or unreliable. After reviewing the assessor's methodology, appraisals, and documentation of regulated water companies, we conclude the assessed values are reasonable and based on accepted appraisal principles for the valuation of water company properties.

In our previous survey, we recommended that the assessor utilize the income approach to value regulated private water companies. We found that the assessor has implemented this recommendation.

### Private Water Systems Not Regulated by the CPUC

Unregulated private water systems are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated on a for-profit basis to supply water to commercial developments such as manufactured home parks, resorts, campgrounds, etc.

The assessor has a discovery program to find water companies that includes obtaining a listing of *Class A-D Water Utilities And All Sewer Utilities* from the CPUC website, obtaining a listing of well sites and water samplings from the San Diego Environmental Health Department, and reviewing telephone directories and business property statement filings. All CPUC and mutual water companies file the Form BOE-540-S, *Mutual or Private Water Company Property*, and Form BOE-541-L, *Business Property Statement*.

We found that the assessor has a well-run appraisal operation in regards to the assessment of water companies and that they were all well documented and properly assessed.

### ***Mineral Property***

San Diego County has 19 active mineral properties. One appraiser is responsible for the appraisal of all mineral properties. A significant portion of his effort has been to revise the assessor's procedures to more closely follow the requirements of Rule 469.

In our prior survey, we recommended that the assessor appraise mineral properties as one appraisal unit. The assessor has changed the appraisal method for valuing mineral properties from the royalty method to the total income approach, which addresses the mineral property recommendation made in our last survey.

The assessor is diligently pursuing information from operators to improve the accuracy of his appraisals. New procedures have been put into place to track reserve changes reported by operators and to review the reported changes. The assessor's staff has developed working relationships with staff from the Department of Conservation, Office of Mines and Reclamation, and the Bureau of Land Management to determine which mines are active and to review production reports. The assessor has an effective appraisal program for mineral properties.

### ***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. The court ruled that while the pipelines themselves are properly assessed by the BOE, the right-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing county assessors in the valuation of intercounty pipeline lands and rights-of-way.

There is only one utility company in San Diego County operating one pipeline system, which had a taxable value of \$2,073,669 for the 2003 lien date. While separate base year values are maintained for each of the six segments, all the segments of the pipeline right-of-way have been combined into a single parcel number for the pipeline operator in accordance with section 401.8(a).

A review of that assessment confirms that the assessor is appropriately valuing pipeline right-of-ways. The assessor receives Form BOE 571-RW, *Right of Way Property Statement*, filed by the operator, maintains pipeline right-of-way records, and values right-of-way according to the BOE established density classifications.

### ***Wireless Communication Tower Sites***

In 2001, the BOE delegated the duty of assessing leased wireless communication tower sites to county assessors whenever constitutionally permissible. As a result, wireless communication tower sites that are used but not owned by the state assessee and which the property taxes are paid by a local assessee have been delegated to county assessors.

We found that some wireless communication tower sites were not enrolled on the assessor's tax roll.

**RECOMMENDATION 8:** Assess the wireless communication tower sites that have been delegated for local assessment.

We found the assessor has not assessed all wireless communication tower sites that were delegated for local assessment as advised by the BOE in LTA No. 2001/024. Most of the parcels that were originally delegated to the assessor still show a designation of *California State Assessed* on the computer screen. In addition, some hard copy records do not show any acknowledgement of the delegation on either the sub parcel or parent parcel files. We found evidence in the records that not all are being valued by the assessor.

## 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.

The business property division is composed of three sections: business appraisals, business audits, and marine and aviation. The assessor's business property division is staffed with a total of 23 auditor-appraisers and three supervisors.

### ***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.

### **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.

The San Diego County Assessor has a total mandatory audit workload of approximately 3,374 accounts, or an average of about 843 audits per year. We reviewed audits on the assessor's list of mandatory audits and noted all completed audits are well documented and concise.

As in our prior survey, we determined that the assessor does not complete the requisite mandatory audits timely. However, due to an increase in staff, the backlog has decreased from 527 audits carried over in 2001 to 238 carried over in 2002.

The following table shows the total mandatory audit workload and the number of mandatory audits completed over a recent five year period:

July 1 to June 30	2002	2001	2000	1999	1998
Total Mandatory Workload	1,215	1,272	1,025	1,040	1,100
Audits Completed	977	745	587	742	954
<b>Total Not Completed</b>	238	527	438	298	146

We address one area needing improvement.

**RECOMMENDATION 9:** Complete all mandatory audits timely in accordance with section 469.

As noted in our prior survey, a deficiency exists in the mandatory audit program. The assessor has made substantial progress toward bringing his program current; however, there are still a number of audits being carried over from prior years.

Section 469 requires the assessor to audit any taxpayer who owns \$400,000 or more in taxable trade fixtures and business tangible personal property at least once every four years. Failure to perform these mandatory audits creates the possibility of lost revenue.

### Nonmandatory Audits

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

The assessor performed 25 nonmandatory audits for calendar year 2002 and 129 nonmandatory or discretionary audits over the past five years.

The assessor has a good selection process in place for nonmandatory audits. The program selects approximately 50 accounts for audit within predefined value categories, 10 accounts within \$50,000 to \$200,000, 20 accounts within \$200,000 to \$300,000, and 20 accounts within \$300,000 to \$400,000. As with mandatory audits, we found these audits to be of good quality and well documented.

In prior surveys, we have recommended the assessor expand the nonmandatory audit program. The assessor submitted information showing an increasing number of completed nonmandatory audits ending with 51 completed in 1998. Since then, the number of nonmandatory audits has declined to 25 completed in 2002. This decline is likely due to the assessor's commitment to complete all mandatory audits timely. However, in order to maintain the integrity of a self-reporting tax system, it is important for the audit program to include the possibility for any account in the system to be audited.

Without a regular non-mandatory audit program, taxpayers know that there is little likelihood of an audit if their taxable business property value is below \$400,000.

Because of the importance of complying with section 469, we are not repeating the recommendation to expand the assessor's nonmandatory audit program. However, it is important to have a good nonmandatory audit program and we encourage the assessor to continue his efforts to improve this program.

### **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 those instances where the assessor is not able to complete the audit timely, a waiver of the statute of limitations is requested from the taxpayer. Priority is given to audits in which the assessor is unable to obtain a signed waiver to ensure no revenue is lost.

### **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 found that the details of the audits were good and supported by a comprehensive audit checklist defining the areas of investigation for each auditor.

### ***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 (BPS) 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, boats, and aircraft.

For the 2002-03 roll, the San Diego County Assessor processed a total of 61,766 business property statements. This resulted in assessments totaling more than \$12 billion and more than \$122 million in personal property taxes. Generally, the assessor's practices comply with current law.

The following table summarizes this activity:

TYPE	SECURED ROLL	UNSECURED ROLL	TOTAL VALUE
General Business	1,076	31,064	\$8,561,587,482
Agricultural	1	6	\$480,854
Aircraft		1,528	\$1,127,958,983
Apartments	1,010	58	\$41,672,177
Banks, Financial	21	816	\$73,811,524
Biotech	4	163	\$499,885,783
Construction		25	\$24,946,557
Direct Billing	28	920	\$12,186,957
Leased Equip.		11,177	\$849,699,999
One-way Paging		224	\$29,387,377
Power Plants	2	10	\$157,947,084
Semiconductors	1	7	\$50,031,522
Service Stations	126	346	\$75,904,898
Vessels		13,150	\$510,805,285
Wineries	1	2	\$496,503
<b>Total</b>	<b>2,270</b>	<b>59,496</b>	<b>\$12,016,802,985</b>

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

#### Commercial, Industrial, and Agricultural Equipment

Assessors use business property value factors that are derived by combining cost index factors (trending factors) with current percent good factors to develop an overall factor to value machinery and equipment. Section 401.5 provides that the BOE shall issue information that, in the judgment of the BOE, 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).

We found two problems with business equipment valuation.

**RECOMMENDATION 10:** Improve the business equipment valuation program by:  
(1) using Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; and  
(2) assessing taxable pollution control devices or facilities financed by state bond.

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

Taxable values for machinery, equipment, computers, and other taxable business personal property are typically computed from historical costs through the use of combined valuation factors. The combined valuation factors are the product of the price index and percent good factors. Accurate assessments depend on the proper choice and application of these price indices and percent good factors.

The BOE annually publishes price index factors and percent good factors that are used to compute current reproduction costs of machinery and equipment from historical costs. AH 581 contains index factors for commercial and industrial equipment. It also contains percent good factors based on a constant terminal income stream adjusted for declining income.

The San Diego County Assessor has adopted the price indices (trend factors) and percent good factors recommended by the California Assessors' Association (CAA). Generally, the price indices parallel those in the AH 581. Additionally, the percent good factors parallel the AH 581 factors, except for older equipment. The CAA developed those percent good factors based on the *Marshall Valuation Service* data and we find no problems with them.

The assessor valued property owned or used by 167 biopharmaceutical companies in San Diego County by using a separate CAA recommended table. For biopharmaceutical industry equipment and fixtures, the BOE recommends the assessor use the factors adopted by the BOE in 1999, and included in AH 581. Neither the assessor nor the CAA have any documentation supporting their index factors.

**Assess taxable pollution control devices or facilities financed by state bond.**

Division 27, chapter 1 of the Health and Safety Code (commencing with section 44500) authorized the California Pollution Control Financing Authority (CPCFA) to either acquire or finance the acquisition of devices or facilities necessary to mitigate air and water pollution caused by private industrial operations.

If the CPCFA acquires the device or facility and leases it to a private company, then section 201.5 provides that a possessory interest in this type of equipment or facility owned by the CPCFA, whether in real or personal property, is taxable.

To help identify such equipment or facility, the BOE's Assessment Policy and Standards Division furnishes all assessors with a yearly Letter To County Assessors Only (CAO) entitled *Listing of Companies Entering Into Contract With the Pollution Control Financing Authority*.

The CAO lists the pollution control financing bonds issued during the previous year, with project location by county, the name of the lessee, and the amount of each bond.

We found that the assessor has not assessed any machinery or equipment financed with pollution control bonds. We notified the assessor in CAO Nos. 1999/22, 2000/011, 2002/004, and 2003/014 of the bonds (totaling about \$379 million) used to finance pollution control equipment in San Diego County. The assessor has neither investigated these projects nor assessed any taxable equipment financed by these bonds.

The assessor is aware of the notifications from BOE. However, the assessor does not have a written procedure on what to do with these notifications. None of the three business property sections have a copy of our notification in their file. And no acknowledgment or mention of the equipment being assessed can be determined from the file or from the audits completed for these accounts. When pollution control devices financed by state bonds are reported, the assessor should investigate the new improvements and determine the taxability of the added improvements. If the improvements are taxable, the value should be enrolled. If the improvements do not add value to the property, the assessor should fully document the appraisal records as to why the improvements are not assessable.

### ***Leased Equipment***

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property can be difficult to assess correctly. Common problems include taxable situs, reporting errors by the lessees or 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 assessments 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*.

In our prior survey, we recommended that the assessor cross-reference the lessor and lessee business property statement filings to ensure the continued assessment of leased equipment upon expiration of a lease. This recommendation was implemented by the assessor starting with the 2001-02 processing season with the help of a new automated lease tracking system. The new system allows the assessor to process data from leasing companies online and compare one year's filing to another. The leasing companies' data is then cross-referenced with the lessee's filings.

The majority of the randomly selected leased accounts we reviewed confirmed this practice. We therefore, consider our recommendation fully implemented by the assessor.

### ***Leasehold Improvements***

Leasehold improvements (tenant improvements) are structural or fixture improvements made to rented or leased premises and are typically installed and paid for by the tenant/lessee. Improvements installed by the tenant/lessee can be assessed to the landlord on the secured roll or to the tenant on the unsecured 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 alter the original improvements in a number of ways. Examples include additions, removals, or possibly both, often resulting in a changed use of the property. These changes must be reflected in the property's assessment if they qualify as new construction.

In particular, when real property items are reported on the business property statement, the reported costs should be jointly examined by an appraiser and an auditor-appraiser. Determinations must be made as to whether costs are for repair and maintenance and are, therefore, not assessable, and whether additions are properly classified as a structure or fixture improvements, and should be enrolled. For this reason, coordination between the real property and business property staff of the assessor's office is very important.

Generally, the San Diego County Assessor's real property division assesses tenant improvements to the owner of the structure. However, any item reported between \$10,000 and \$100,000 is enrolled by the business property division as reported as long as it appears consistent with the type of business conducted. If the total costs in the structure column are \$100,000 or more, a copy of Schedule B is sent to the real property division. The original *Business Property Statement* (BPS) is marked with a red "R" in the lower right-hand corner of the form to indicate that a copy of the Schedule B has been forwarded to the real property division. The real property division sends a *Declaration of New Construction of Tenant Improvements and Rental Information* form to taxpayers to obtain more detailed cost and rental information. The real property division notifies the business property division of any improvements and which division will have the ultimate responsibility for enrolling the assessment. Typically a *Tenant Improvement Record* is in the real property appraisal file which assists in tracking tenant improvements on a parcel that may have several tenancies.

Structural tenant improvements are discovered through the building permit process and/or reported costs on Schedule B of the BPS. When a taxpayer reports structural costs on Schedule B, the business property division reviews any amount over \$10,000 and determines the correct classification of the improvement and whether it is assessable or not. Typically, the taxpayer is contacted for a breakdown of improvements reported.

We reviewed the assessor's records for discovery, coordination, classification, and communication, and found no problems in the assessor's leasehold improvement discovery and appraisal 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 (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The assessor discovers aircraft from listings obtained from the Federal Aviation Agency (FAA); airport operators reporting on Form BOE-577-B, *List of Aircraft*, and referrals from other county assessors' offices.

The San Diego County Assessor assessed 1,289 general aircraft for the 2003-04 tax roll with a total value of more than \$379 million. The assessor used the *Bluebook* as the primary guide for valuing aircraft.

We found one area of concern.

**RECOMMENDATION 11:** Adjust the average retail price as outlined in Assessors' Handbook Section 577, *Assessment of General Aircraft*.

The assessor uses published value guides, such as the *Bluebook* and *Vref*, to value general aircraft. The assessor first reduces the indicated value of the aircraft from the value guides by 2.25 percent (which is the net of the BOE recommended 10 percent reduction and the 7.75 percent state sales tax), then he adjusts for other considerations, such as overall condition of the aircraft, airframe hours, engine time, and additional equipment. In the Assessor's Handbook Section 577, *Assessment of General Aircraft* and the LTA No. 1997/003, the BOE directed that the listed retail value be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date and then modified with other adjustments. The sales tax is then added to the final indicated value after all adjustments.

The assessor's practice of adjusting the initial indicated value of the aircraft by a component that includes sales tax may result in an overassessment or underassessment depending on whether the adjustments for condition are positive or negative. Only when there are no adjustments for condition is the assessor's indicated value close to the recommended value.

### Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

The assessor correctly assesses the certificated aircraft owned by the 36 commercial airline companies serving San Diego County. The total assessed value of the certificated aircraft is more than \$742 million. The aircraft are assessed using the appropriate allocation formula provided in section 1152, which considers flight and ground time as well as arrivals and departures. This

information, critical in determining the aircraft assessments, is routinely gathered from owners of certificated aircraft in the course of the assessor's audits.

### **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.

The historical aircraft exemption is not automatic. The owner of a historical aircraft must submit an affidavit on or before 5:00 p.m. on February 15 and pay a filing fee of thirty-five dollars (\$35) upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.<sup>9</sup>

There were 203 historical aircraft assessed for 2003 in San Diego County with a total value of more than \$5 million. In the prior survey, we recommended the assessor require notarization of the affidavit for historical aircraft as required by section 220.5. This is no longer a statutory requirement; the assessor has properly obtained signed affidavits for the historical aircraft exemption.

### **Vessels**

The San Diego County Assessor assessed 13,605 vessels on the 2003-04 assessment roll, with a total assessed value of \$475,284,414.

The assessor discovers vessels through reports obtained from the Department of Motor Vehicles, marinas, field canvassing, and referrals from other counties of boat owners moving their vessels to San Diego County. In 2003, when 12 marinas failed to respond to a section 441(d) request for information, the assessor successfully subpoenaed their records pursuant to section 454. The following table shows the assessor's vessel data for recent years:

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<sup>9</sup> Effective January 1, 2004, section 220.5 also requires a certificate of public display.

ROLL YEAR	PLEASURE VESSELS		DOCUMENTED VESSELS	
	NUMBER	ASSESSED VALUE	NUMBER	ASSESSED VALUE
2003-04	13,605	\$475,284,414	162	\$26,278,841
2002-03	13,341	\$512,791,221	150	\$19,421,520
2001-02	11,674	\$453,724,548	166	\$25,011,755
2000-01	12,995	\$527,799,991		*
1999-00	12,275	\$454,103,605		*

\*Statistics not available prior to 2001.

The assessor appraises vessels initially based on the sales price and the appropriate valuation guides *ABOS Outboard Motor Blue Book*, *National Automobile Dealers Association Boat Guide*, and *BUC Used Boat Price Guide*. If the reported purchase price falls within the value range indicated by the value guides, the purchase price becomes the assessed value; otherwise a value is estimated using the valuation guides. In certain instances, other sources may be used, such as internet resources and local manufacturer sales. Sales tax is correctly added to the value of the vessels. Subsequent assessments are based on the prior year's roll values adjusted by a factor taken from a staff-developed depreciation table updated annually.

In our prior survey report, we made two recommendations. The first was for the assessor to obtain the necessary information to categorize those vessels and aircraft subject to mandatory audit. The assessor now maintains a listing of all vessels and aircraft with assessed values of \$400,000 or more which fall under the mandatory audit guidelines.

The second was for the assessor to follow statutory guidelines when exempting documented vessels for which affidavits were filed late. Section 275.5 provides that when an affidavit is filed after the statutory deadline, the amount of the exemption is reduced. For those affidavits filed between February 16 and August 1, the assessor should reduce the exemption by 20 percent. Our current review indicates that the assessor has corrected the problem and is now following the provisions of section 275.5.

### ***Manufactured Homes***

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation.

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. Manufactured homes must be classified as personal property and enrolled on the secured 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 National Automobile Dealers Association *Manufactured Housing Appraisal Guide*.

For the 2003-04 assessment roll, there were 19,173 manufactured homes in San Diego County with an assessed value of \$1,127,354,609. The manufactured home values are enrolled on the secured roll.

The assessor is notified of assessable manufactured homes through information obtained 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, the appropriate data are entered into the computer system. If the manufactured home is already enrolled, the appraisal records are transmitted to the appraisal staff for valuation. If the manufactured home has not been enrolled, a new appraisal record is created and forwarded to the appraisal staff for a field check, inventory, and valuation. In our previous survey, we recommended the assessor document on the appraisal record the source and value obtained from recognized manufactured home value guides. The assessor currently utilizes a co-mingling of the Blue Book and the BOE Assessors' Handbook Section 531.35, *Residential Building Costs* (AH 531.35), in the valuation of manufactured homes. We find that his current procedures adequately document his appraisals.

Additionally, we recommended the assessor mail a COS to taxpayers who do not return the *Mobilehome Owner's Declaration*. The assessor has revised the procedure for sending a COS to purchasers of manufactured homes. However, the assessor's procedure for applying the penalty for non-filing is incorrect. We also recommended the assessor classify and enroll manufactured homes as personal property. This recommendation has not been implemented; therefore, it is also repeated.

**RECOMMENDATION 12:** Revise the assessment of manufactured homes by:  
(1) applying penalties timely for failure to file change in ownership statements as prescribed in section 482, and  
(2) classifying manufactured homes as personal property in accordance with section 5801(b)(2).

**Apply penalties timely for failure to file change in ownership statements as prescribed in section 482.**

The assessor currently sends a locally developed form, *Manufactured/Mobilehome Owner's Declaration*, to the transferee of a recent sale requesting a response within 15 days. If there is no response, the assessor sends the same package again, including a BOE-prescribed COS. The documents are stamped "Second Notice" and a green card, labeled "Important Notice" is also included in the envelope. It warns the transferee that a penalty may be imposed if the COS form is not returned within 45 days.

If there is still no response, the assessor sends out the same package again with a yellow card labeled "Final Notice" that warns that if the COS is not returned in 45 days a non-response penalty will be entered into the computer system. With the assessor's current policy, a taxpayer who fails to file a COS will not incur a penalty until at least 90 days after the mailing of the first

COS request. Section 482 states that, if a person fails to file a COS within 45 days from the date of a written request, a penalty must be added to the assessment made on the roll.

**Classify manufactured homes as personal property in accordance with section 5801(b) (2).**

We found that the assessor continues to enroll all manufactured homes as real property on the secured assessment roll, even though the assessor's appraisal policy manual states that they are to be classified as personal property. The assessor and the auditor-controller created a system whereby all manufactured home are identified with a unique prefix to the parcel number. Because the assessor's computer system does not allow the application of a homeowner's exemption or factoring to personal property, the assessor enrolls all manufactured homes as real property improvements. Circumventing the computer system allows the assessor to grant the homeowners exemption and apply the annual inflation factor.

To the assessor's credit, the manufactured homes on leased or rented land are provided with all of the limitations and benefits required by sections 5801 through section 5842. However, section 5801(b) (2) provides that manufactured homes shall not be classified as real property. This requirement is explained in detail in LTA No. 1992/57 and in Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks* (AH 511).

**Animals**

San Diego County has very few assessable animals. Most animals are reported on Form BOE-571-F, *Agricultural Property Statement*. Assessable animals in the county include a small number of show horses. Other discovery methods include intercounty communications of transfers, newspaper articles and advertisements, telephone yellow pages, and business directories. The assessor properly discovers, identifies, and appraises assessable animals. Exemptions for animals include the pet exemption and business inventory exemption.

San Diego County is the home to a major entertainment park that uses a variety of animals, such as whales, seals, dolphins, and other domestic animals, in the course of business. The animals are reported on the business property statement and are assessed by the business property division.

The assessor's program for assessing animals is well administered.

**Racehorses**

Racehorses domiciled in California are subject to an annual in-lieu tax rather than an 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.

The following table indicates the number of racehorses the assessor has identified during the recent years:

<b>ROLL YEAR</b>	<b>NO. OF RACEHORSES</b>
2003	510
2002	451
2001	448
2000	410

In our prior survey, we recommended that the assessor audit racehorse owners as required by Rule 1045, which requires the assessor to audit racehorse owners who had a gross tax liability that exceeds \$4,000 for four years. San Diego County has only two owners of racehorses that have a gross tax liability that exceeds \$4,000. Both taxpayers own assessable fixtures and business tangible personal property that has a value exceeding \$400,000; therefore, they are audited at once every four years per section 469. The assessor's racehorse program is in full compliance with all requirements of Rule 1045.

## APPENDIXES

### *San Diego County Assessment Practices Survey*

#### *A. County Property Tax Division Survey Group*

*Chief, County Property Tax Division*

Mickie Stuckey

*Survey Program Director:*

Arnold Fong

Principal Property Appraiser

*Survey Team Supervisors:*

Jody Henning

Supervising Property Appraiser

*Survey Team Leader:*

James Lovett

Senior Specialist Property Appraiser

*Survey Team:*

James McCarthy

Senior Mining and Petroleum Appraisal  
Engineer

David Dodson

Associate Property Appraiser

Tina M. Krause

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

Manuel Garcia

Associate Property Auditor-Appraiser

Delia M. Garcia

Tax Technician II

## **B. Assessment Sampling Program**

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing<sup>10</sup> activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The 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:

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)<sup>11</sup>

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

For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:

**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.

**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.

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<sup>10</sup> The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

<sup>11</sup> The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

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

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

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

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

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

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

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

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

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are 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 assessor's response begins on the next page. The BOE has no comments on the response.



**Gregory J. Smith**

**COUNTY OF SAN DIEGO**

**ASSESSOR / RECORDER / COUNTY CLERK**



**ASSESSOR'S OFFICE**

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December 14, 2005

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

Dear Ms. Stuckey:

Pursuant to Section 15645 of the California Government Code Section, San Diego County is submitting our response to the recommendations contained in the Assessment Practices Survey of the 2003-04 assessment roll conducted by the State Board of Equalization survey team. Please incorporate my response in your final Assessment Practices Survey Report.

We appreciate your acknowledgement of areas in which we excelled such as our various exemption and exclusion programs. **Our average assessment ratio of 99.95 percent exemplifies the talent and skill of my staff. We are especially proud of our proactive approach taken in processing the huge volume of calamity claims that occurred when over 2,500 homes were destroyed during the San Diego County fires.** A member of my staff was at each FEMA location to provide assistance to the fire victims. In response, we developed a special database to expedite our processing of the calamities.

We implemented the majority of the recommendations from the last survey. Although we agree with several of the new recommendations and are already implementing them, there are some in which we differ in opinion and our responses that follow will address those issues. **We are currently developing a new integrated property tax system that we feel will greatly enhance our programming abilities. This will address many of the system issues mentioned in the survey.**

*Branch Offices Available To Serve You*

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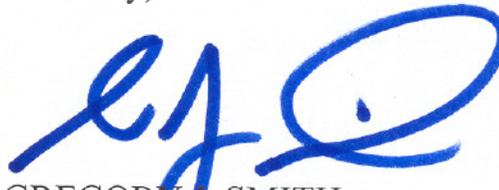
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Ms. Stuckey  
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December 14, 2005

I would like to express my appreciation to the entire State Board of Equalization survey team for the professional manner in which this survey and the conference were conducted. The constructive comments and cooperative attitude that was shown throughout the survey contributed greatly to the final report and will undoubtedly help improve our operation. **Finally, I wish to acknowledge my staff for their outstanding efforts, dedication, professionalism, and commitment to public service.**

Thank you for the opportunity to provide our comments. If you have any questions, please do not hesitate to contact me directly at (619) 531-5507 or David Butler, Assistant Assessor, at (619) 531-5475.

Sincerely,



GREGORY J. SMITH  
County Assessor/Recorder/Clerk

GJS:jmr

# San Diego County Assessment Practices Survey 2005

**RECOMMENDATION 1:** Request that the board of supervisors amend the county's General Regulation to reflect the current requirements and limitations of Section 170.

**RESPONSE 1:** We agree and will request that the ordinance be amended. As stated in the survey, **we correctly apply all current regulations and performed an exemplary job with the enormous number of claims filed as a result of the Cedar and Paradise Wildfires.**

**RECOMMENDATION 2:** Comply with the requirements of the BOE-prescribed forms by: (1) submitting timely all BOE checklists, (2) submitting timely a printed copy of each property statement and mineral production report form and its accompanying instructions by February 10, and (3) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the Section 463 penalty applies to them.

**RESPONSE 2:** We agree with Sections 1 and 2. We will timely submit all BOE checklists and a copy of each form and its instructions. We disagree with Section 3. We include an insert with the 571-L instructions that shows the filing format and data needed for leasing, vending, and sign companies. There is no statement on our insert that a penalty will be applied if not returned and we do not believe it is implied. We have never applied a 463 penalty to any assessment for failure to return the insert.

**RECOMMENDATION 3:** Enroll construction in progress at its fair market value on each lien date.

**RESPONSE 3:** We disagree with the manner in which this recommendation is worded. A more appropriate wording would be: "Do not index construction in progress." We acknowledge that if construction in progress on the lien date has not changed from the prior year, and the appraiser does not manually re-post the value to be enrolled, the Assessor's computer system will then automatically index the

incomplete new construction. This is a system limitation that will be corrected when the new integrated property tax system is implemented in the next two to three years.

Very few properties with construction in progress have no change in value from one year to the next. Except for this situation, construction in progress is valued at its fair market value on the lien date. If the construction is complete by the following lien date or if the value changes on the new construction, office policy is to remove the unfinished value completely, then add the value of the completed new construction or new unfinished construction to the indexed base value of the improvement.

We have reviewed the samples sited and believe they are **isolated incidents** in which the appraiser did not follow the correct procedures as outlined in our procedures manual. We have reiterated the correct procedures to the staff, and continue to regularly reinforce this at appropriate training sessions.

**RECOMMENDATION 4:** Revise the *Notification of Supplemental Assessment* to include all information required by Section 75.31.

**RESPONSE 4:** We disagree with this recommendation. Our office does not send a separate *Notification of Supplemental Assessment*. Both the Tax Collector and the Assessor provide generic notices with the tax bill explaining the supplemental bill and the appeal rights to the taxpayer. **All information required by Section 75.31 is provided to the taxpayer in the packet. A portion of the information is on the tax bill and a portion is on the notification.**

The date of the change in ownership or new construction and any exemptions are on the front of the tax bill. An explanation that the bill is required in accordance with Article XIII A is on the back of the tax bill. In addition, the procedures and filing periods for assessment appeals along with language explaining the stipulation process are on the back of the notification. If there is a refund, the refund check is included with the tax bill and notification.

**RECOMMENDATION 5:** Revise the value change notice to conform to the requirements of Section 619.

**RESPONSE 5:** We agree with this recommendation. We do not currently include the factored base year value in the notice. We cannot capture the base year value at this time due to current system limitations. This problem is being corrected in our new integrated property tax system that is scheduled to come online within the next two to three years.

**RECOMMENDATION 6:** Establish a base year value for taxable government-owned properties according to BOE guidelines.

**RESPONSE 6:** We strongly disagree with this recommendation and the BOE guidelines. We agree with the following response provided by San Luis Obispo County in their December 2004 Assessment Practices Survey, which states:

“This recommendation refers specifically to failure on the part of the Assessor to set the base year values of taxable government-owned properties acquired after March 1, 1975 at the lower of the current fair market value or the restricted value as of the date of the change in ownership as per Letters to Assessors (LTA) 2000/037. The Assessor is not in agreement with the interpretation of law as presented in LTA 2000/037 and believes that base year values for all taxable government-owned properties within the county have been properly established per Section 50, which refers to base year value determination according to Section 110.1 (the full cash value on the date on which a purchase or change in ownership occurs).

“The Assessor does not dispute that the taxable value enrolled the initial year following acquisition is the lower of the current fair market value or the restricted value, merely that this value would then establish the base year value if it were the restricted value. That a restricted value enrolled the initial year would become the base year value is in conflict with the tax code.

“The purpose of Section 11 is to prevent the erosion of a county’s property tax base and consequent loss of property tax revenues. If the restricted value were established as the base year value, such erosion would occur each year subsequent, as the inflationary indexing factor has always been lower than the increase in the ‘Philips factor’ between years. There is no reason to assume this will not continue in the future.

“Also, the court has held that the value limitation standard of article XIII A of the California Constitution also applies to government-owned lands located outside

their jurisdictional boundaries. It is that value limitation standard which clearly defines the base year value as the **full cash value** as of the change of ownership.

“In addition, establishing a restricted value as of the date of the change in ownership to be the base year value is completely contrary to the establishment of a base year value for property subject to Section 423. Properties subject to Section 423, similar to Section 11 properties, are taxed each year at the lesser of three values; restricted, market or factored base year. The factored base year value is the value determined to be the full cash value as of the change of ownership adjusted by the annual inflationary factor.” **Based on a careful examination of applicable statutes, the Assessor strongly believes our current method is correct and is following the proper procedure to establish the base year value as prescribed by law.**

**RECOMMENDATION 7:** Revise the possessory interest program by:

(1) reappraising possessory interests only upon change in ownership or expiration of the reasonably anticipated term of possession as required by Section 61(b)(2); (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; and (3) exempting property used exclusively for public school purposes.

**RESPONSE 7:** (1) We agree with this section. It is the policy of this office to reappraise only upon a change of ownership or the expiration of the reasonably anticipated term of possession. We believe it is reasonable to apply a Consumer Price Index (CPI) as long as the assessed value does not exceed the current market value.

(2) We agree with this section and do periodically review taxable possessory interests for declines in value; however, our staffing and workload constraints prevent a full review of each property each year. The integrated property tax system will provide a database that will enable us to track possessory interest accounts more efficiently as well as automate value review due to declining terms of possession.

(3) **We strongly disagree with this section based on County Counsel opinions.** It is our practice to exempt property used exclusively for public school purposes, but we feel that private concessionaires such as McDonalds, Pizza Hut, or Starbucks, who provide food services on campus, do not fall into this category as used “exclusively for public school purposes.”

**RECOMMENDATION 8:** Assess the wireless communication tower sites that have been delegated for local assessment.

**RESPONSE 8:** We disagree with this recommendation. The majority of wireless sites that have been delegated for local assessment are being assessed correctly, although the ownership was not always changed to reflect that the sites are no longer assessed by the BOE.

In most cases, the value that was removed from the site (usually a nominal amount) was added back into the base value of the parent parcel. The site is still shown on our map as an indicator to the appraiser that a site exists. It should carry a zero value and have the same ownership as the parent parcel.

The leases are typically less than 35 years, therefore there is no change in ownership causing the property (or portion thereof) to be reassessed. Therefore, there was no change in the original base year value of the parent parcel. In cases where there is a change of ownership on the whole property, the additional income generated by the lease is considered in arriving at a new base year value for the parent parcel.

**RECOMMENDATION 9:** Complete all mandatory audits timely in accordance with Section 469.

**RESPONSE 9:** We agree with this recommendation. We have hired and trained additional staff and are now current on our mandatory audits.

**RECOMMENDATION 10:** Improve the business equipment valuation program by: (1) using Assessors' Handbook Section 581, *Equipment Index and Percentage good Factors* as intended, and (2) assessing taxable pollution control devices or facilities financed by state bonds.

**RESPONSE 10:** (1) We disagree with this section. When valuing biopharmaceutical companies, we use the factors recommended by the California Assessors' Association (CAA). The factors published in the Assessors' Handbook (AH) 581 for use in valuing biopharmaceutical companies are the same as those presented in LTA 99/54. Per that LTA, these factors "...should be used with

**caution since other evidence may be available that results in a more accurate determination of assessed value.”**

In CAA Position Paper 99-004 the CAA strongly disagrees with the valuation factor tables specified in LTA 99/54 (and repeated in AH581) since they are predicated upon un-trended historical costs in calculating market value. It is the CAA’s position that use of the **Board factors found in AH581 is contrary to correct appraisal procedure and would create an inequity in assessment values for like property not defined as being in the biopharmaceutical industry.**

(2) We agree with this section. We have initiated procedures for investigating and assessing (when appropriate) the equipment reported on the SBE’s “Listing of Companies entering Into Contract With the Pollution Control Financing Authority.”

**RECOMMENDATION 11:** Adjust the average retail price as outlined in Assessor’s Handbook Section 577, *Assessment of General Aircraft*.

**RESPONSE 11:** We agree with this recommendation. We have adjusted our valuation procedures to add sales tax after all adjustments to value have been made.

**RECOMMENDATION 12:** Revise the assessment of manufactured homes by (1) applying penalties timely for failure to file change in ownership statements as prescribed in Section 482; (2) classifying manufactured homes as personal property; in accordance with Section 5801(b)(2).

**RESPONSE 12:** (1) We agree with this section. We will correct our policy to allow for a total of 45 days before applying penalties as required in Section 482.

(2) We agree with this section. This office has always treated manufactured homes as personal property as reflected in the fact that no water bonds or flat charges are applied to these accounts. The current computer system does not allow manufactured homes to be shown on the tax bill as personal property. The new integrated property tax system will correct this problem, and should be implemented within two or three years.