

# SAN JOAQUIN COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2006

## CALIFORNIA STATE BOARD OF EQUALIZATION

---

BETTY T. YEE, ACTING MEMBER, SAN FRANCISCO

FIRST DISTRICT

BILL LEONARD, SACRAMENTO/ONTARIO

SECOND DISTRICT

CLAUDE PARRISH, LONG BEACH

THIRD DISTRICT

JOHN CHIANG, LOS ANGELES

FOURTH DISTRICT

STEVE WESTLY, SACRAMENTO

STATE CONTROLLER

RAMON J. HIRSIG, EXECUTIVE DIRECTOR





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

BETTY T. YEE  
Acting Member  
First District, San Francisco

BILL LEONARD  
Second District, Sacramento/Ontario

CLAUDE PARRISH  
Third District, Long Beach

JOHN CHIANG  
Fourth District, Los Angeles

STEVE WESTLY  
State Controller, Sacramento

RAMON J. HIRSIG  
Executive Director

April 21, 2006

TO COUNTY ASSESSORS:

SAN JOAQUIN COUNTY  
ASSESSMENT PRACTICES SURVEY

No. 2006/017

A copy of the San Joaquin 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 Gary W. Freeman, San Joaquin County Assessor-Recorder-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 Joaquin 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 September 2004 through February 2005. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Freeman 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/ Mickie Stuckey for

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:jm  
Enclosure

# TABLE OF CONTENTS

**INTRODUCTION..... 1**

**SCOPE OF ASSESSMENT PRACTICES SURVEYS..... 2**

**EXECUTIVE SUMMARY ..... 3**

**RESULTS OF 2001 SURVEY ..... 6**

**OVERVIEW OF SAN JOAQUIN COUNTY..... 9**

**ADMINISTRATION ..... 11**

    BUDGET AND STAFFING ..... 11

    STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM ..... 12

    APPRAISER CERTIFICATION..... 13

    ASSESSMENT APPEALS..... 13

    DISASTER RELIEF..... 14

    ASSESSMENT ROLL CHANGES..... 16

    LOW-VALUE PROPERTY EXEMPTION ..... 17

    EXEMPTIONS ..... 18

    RACEHORSE ADMINISTRATIVE TAX..... 20

    ASSESSMENT FORMS..... 21

**ASSESSMENT OF REAL PROPERTY..... 23**

    CHANGE IN OWNERSHIP..... 23

    NEW CONSTRUCTION..... 26

    DECLINES IN VALUE ..... 29

    SUPPLEMENTAL ASSESSMENTS ..... 30

    CALIFORNIA LAND CONSERVATION ACT PROPERTY..... 32

    TAXABLE GOVERNMENT-OWNED PROPERTY..... 33

    TAXABLE POSSESSORY INTERESTS..... 34

    LEASEHOLD IMPROVEMENTS ..... 35

    WATER COMPANY PROPERTY ..... 36

    MINERAL PROPERTY ..... 38

    PIPELINE RIGHTS-OF-WAY..... 39

**ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES..... 40**

    AUDIT PROGRAM ..... 40

    BUSINESS PROPERTY STATEMENT PROGRAM..... 42

    BUSINESS EQUIPMENT VALUATION ..... 43

    LEASED EQUIPMENT ..... 45

    MANUFACTURED HOMES ..... 46

    AIRCRAFT ..... 47

    VESSELS..... 50

    ANIMALS..... 51

**APPENDIXES ..... 52**  
A. COUNTY PROPERTY TAX DIVISION SURVEY GROUP..... 52  
B. ASSESSMENT SAMPLING PROGRAM..... 53  
C. RELEVANT STATUTES AND REGULATIONS..... 56  
**ASSESSOR'S RESPONSE TO BOE'S FINDINGS..... 62**

## 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 Joaquin County Assessor-Recorder-Clerk's Office.<sup>1</sup>

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

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

---

<sup>1</sup> The report covers only the assessment function of this office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

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

Our survey of the San Joaquin 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 Joaquin County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2004-05 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

---

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

## EXECUTIVE SUMMARY

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

In our 2001 assessment practices survey, we made 24 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 18 of the recommended changes and did not implement four, which are repeated in this report. Two recommendations are not repeated because we found no evidence that the assessor's practices resulted in incorrect assessments.

In the area of administration, we noted several strengths in the assessor's operations and programs. The assessor, his staff, and contractors possess the appraisers' certificates required by section 670. He has participated in the State County Property Tax Administration Program every year since the 1997-98 fiscal year, and the county auditor controller has certified to the State Department of Finance that the county has met the contractual requirements for continued participation in the program. The assessor also has effective programs for assessment appeals, low-value property, property subject to individual and institutional exemptions, and the racehorse administrative tax. The following administrative components of the assessor's program need improvement:

- The assessor's disaster relief notice of reassessment does not inform taxpayers of their proper appeal rights and the assessor does not apply the inflation index to the taxable value of the damaged property as required by section 170(g).
- The assessor does not enroll all roll changes and does not send the required *Notice of Proposed Escaped Assessment* for business property as required by section 531.8.
- The assessor does not use the appropriate BOE-prescribed forms.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, decline-in-value properties, California Land Conservation Act (CLCA) properties, taxable government-owned properties, leasehold improvements, water company properties, and pipeline rights-of-way properties. Other programs with areas where improvement is needed are:

- The assessor does not keep a current list of transfers available for inspection by any person as required by section 408.1.
- The assessor does not process supplemental assessments of possessory interests.

- The assessor should apply the inflation factor to month-to-month possessory interest assessments when appropriate, and annually determine the market value of a possessory interest based on the stated term as required by Rule 21.<sup>3</sup>
- The assessor does not assess mineral properties pursuant to Rule 469.

In the area of business property assessment, the assessor has effective programs for audits and for the discovery and valuation of leased equipment, manufactured homes, and animals. Other areas that need improvement, however, are:

- The assessor does not use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; does not recognize and enroll fixed machinery and equipment as fixtures; and does not properly assess personal property in apartments.
- The assessor does not add sales tax to the acquisition cost of general aircraft, has not submitted the required aircraft data to the California Department of Transportation, and does not include the assessed value of historical aircraft on the regular assessment roll.
- The assessor accepts unsigned *Vessel Property Statements*.

The San Joaquin County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2004-05 assessment roll indicated an average assessment ratio of 99.3 percent, and the sum of the absolute differences from the required assessment level was 1.13 percent. Accordingly, the BOE certifies that San Joaquin 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:** Revise disaster relief procedures as required by section 170 by: (1) including the correct appeals filing period on the notice of proposed reassessment, and (2) applying the inflation factor to the assessed value of damaged properties. ....15
- RECOMMENDATION 2:** Revise the assessment roll change procedures by: (1) enrolling all roll changes, and (2) sending the required *Notice of Proposed Escaped Assessment* before enrolling escaped business property as required by section 531.8. ....17
- RECOMMENDATION 3:** Revise the use of assessment forms by: (1) using only current versions of BOE-prescribed forms, and (2) transmitting supplemental requests for data in such a manner that it does not imply that the section 463 penalty applies to them. ....22

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

**RECOMMENDATION 4:** Maintain a current list of transfers as required by section 408.1 .....26

**RECOMMENDATION 5:** Process supplemental assessments for possessory interests. ....31

**RECOMMENDATION 6:** Improve the possessory interest program by: (1) indexing possessory interest assessments when appropriate, and (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value. ....34

**RECOMMENDATION 7:** Assess mining properties pursuant to Rule 469.....38

**RECOMMENDATION 8:** Revise business equipment valuation procedures by: (1) using Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; (2) recognizing and enrolling fixed machinery and equipment as fixtures; and (3) properly assessing personal property in apartment complexes. ....44

**RECOMMENDATION 9:** Revise the general aircraft assessment program by: (1) adding sales tax to the acquisition cost of aircraft, and (2) filing the annual report required by section 5366. ....48

**RECOMMENDATION 10:** Correctly enroll the assessed value of historical aircraft. ....50

**RECOMMENDATION 11:** Accept only signed *Vessel Property Statements*.....51

## RESULTS OF 2001 SURVEY

### **Administration**

We recommended the assessor develop a formal policy and procedures manual. The assessor has not developed a formal manual, but he has made a significant improvement in making office policies and guidelines available to staff; therefore, we do not repeat this recommendation.

We also recommended that the assessor document all in-house computer software. The assessor has complied with our recommendation.

### **Disaster Relief**

We recommended the assessor request that the board of supervisors update the disaster relief ordinance to reflect the change in lien date to January 1. This recommendation was implemented with the most recent update of the county's disaster relief ordinance.

We also recommended the assessor obtain fire reports from local fire districts. Although the assessor still does not obtain fire reports, we did not find any evidence that the assessor has missed any calamities caused by fire and, therefore, we do not repeat this recommendation.

### **Assessment Roll Changes**

We recommended the assessor ensure that his staff follow the written assessment roll change procedures. Our current review found that when a roll change is made, written policies and procedures are being followed.

We also recommended the assessor enroll all roll corrections. We found that the assessor still does not enroll all roll corrections and we, therefore, repeat this recommendation.

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

We recommended the assessor request that the board of supervisors amend the language of the low-value property exemption resolution to conform to section 155.20. The San Joaquin County Board of Supervisors replaced Resolution No. 3825 with Resolution No. 4125, which complied with our recommendation.

### **Change in Ownership**

We recommended the assessor obtain authorization from the board of supervisors to abate the section 482 penalty for non-response to the *Change of Ownership Statement* (COS). Since that time, the board of supervisors authorized the assessor to abate those penalties. The assessor has complied with our recommendation.

We also recommended the assessor timely apply the section 482 penalty for transferees who had not returned the COS form in the allowed 45 days. The assessor currently examines the COS log

for compliance every two months. This practice enables him to note transferees who have missed the 45-day return allowance and to apply the section 482 penalty. The assessor has complied with our recommendation.

### ***New Construction***

We recommended the assessor obtain copies of all permits issued by the County Environmental Health Services Department. The assessor has implemented this recommendation.

### ***Supplemental Assessments***

We recommended the assessor enroll all supplemental assessments. We found that the assessor still does not process supplemental assessments on possessory interest properties. We repeat this recommendation.

### ***Possessory Interests***

We recommended the assessor research properties identified on the roll as "USA" in order to more easily identify any possible taxable possessory interests that may exist on these properties. The assessor has implemented this recommendation.

We also recommended the assessor revalue possessory interest assessments only upon a change in ownership or when a decline in value occurs. The assessor has also implemented this recommendation.

### ***Leasehold Improvements***

We recommended the assessor supplementally assess all structural improvements reported on schedule B-1 of the business property statement and assessed on the unsecured roll. At that time, we found that items listed on the schedule were not being supplementally assessed. The chief appraiser for commercial and industrial properties has recently taken on the responsibility of reviewing the valuations of all new tenant improvements. As part of his review, he manually processes supplemental assessments for any structural improvements. Thus, the assessor has implemented our recommendation.

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

We recommended the assessor consider the income approach in valuing private water companies. However, since the earning capacity of the water company is based on the historical cost less depreciation (HCLD) approach to value and since the assessor is using the HCLD to develop the current market value of the water company property, we believe our recommendation is no longer needed and do not repeat it.

### ***Mining Property***

We recommended the assessor use an income approach when valuing mineral properties. We found that the assessor is currently valuing mineral properties using the royalty appraisal

methodology, which is an acceptable method. Therefore, the assessor has implemented our recommendation.

### ***Audit Program***

We recommended the assessor audit all mandatory accounts timely. We found that the assessor has implemented our recommendation.

We also recommended the assessor follow statutory requirements when determining audit results and enrolling escape assessments. We found that the assessor has discontinued his practice of netting audited value differences from year to year and has complied with our recommendation.

### ***Business Property Statement Program***

We recommended that the assessor ensure that BOE certified personnel review all value estimates as required by section 670. All work currently performed by appraisal technicians is reviewed by a certified appraiser. We also recommended the assessor require apartment owners with aggregate personal property costing \$100,000 or more to file an annual *Apartment House Property Statement*, Form BOE-571-R. The assessor mailed 21 apartment property statements in 2004 to owners of large apartment complexes. The assessor has fully implemented both recommendations.

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

We recommended the assessor classify fixed machinery and equipment as improvements. We found that the assessor has not changed his policy. Therefore, we repeat this recommendation.

### ***Leased Equipment***

We recommended the assessor review Form BOE-0600-B, *Schedule of Leased Equipment*, to discover assessable property. We found that the assessor is reviewing the reports and making assessment when required. The assessor has complied with our recommendation.

### ***Aircraft***

We recommended the assessor grant the historical aircraft exemption only when affidavits are timely filed. We found that the assessor has corrected this problem and does not grant the historical aircraft exemption without a proper and timely filed claim form.

### ***Vessels***

We recommended the assessor require owners of vessels costing \$100,000 or more to annually file Form BOE-576-D, *Vessel Property Statement*. The assessor has implemented our recommendation.

## OVERVIEW OF SAN JOAQUIN COUNTY

San Joaquin County is a general law county, established by the California Legislature in 1850 as one of the original 27 counties. The county lies in the heart of the California Central Valley, bordered on the north by Sacramento County; on the east by Amador and Calaveras Counties; on the south by Stanislaus County, and on the west by Sacramento, Contra Costa, and Alameda Counties.

The county encompasses about 1,400 square miles, or 921,600 acres, and has seven incorporated cities: Escalon, Lathrop, Lodi, Manteca, Ripon, Stockton, and Tracy. Stockton is the county seat. Governed by a five-member board of supervisors, San Joaquin County has a population of more than 630,000 people, about 43 percent of whom reside in the city of Stockton.

The assessor produced a local assessment roll for 2004-05 of 221,387 assessments (197,008 on the secured roll and 24,379 on the unsecured roll). This assessment roll had a gross taxable value of \$43,372,204,022, which was an increase of 12.6 percent over the 2003-04 roll total of \$38,504,506,532. The following table displays property type, number of assessments, and enrolled value information pertinent to the 2004-05 assessment roll:

	PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
<b>Secured Roll</b>	Residential	166,244	\$28,138,830,669
	Commercial/Industrial	10,606	\$8,275,193,528
	Agricultural	11,382	\$2,978,201,573
	Manufactured Homes	3,045	\$84,651,869
	Other Secured	5,731	\$1,354,484,169
	Total Secured	197,008	\$40,831,361,808
<b>Unsecured Roll</b>	Personal Property & Fixtures	24,379	\$2,540,842,214
	<b>Total Assessment Roll</b>	221,387	\$43,372,204,022

The following table illustrates the growth in assessed values during the past several years:

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>INCREASE</b>	<b>STATEWIDE INCREASE</b>
2004-05	\$43,372,204,022	12.6%	8.3%
2003-04	\$38,504,506,532	10.0%	7.3%
2002-03	\$34,974,651,739	10.6%	7.3%
2001-02	\$31,613,279,889	10.5%	9.4%
2000-01	\$28,598,875,441	-----	-----

For the 2004-05 year, the real property workload consisted of 25,828 appraisable transfers and over 20,000 permits. The roll included over 617 taxable possessory interests and 2,107 decline-in-value assessments. The assessor also completed a business property workload that included over 22,000 business property statement reviews, 250 completed audits, 3,045 manufactured homes, 10,493 vessels, and 305 aircraft.

## ADMINISTRATION

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

### **Budget and Staffing**

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

As shown in the following table, the assessor's office has benefited from increased budget levels over recent years. PTAP funds are accounted for separately from the assessor's official budget:

YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED	PTAP STAFF
2004-05	\$6,857,675	10.06%	94	\$818,686	10
2003-04	\$6,230,931	8.30%	89	\$818,686	10
2002-03	\$5,753,579	4.06%	89	\$818,686	10
2001-02	\$5,528,844	9.38%	87	\$818,686	10
2000-01	\$5,054,372		87	\$818,686	10

### **Staffing**

The assessor's office has 104 budgeted full-time positions, including the assessor. The office is divided into four divisions: (1) assessment standards, (2) rural and residential, (3) business, and (4) administration. In addition, the assessor uses contract employees to value oil and gas properties.

The following table shows the number and classification of positions allocated to the assessor's office:

CLASSIFICATION	NO.	CLASSIFICATION	NO.
Assessor	1	Transfer Technician III/II/I	7
Assistant Assessor	1	Chief Cadastral Technician	1
Principal Appraiser	3	Senior Cadastral Technician	1
Appraiser IV	4	Cadastral Technician II/I	6
Auditor-Appraiser IV	2	Senior Appraiser	1
Appraiser III/II/I	25	Administrative Assistant	1
Auditor-Appraiser III/II/I	9	Office Secretary	1
Property Technician II	1	Accounting Technician	1
Property Technician I	12	Department Information System Manager	1
Office Supervisor	1	Department Appraiser Analyst III	1
Senior Office/Office Assistant	7	Dept. Information System Analyst II	1
Senior Office Assistant	12	Dept. Information System Specialist III	1
Exemption Supervisor	1	Dept. Information System Technician II	1
Transfer Technician Supervisor	1		

**State-County Property Tax Administration Program**

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.<sup>4</sup> 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 does not 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 elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. The contract provides that the county must agree to maintain a base funding and staffing level 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 supplant the assessor's existing funding.

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

<sup>4</sup> Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

San Joaquin County first participated in PTAP in fiscal 1996-97 and is contracted to continue participation in PTAP through June 30, 2004. The county's required base funding and staffing for the assessor's office are set at the 1994-95 fiscal year level with a gross appropriation of \$4,220,125 and 78 positions. For the 2003-04 fiscal year, San Joaquin County received a grant in the amount of \$818,686 from the State Department of Finance.

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are a total of 46 certified appraisers on staff, of whom 38 hold advanced certificates and eight have permanent appraiser's certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the 11 auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d).

The County of San Joaquin contracted with a private consulting firm to provide services to the assessor in the appraisal of oil and gas properties within the county. The most recent agreement contains the language required by section 674 regarding confidentiality and compensation fees. In addition, the contract appraisers who appraise the oil and gas properties hold BOE appraiser's certificates.

### ***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 appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted Rules 301 through 326 to regulate the assessment appeal process.

San Joaquin County has one appeals board; it consists of three members and two alternates appointed by the board of supervisors. The appeals board was created by Ordinance No. 3210, passed and adopted September 17, 1985, and rules governing its proceedings were subsequently adopted. The members of the board have successfully completed the training required by section 1624.02.

To appeal an assessment on the regular roll in San Joaquin County, a taxpayer must file an application with the appeals board clerk between July 2 and November 30. For supplemental assessments and other assessments made outside the regular assessment period, the application must be filed no later than 60 days after the date on which the assessee was notified of the assessment. The assessor tracks appeals and watches their progress closely to ensure that none are held for more than two years without an extension being filed.

Over the last three years, most appeals filed related to commercial properties, averaging about 55 percent of the appeals filed each year. The second most frequently appealed property type was business property, at about 24 percent per year. On average, 412 appeals were filed annually from 2001-02 through 2003-04. The following table illustrates the overall appeal workload for recent years:

APPEALS	FISCAL YEAR		
	2003-04	2002-03	2001-02
<b>Total Appeals:</b>			
Applications Received	477	410	350
Carried Over	390	227	181
<b>Total</b>	867	637	531
<b>Resolution:</b>			
Denied-lack of appearance	3	7	15
Hearing-reduced	6	0	0
Hearing-upheld	7	0	0
Invalid/Not Timely	59	3	21
Stipulation	85	93	75
Withdrawn	299	144	193
<b>Total</b>	459	247	304
<b>Carried over to next year</b>	408	390	227

The high number of withdrawn applications is mostly due to the assessor's efforts to ensure that the taxpayer is fully informed regarding the value on the roll and the validity of the assessed value.

Overall, we found no problems with the assessor's assessment appeals program.

**Disaster Relief**

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

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or revalue the property on lien date.

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

The board of supervisors approved Ordinance No. 4218, dated July 13, 2004, in compliance with the provisions of section 170. The assessor regularly reviews newspaper articles and building permits issued for repairs. Upon discovery of a misfortune or calamity, the assessor mails an application to the property owner. Returned applications are analyzed and processed if accepted; if denied, property owners are notified by mail. The following table lists the number of claims processed by roll year in recent years:

ROLL YEAR	CALAMITY APPLICATIONS PROCESSED
2003-04	5
2002-03	9
2001-02	8
2000-01	14

In our 2001 survey, we recommended the assessor update the disaster relief ordinance to reflect the change in lien date to January 1. This recommendation was implemented with the most recent update of the county's disaster relief ordinance. We also recommended the assessor obtain fire reports from local fire districts. Although this recommendation has not been implemented, we did not find any evidence that the assessor has missed any calamities caused by fire. However, we did find some other problems with the assessor's disaster relief program.

**RECOMMENDATION 1:** Revise disaster relief procedures as required by section 170 by: (1) including the correct appeals filing period on the notice of proposed reassessment, and (2) applying the inflation factor to the assessed value of damaged properties.

**Include the correct appeals filing period on the notice of proposed reassessment.**

The assessor's notice of proposed reassessment does not inform the owners of their proper assessment appeal rights as required by section 170(c). The notice currently used by the assessor to notify the applicant of the proposed reassessment due to a disaster claim is the same as that used to notify an assessee of an escape/correction to the assessment roll.

The appeal filing period stated on the notice is 60 days. Section 170(c) provides that the applicant may appeal the proposed reassessment to the local board of equalization within six months of the date of mailing the notice. The assessor's practice does not properly inform property owners of their appeal rights.

**Apply the inflation factor to the assessed value of damaged properties.**

We found that, when there is no repair work started by the following lien date, the assessor does not apply the inflation index to the assessed value of the damaged property as required by section 170(g).

Section 170(g) requires that if reconstruction is not complete on the following lien date, the assessor is required to revalue the property based on the percentage restored, or, if no repair work has been done, to apply the California Constitution article XIII A inflation index to the damaged value of the property.

The assessor's practice results in incorrect valuations of disaster-stricken property during its reconstruction or restoration.

**Assessment Roll Changes**

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, 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 underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes, both secured and unsecured, processed in San Joaquin County for recent years. Totals are net before exemptions.

Fiscal year	Count	Secured Roll	Count	Unsecured Roll	Total Count	Net Total Change
2003-04	5,056	\$155,854,304	2,160	\$33,637,538	7,216	\$189,491,842
2002-03	4,763	\$39,179,031	1,661	\$69,548,671	6,424	\$108,727,702
2001-02	7,304	\$69,229,041	1,974	\$129,798,880	9,278	\$199,027,921
2000-01	4,823	-\$77,562,483	1,623	-\$11,109,313	6,446	-\$88,671,796
1999-00	4,604	-\$20,677,261	1,661	-\$37,939,654	6,265	-\$58,616,915

In our 2001 survey, we recommended the assessor ensure that his staff follow the written assessment roll change procedures. Our current review of roll change procedures shows that when a roll change is made, written policies and procedures are being followed. We also recommended the assessor enroll all roll corrections. While the policy in place during our prior survey has been revised, we found that the assessor still does not enroll all roll corrections and we repeat this recommendation.

**RECOMMENDATION 2:** Revise the assessment roll change procedures by: (1) enrolling all roll changes, and (2) sending the required *Notice of Proposed Escaped Assessment* before enrolling escaped business property as required by section 531.8.

**Enroll all roll changes.**

The assessor does not process roll changes for differences resulting from audit findings unless the difference is 5 percent or more of the assessed value or escaped real property of more than \$4,000.

Section 531 provides that if any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment. There is an allowance in section 531.9 for ignoring escape assessments below a minimum amount, providing the board of supervisors has passed an enabling ordinance. San Joaquin County has no such ordinance. Therefore, the assessor must assess and enroll all taxable property, and may not exempt property because the valuation is too small or fails to exceed an arbitrary set percentage of the assessed value.

By not enrolling all roll changes, the assessor exempted without authority some taxpayers from paying property taxes, possibly for several years.

**Send the required *Notice of Proposed Escaped Assessment* before enrolling escaped business property as required by section 531.8.**

The assessor sends the correct *Notice of Proposed Escape Assessment* where an escape of real property has occurred. However, for business property, the assessor instead sends a letter detailing the findings of a business audit to inform taxpayers of the changes in taxable value for the fiscal year affected. The letter does not contain all the statutorily required information and its heading does not meet the requirement of section 531.8.

Section 531.8 provides that an escape assessment cannot be enrolled until 10 days after the assessor has mailed or otherwise delivered to the assessee a *Notice of Proposed Escape Assessment*. In addition, this notice should prominently display the following heading: "NOTICE OF PROPOSED ESCAPE ASSESSMENT."

By not fully disclosing the required information to assessees, the assessor may jeopardize their right to appeal escape assessments.

***Low-Value Property Exemption***

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

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

On January 24, 1995, the San Joaquin County Board of Supervisors adopted Resolution No. 3825, which exempted all real and personal property with a base year value of \$2,000 or less. In our 2001 survey, we recommended that the board of supervisors amend the resolution to exempt all personal property with a "total value" instead of a "base year value" of \$2,000 or less. On November 13, 2001, the San Joaquin County Board of Supervisors replaced Resolution No. 3825 with Resolution No. 4125, which complied with the recommendation and current provisions of section 155.20.

Our review of all parcels and property assessments in five of the assessor's map books noted several parcels valued below \$2,000. Some of these parcels were part of larger economic units, some were government-owned and hence exempt, and others were restricted parcels subject to California Land Conservation Act contracts, which are not within the scope of the section 155.20 exemption. All other parcels below \$2,000 were exempt or belonged to state assessees. We also reviewed several properties on the assessor's *2004/2005 Properties with Zero Value* list (which excluded government owned properties) coded as waste land having no taxable value. All of these parcels were appropriately exempted and tracked on the assessor's records.

## **Exemptions**

In the San Joaquin County Assessor's Office, both individual exemptions (homeowners, veterans, and disabled veterans) and institutional exemptions (religious, church, and welfare) are processed by the exemptions unit in the standards division, which is staffed with one supervisor and two senior office assistants. The unit is guided by instructional materials received from the BOE, such as Letters To Assessors, Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*, and a welfare exemption workshop binder.

### **Welfare Exemption**

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, 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 summarizes welfare exemptions granted on the local roll for recent years:

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPTED VALUE
2004-05	371	\$732,715,608
2003-04	359	\$704,742,404
2002-03	339	\$654,446,975
2001-02	367	\$624,586,852
2000-01	305	\$594,823,274

The assessor has a good program for administering the welfare exemption. A separate folder maintained for every organization contains important documentation and correspondence.

### Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also 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 owned or leased property meeting the requirements of 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 a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization 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.

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

The following table represents the number of religious exemptions and exempt values for recent years:

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPT VALUE
2004-05	102	\$75,551,820
2003-04	106	\$68,547,087
2002-03	111	\$70,417,298
2001-02	112	\$72,121,444
2000-01	119	\$70,415,897

Our review of the assessor's religious exemption program showed that the assessor enforces the statutory filing requirements. When claimants fail to return the *Religious Exemption Change in Eligibility or Termination Notice*, the assessor contacts the claimant to obtain the required documentation. If this fails, an appraiser may inspect the property to verify the continued exempt use for the eligibility for the religious exemption. We sampled a selection of religious claimants to evaluate the assessor's religious exemption program, including both new claims and annual filings. We found no problems in the religious exemption program.

The following table represents the number of church exemptions and assessed values for recent years:

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPT VALUE
2004-05	431	\$180,423,868
2003-04	438	\$168,342,332
2002-03	431	\$155,163,100
2001-02	414	\$137,463,482
2000-01	407	\$124,634,672

A sample of church exemption claims was reviewed to evaluate the assessor's church exemption program. Our review showed that the assessor is maintaining an effective church exemption program.

**Racehorse Administrative Tax**

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

To meet the definition of "racehorse" as stated in section 5703:

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

As explained in Rule 1045, the assessor is required to: (1) use BOE-prescribed forms, (2) discover and inventory taxable racehorses in his or her county, (3) mail the racehorse tax property statements to each identified owner in the county, (4) transmit a list of mailed returns to the county tax collector, (5) retain copies of returns for the period prescribed, and (6) perform audits when the tax liability threshold for audit is met.

The assessor assigned one auditor-appraiser to conduct the racehorse compliance and audit program. Of special note is the comprehensive discovery program, which includes internet searches of the California Horseracing Board, Bay Area Equestrian Network, and individual sites for horse stables, horse trainers, horse farms, horse dealers, and auctions. Also included are the review of horse magazine advertisements and telephone directory listings, countywide contact with tack shops, field investigations, and aerial photographs of known properties where racehorses are known to reside.

Our review indicates the assessor's racehorse program complies with all statutory requirements.

### **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 for approval the final prints (versions) of all BOE-prescribed forms they will use in the following year.

---

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

The assessor uses a variety of assessment forms, most of which are BOE-prescribed prototypes. He also uses several rearranged BOE forms and several county-developed forms. The assessor should revise his use of assessment forms in two ways.

**RECOMMENDATION 3:** Revise the use of assessment forms by: (1) using only current versions of BOE-prescribed forms, and (2) transmitting supplemental requests for data in such a manner that it does not imply that the section 463 penalty applies to them.

**Use only current versions of BOE-prescribed forms.**

The assessor uses two outdated versions of BOE-prescribed forms. Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. BOE-prescribed forms are updated on an annual basis, and a checklist of current forms is sent to assessors. Outdated BOE-prescribed forms should not be used, as they could provide incorrect information or be misleading to the assessee.

**Transmit supplemental requests for data in such a manner that it does not imply that the section 463 penalty applies to them.**

The assessor includes supplemental data requests in the same mailing as BOE-prescribed property statements, creating the erroneous impression that penalties will accrue under section 463 for failure to timely file the supplemental requests.

The assessor has the authority to request additional information from an assessee under section 441(d), but this request should be made in a way that does not imply that the section 463 nonfiling penalty for property statements will be imposed for failure to supply the additional requested information. Enclosing supplemental requests with BOE-prescribed forms may create the erroneous impression that the taxpayer may be subject to a nonfiling penalty for not supplying the requested additional information. Therefore, we recommend the assessor clearly indicate the appropriate penalties when mailing non-prescribed forms and questionnaires with the BOE-prescribed forms.

## ASSESSMENT OF REAL PROPERTY

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

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

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 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership pursuant to section 110.1.

### **Document Processing**

The assessor processed 42,224 recorded documents in fiscal year 2004-05, resulting in 25,828 changes in ownership. We noted a steady increase in the assessor's workload during the previous five years. The table below shows the number of transfer documents processed by the assessor during recent years and their disposition:

ROLL YEAR	DOCUMENTS PROCESSED	RESULTING CHANGES IN OWNERSHIP
2004-05	42,224	25,828
2003-04	36,437	23,506
2002-03	33,578	22,515
2001-02	30,825	22,695
2000-01	28,430	19,402

Because the assessor is also the recorder, the assessor's staff has ready access to recorded documents scanned into the recorder's computer system. The assessor's transfer unit downloads and prints pertinent recorded documents from those scanned on the previous day by the recorder's office. The assessor's staff manually collects the related Form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, from the recorder's office.

The transfer unit matches the PCOR with the printed documents and routes the documents to the mapping unit. Here deeds are checked to verify property location and the correct assessor's parcel number (APN). The mapping unit also checks the documents for possible parcel splits or combinations. The mapping unit returns the documents to the transfer unit, where transfer data are entered on the assessor's computer system.

The assessor reports that PCOR's accompany approximately 95 percent of transfer documents recorded. If a property owner does not provide a PCOR, the recorder's office charges a \$20 non-filing fee. If no PCOR is available to the assessor's staff, and no other document clearly verifies the details of the transfer, the assessor sends a Form BOE-502-AH, *Change of Ownership Statement (COS)*, to transferees of the real property. The assessor sent 1,367 COS forms in 2002-03 and 1,668 in 2003-04. The assessor indicated approximately 5 percent of COS forms mailed are not returned and require the application of the section 482 penalty.

In our 2001 survey, we found the assessor abated certain section 482 penalties for non-response to the COS form without the prior approval of the county board of supervisors. Since that time, the assessor obtained approval from the county board of supervisors to abatement the section 482 penalties. Therefore, the assessor has complied with our previous recommendation.

We also recommended the assessor timely apply the section 482 penalty for transferees who had not returned the COS form in the allowed 45 days. We had noted the assessor only reviewed COS compliance once a year, thus allowing some taxpayers to avoid penalty for nonresponse for nearly a year.

The assessor's current practice is to examine the COS log for compliance every two months. We examined several accounts where a penalty had been applied. We found the assessor reviewed the COS log for non-compliance in a timely manner and correctly applied the penalty. The assessor's current practice enables him to note transferees who have missed the 45-day return allowance. The assessor has complied with our previous recommendation.

## Discovery

Although he does not have a formal system in place to discover unrecorded transfers, the assessor contacts property owners when he discovers sales contracts and long-term lease agreements not related to a recorded deed.

When deeds transferring property to a trust do not name the trustee(s) or beneficiary(ies), the assessor requests this information from the transferor to determine whether the transfer is eligible for exclusion from change in ownership.

To aid in discovery of changes in ownership brought about by the death of property owner, the assessor communicates regularly with probate attorneys. He also has access to the Federal Social Security Death Index, and soon will have system access to county vital statistics.

When he discovers partial interest transfers, the assessor records the separate interests on the transfer deed or PCOR, and enters base years and partial interests in his computer database. He also updates base years and percentages of ownership for multiple interest transfers on his computer system.

The assessor also pursues any missing information regarding the term of a lease in order to determine if the lease is for 35 years or more and would qualify as a change in ownership.

### **Direct Enrollment Program**

Direct enrollment allows the assessor to reduce processing time for the assessment of open market sales of residential real property when the assessor can verify the sale price and determine that no unusual circumstances were involved in the transfer. In San Joaquin County the assessor uses the sales comparison database for valuation of properties in direct enrollment. Compared sale properties must be within 200 square feet in size of the subject property, must be no more than one-half class higher or lower than the subject property, and must have been sold no more than six months prior to or three months after the sale of the subject property. The assessor's direct enrollment program processes approximately 60 percent of the transfers of single-family residences, residential lots, and smaller multi-family residences.

Transfer unit technicians first review the documents of properties suitable for direct enrollment. The technician checks the property record, the PCOR or COS forms, the transfer tax paid, and the market listing database for discrepancies before sending the documents to the direct enrollment appraiser. Transfers with discrepancies are sent to field appraisers. The direct enrollment appraiser further compares sales information provided on the documents to other information available on the affected property. She may also reject some properties for direct enrollment and forward the documentation to field appraisers to be worked in their assigned areas.

### **Valuation**

We examined several changes in ownership processed by the assessor. We found that transfer files were well documented and most aspects of the program were in compliance, including handling of improvement bonds, application of supplemental assessment, inflation indexing, document processing, tracking transfers to trusts, resident-owned manufactured home parks, and most aspects of excluded transfers.

### **Section 63.1 Exclusion and Section 69.5 Base Year Value Transfer**

Section 63.1 excludes from change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first one million dollars of other real

property between parents and children, when a claim is timely filed.<sup>6</sup> In addition, section 69.5 allows qualified homeowners at least 55 years old or severely and permanently disabled to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed in the same county and of equal or lesser value. The claim for this exemption must also be filed timely and the original dwelling must have sold.

The table below shows the approximate number of such claims worked in San Joaquin County in recent years:

ROLL YEAR	SECTION 63.1 CLAIMS	SECTION 69.5 CLAIMS
2004-05	512	83
2003-04	427	136
2002-03	1,032	69

We reviewed claims submitted for both the section 63.1 exclusion from change in ownership and section 69.5 transfer of base year value. We found the assessor is correctly processing all claims and verifying that claimants are qualified. In addition, the assessor is not granting the base year transfer until the original principal residence is sold. In general, the change in ownership program is well administered with the exception of the following recommendation.

**RECOMMENDATION 4:** Maintain a current list of transfers as required by section 408.1.

We found the assessor has discontinued maintaining the public transfer list he formally kept on microfiche at the public counter. Microfiche cards have not been updated since April 2003. The assessor indicated he hopes to make an electronic version of the transfer list available to the public at some future date.

Section 408.1 provides that the assessor shall maintain a list of transfers of any interest in property, other than undivided interests, within the county, which have occurred within the preceding two-year period.

Because San Joaquin County's population exceeded 50,000 people according to the 1970 federal decennial census, pursuant to section 408.1, the county is required to maintain a two-year transfer list accessible to the public. The list must be updated quarterly. The assessor is not providing the public with access to information concerning transfers that occurred in San Joaquin County during 2003 and 2004. The assessor is not complying with statutory provisions.

***New Construction***

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date; or (2) any alteration of land or improvements since the last lien

---

<sup>6</sup> Claims must be filed within three years of the purchase or transfer or prior to the transfer of the real property to a third party, whichever is earlier, or within six months after the date of mailing of a notice of supplemental or escape assessment issued as a result of the transfer.

date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

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

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

### Discovery

Most new construction activity is discovered from building permits. The assessor receives permits monthly from all permit-issuing agencies: the City of Stockton, the other six incorporated cities within the county, the County of San Joaquin, the State of California, and federal agencies such as the Army Corps of Engineers. The County Environmental Health Services Department issues permits for wells and septic systems. While most of the reporting agencies transmit permit information using electronic computer files, some of the smaller municipalities mail copies of permits to the assessor. The assessor requires that all permits include a value estimate and description of the new construction. Plans are mailed to the assessor or picked up by office staff.

Upon receipt of permits from reporting agencies, a data entry specialist in the assessor's information systems section assigns use codes, keys the permit data into the computer system, and forwards this information to the appropriate supervisor for commercial, agricultural, or residential properties. The supervising appraisers review code designations, cull permits for nonassessable new construction and assign the remaining permits and files to appraisers by geographical area. For permits indicating potential business property, the assessor uses a *Leasehold Improvement Communiqué* or, in the case of model homes, a *Subdivision Models Information Sheet* to communicate between the rural/residential and business divisions in order to assure the assessment of new property in a timely manner and to prevent escapes.

The following table shows the volume of new construction enrolled in recent years:

<b>ROLL YEAR</b>	<b>TOTAL NUMBER OF PERMITS RECEIVED</b>	<b>PERMITS RESULTING IN ADDITIONAL VALUE</b>
2003-04	23,119	5,092
2002-03	22,037	4,101
2001-02	18,797	not available
2000-01	19,238	not available

The assessor sends self-reporting questionnaires to taxpayers for all types of real property permits indicating additions or alterations and for whole projects that are generally smaller in scope. When the questionnaires are returned, a property technician prepares a replacement cost estimate of the project and sends the subject file to the responsible appraiser to review and approve. Contact by phone or a field inspection may be initiated if there is no response from the taxpayer to the questionnaire or if inadequate information is received.

The assessor enrolls construction in progress on each lien date at its fair market value. This process continues until the construction is complete, at which time the new construction is assessed at its fair market value as of the date of completion, a base year value is assigned, and supplemental assessments are generated. Notices of completion are sent to the appraisers electronically and trigger the valuation of the completed new construction.

In our 2001 survey, we recommended that the assessor obtain copies of all permits issued by the County Environmental Health Services Department. The assessor has implemented this recommendation.

We reviewed 44 new construction files and found no errors or omissions. We found that the files for these properties were typically comprehensive, including adequate documentation of building permits, construction activity, and resulting valuation. We were able to determine how the final value estimate was derived, and whether the appraiser had relied on the sales, income, or cost approach as the best value indicator.

## Valuation

The staff typically values new residential construction using the market approach. If the replacement cost is considered when valuing new construction that is attached to the original building, the staff usually depreciates the project's estimated replacement cost using a percent good that corresponds to the effective age of the original building following completion of the work. New construction that is not attached to the original building is often valued based on full Replacement Cost New (RCN).

New commercial construction is usually valued by using the cost approach. The market or income approaches are sometimes utilized to confirm the validity of the value estimate indicated by the cost approach. New construction on industrial or agricultural property is ordinarily valued using the cost approach.

### **Declines in Value**

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

San Joaquin County has seen steady increases in property values, particularly among residential properties. Consequently, the number of properties with a full cash value lower than factored base year value has decreased. The table below shows the numbers of such properties during recent years:

<b>ROLL YEAR</b>	<b>NUMBER OF DECLINE IN VALUE ASSESSMENTS</b>
2004-05	2,107
2003-04	2,448
2002-03	3,566
2001-02	15,674
2000-01	31,566

### **Discovery**

The assessor discovers new decline-in-value properties primarily through the individual appraiser's knowledge of property value trends within their assigned areas. The assessor also provides information concerning market declines and requests for property value review on his website and in a brochure available at his public counter. Taxpayers may occasionally request revaluation because they suspect a loss in neighborhood property values, or appraisers may note declining sale prices in their assigned work areas. In such cases, supervisory staff will perform an area evaluation for possible declines in property values.

When taxpayers at the public counter request a revaluation due to a possible decline in value, appraisal staff completes a property value review form for review of the property.

### **Valuation and Tracking**

Previously, the assessor used a computerized regression analysis program to track annual value trends for decline-in-value properties. Value reductions had been applied to all properties of a particular type, as a fixed percentage. Due to the reduced number of properties remaining in decline-in-value status, the assessor discontinued this program. Currently, the assessor's appraisal staff conducts an individual annual review of all properties coded for decline in value.

The assessor's computer system sorts decline-in-value properties by use. For commercial real property, the assessor annually requests income and other information prior to reviewing the declined value.

The assessor's appraisal staff uses an electronic sales comparison database for yearly review of decline-in-value properties. Market values derived from this database can be matched against the factored base year value of the decline-in-value property, with the lower being automatically enrolled.

We examined several decline-in-value property files. In each file, we found evidence of annual review and a list of comparable sales. Values are either maintained (not factored for inflation) or partially or fully restored. We found the assessor correctly informs property owners of any such increases in their property's taxable value. In addition, the assessor correctly values fixtures as a separate appraisal unit.

Although properties with current market values lower than their factored base year values presently make up a small portion of the local roll, the assessor's decline-in-value program is efficient and property files are well documented. We found no problems with the assessors program.

### ***Supplemental Assessments***

Sections 75 through 75.80 mandate supplemental assessments for changes in ownership and the completion of new construction occurring on or after July 1, 1983. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor's computer system automatically processes supplemental assessments when the staff enters new values for changes in ownership or new construction. Supplemental assessments are made and sent as an adjunct to the currently enrolled value or to the assessment roll being prepared. Notices of supplemental assessment are mailed once per month. The assessor then allows 60 days for the taxpayers to appeal their new assessments before enrolling the supplemental assessments and forwarding them to the auditor.

The following table shows the number of supplemental assessments processed by the assessor over recent years:

<b>SUPPLEMENTAL ASSESSMENTS</b>			
Roll Year	Property Type	Number of Supplemental Assessments	Net Value Change
2003-04	Residential	21,704	\$2,116,446,546
	Agricultural	1,518	\$112,217,142
	Comm./Industrial	982	\$361,091,467
	<b>Total</b>	<b>24,204</b>	<b>\$2,589,755,155</b>
2002-03	Residential	21,824	\$1,834,564,422
	Agricultural	1,435	\$115,432,752
	Comm./Industrial	905	\$278,783,943
	<b>Total</b>	<b>24,164</b>	<b>\$2,228,781,117</b>
2001-02	Residential	21,480	\$1,438,256,094
	Agricultural	1,292	\$94,778,730
	Comm./Industrial	903	\$251,989,072
	<b>Total</b>	<b>23,675</b>	<b>\$1,785,023,896</b>
2000-01	Residential	18,447	\$955,172,812
	Agricultural	1,535	\$75,934,993
	Comm./Industrial	897	\$194,569,432
	<b>Total</b>	<b>20,879</b>	<b>\$1,225,677,237</b>

Although the assessor processes a large volume of supplemental assessments in a timely manner, one aspect of his procedures should be changed.

**RECOMMENDATION 5:** Process supplemental assessments for possessory interests.

The assessor does not enroll supplemental assessments for possessory interests (PI's). Section 75.14 provides that all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessment. There are, however, two provisions of law that allow the assessor not to make supplemental assessments. Section 75.5(b) provides that newly created month-to-month possessory interests having a full cash value of \$50,000 or less are excluded from supplemental assessment. Further, section 75.55(b) allows a county board of supervisors to authorize the assessor by ordinance to cancel any supplemental assessment that costs more to process than it generates in revenue, up to a tax amount of \$50.

The assessor's policy excludes all PI's, not just those excluded from supplemental assessment under section 75.5(b). Moreover, the San Joaquin County Board of Supervisors has not adopted an ordinance pursuant to section 75.55(b). Therefore, the assessor's practice of not making

supplemental assessments for PI's is not authorized by law and is in effect an inappropriate exemption from taxation.

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

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

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

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

For the 2004-05 assessment roll, the assessor enrolled 544,488 acres subject to CLCA contracts. This represents about 60 percent of the land area in San Joaquin County. The total assessed value of the CLCA properties on this roll is \$1,019,589,525, including both land and improvements. The acreage under contract has fluctuated only slightly over the last five years. The county also has land subject to Farmland Security Zone contracts (a more restrictive form of the CLCA), including 440 parcels encompassing 61,695 acres.

Most of the acreage subject to CLCA contracts, in San Joaquin County, consists of irrigated field crops, irrigated fruit and nut orchards, and irrigated vineyards. The bulk of the agricultural revenue generated in the county is derived from fruit and nut crops, followed by livestock and poultry products.

The CLCA valuation program in San Joaquin County, which has been in place since 1968, is now fully automated. The appraiser keys in the land rents, production income and levels for various agricultural products, various rates used in the income approach, homesite values, and any adjustment factors that may be needed. The program calculates the restricted values and compares them to the factored base year value and the fair market value for each parcel, enrolling the lowest of the three.

Agricultural income and production questionnaires are mailed annually. Upon receipt, the data are analyzed and various values and rates are estimated for use in the valuation program. For example, the assessor uses a 1 percent risk rate for dry grazing and a 1.5 percent risk rate for row crops, vineyards, orchards, and irrigated pasture. The various estimates include such items as homesite values in various neighborhoods, agricultural land values in various neighborhoods,

production levels and income for various crops in various neighborhoods, risk rates, yield rates, and compatible uses.

We reviewed the county's CLCA contracts and the annual agricultural production/rent questionnaires. We also reviewed the assessor's procedures and practices for the valuation of restricted land and living improvements, unrestricted nonliving improvements, residences and residential sites, and nonrenewal and cancellation calculations. We found no problems with the assessor's CLCA program.

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

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

San Joaquin County has a total of 112 taxable government-owned properties, including parcels owned by a port district, various cities, an irrigation district, and a Bay Area utility district. The total assessed value of taxable government-owned properties on the 2004-05 assessment roll was about \$12,250,000. The total acreage encompassed by these properties is about 5,500 acres, or less than 1 percent of the county area.

The assessor has an efficient program for processing newly acquired taxable government-owned properties. The mapping unit reviews the transfer documents, confirms the taxability of the property, and provides the 1967 assessed value from archived roll information. The property file is then forwarded to the appraiser responsible for the geographic area, who estimates the current fair market value of the property. The appraiser then forwards the property file to the appraiser assigned to this property type, who values the restricted property.

To verify that all properties owned by public agencies are situated outside that agency's boundaries, we reviewed properties assessed as taxable government-owned properties. We also reviewed government-owned properties with a zero roll value to confirm the properties were not located outside that agency's boundaries. We found that the assessor properly handles changes in ownership and new construction on taxable government-owned properties. Also, the assessor properly inventories and assesses taxable government-owned properties by enrolling the lowest of the restricted value, current market value, or factored base year value, and follows proper procedures when establishing base year values.

We found the assessor's taxable government-owned property program to be properly administered.

### **Taxable Possessory Interests**

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

The assessor is responsible for identifying the existence of taxable PI's in the county and valuing those PI's upon a change in ownership or the construction of new improvements on the property.

The San Joaquin County Assessor's program for discovering PI's includes an annual polling of all government entities in the county requesting information on agreements with private parties. Staff annually contacts approximately 70 public agencies by letter or in person to request current information on new or changed tenancies or rents. There are currently 614 taxable PI's assessed in San Joaquin County with a total value exceeding \$260 million. The total taxable value of all PI's represents approximately 0.60 percent of the 2004-05 assessment roll. Possessory interests are assessed on the unsecured roll and are the responsibility of one commercial appraiser.

In our 2001 survey, we recommended the assessor identified the specific agency for properties shown on the roll as "USA" in order to more easily identify any possible taxable PI's that may exist on those properties. The assessor has implemented this recommendation. During our current review, we noted that there are no longer any properties on the roll identified simply as "USA." In our 2001 survey, we also found that the assessor was annually revaluing PI's resulting from month-to-month tenancies, even though the anticipated term used to value these PI's was greater than one year. We recommended the assessor revalue PI's only upon a change in ownership or when a decline in value occurs. The assessor has implemented this recommendation; however, we did find other problems with the PI program.

**RECOMMENDATION 6:** Improve the possessory interest program by: (1) indexing possessory interest assessments when appropriate, and (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

#### **Index possessory interest assessments when appropriate.**

The assessor values month-to-month PI's using an anticipated term of possession, however, these values are not indexed by the inflation factor each year. Instead, the value is held static. These properties are not identified on the roll as experiencing a decline in value.

Section 61(b)(2) provides that the renewal or extension of a taxable PI during the reasonably anticipated term of possession used to value the interest by the assessor does not result in a change in ownership until the end of that reasonably anticipated term of possession. Thus, for example, if a taxable PI is originally valued using a reasonably anticipated term of possession of five years, that interest, even though renewed monthly under a month-to-month tenancy, should not be reappraised until the expiration of the five-year term used to value the interest, assuming

there is no change in tenants. Assuming no decline in value is identified, this value should be indexed by the appropriate inflation factor each year and, at the end of the term, that interest should be reappraised.

The assessor's practice is contrary to statutory provisions.

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

We found that for lien dates subsequent to the initial base year the assessor does not determine the market value of a PI with a stated term of possession. Instead he enrolls the factored base year value until the contractual 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 lesser of the base year value (adjusted annually for inflation by no more than 2 percent) 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 consider the stated term of possession of a PI may overstate its taxable value.

***Leasehold Improvements***

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

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

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

In the San Joaquin County Assessor's Office, the business division relies on business property statements to discover most of the tenant improvements constructed in the county. If the real property appraisers find some potentially assessable leasehold improvements included on a building permit, they use a *Leasehold Improvement Communiqué* to transmit pertinent information to the business division. A clerk in the business division attaches the communiqué to the front of the appropriate business property file for review by an auditor-appraiser.

The property files maintained by the business division are typically well documented, and include any exchanges of information between appraisers and auditor-appraisers. Good communication has resulted in the proper classification and valuation of tenant improvements.

In our 2001 survey, we recommended the assessor supplementally assess all structural improvements reported on schedule B-1 of the business property statement. At that time, we found that some items listed on schedule B-1 were enrolled by the business property staff on the regular (section 601) roll but not also on the supplemental tax roll.

Because of the way the assessor's computer system is configured, processing supplemental assessments for tenant improvements is a more difficult procedure than is required for issuing supplemental assessments for other types of real property. As a result, these supplemental assessments have not been processed consistently. The chief of valuation for commercial and industrial properties is aware of the problem, and has recently taken on the responsibility of reviewing the valuations of all new tenant improvements. As part of his review, he is manually processing supplemental assessments for structural improvements. As a result, we are not repeating our prior recommendation.

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

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

#### **Private Water Companies Regulated by the California Public Utilities Commission**

Private water companies are privately owned utilities in business to earn a profit from the sale of water. This type of water company is subject to regulation by the California Public Utilities Commission (CPUC) and must submit annual reports to the CPUC. The CPUC regulates the rates charged by private water companies, limiting profits to a return on the company's unamortized investment in plant and equipment. Because the earning ability of a regulated private water company is tied to this "rate base," the current market value of water company properties may be affected by this restriction on earning capacity.

In San Joaquin County, the assessor is assessing property owned by one water company regulated by the CPUC. The assessor annually receives a copy of the annual report required by and submitted to the CPUC from the regulated water company. The assessor uses this information to develop a current market value estimate for the property based on historical cost less depreciation (HCLD). He determines both the current market value and the factored base year value and enrolls the lower of the two as the assessed value.

Section 51(a) requires that real property shall be assessed on each lien date at the lower of its factored base year value or its full cash value as defined in section 110. In addition, Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, discusses the effect of regulation on market value. Because the income of private water companies is regulated, the market value of the real property is generally lower than the factored base year value.

The CPUC reports contain the data necessary for developing an income approach and a value indicator based on HCLD. HCLD is usually the best indicator of current market value for property owned by rate-based utilities. Also, without this information, assessments may not reflect ongoing property changes, possibly resulting in escaped new construction.

In our 2001 survey, we found that the assessor annually reviewed the value of the property owned by the subject water company but did not consider the income approach. We found that this is still the practice; however, the income approach is also based on data from the CPUC report and is therefore considered unnecessary. The assessor instead relies on the HCLD indicator as the best estimate of market value for the water system. We found no problems in the assessment of properties owned by this private water company.

### Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to land, improvement, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels.

Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, provides that an appraiser or auditor-appraiser should review a mutual company's annual property statement and gather as much information as possible to determine the most appropriate method(s) of valuation. The full cash value of property owned by a mutual water company may not be reflected in the value of the land to which shares in the company are attached. For example, a company may retain some shares and the right to the water they represent. This water may be sold to customers outside the mutual service area, thus generating income and additional value in the company that is not accounted for in the value of property owned by the shareholders.

Further, the value of the shareholders' equity interests in a mutual water company association may not be equivalent to the fee value of the association's property. This may occur if the association has borrowed money to acquire the property, thereby reducing the owners' equity in their properties by the amount of the loans. In this situation, the sales prices of the served land will include only the reduced value of the equity interest in the mutual water company and not its fee value. If the staff is not aware of such debt, some of the water company's property may escape assessment.

We reviewed a listing of water companies inspected by both the state and the county's environmental health department. In each case, the water company's property appears to be valued correctly.

### ***Mineral Property***

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

The mineral property roll is \$66,080,285. There are 126 taxable mineral properties. This includes petroleum and mining properties.

A mineral property consultant appraises petroleum properties located in the county. We found no problems with his assessment program for petroleum properties. However, we did find a problem with the assessment of mining properties.

**RECOMMENDATION 7:** Assess mining properties pursuant to Rule 469.

The assessor does not make adjustments to the reserves for other than depletion. Over the economic life of a mineral property, estimates of reserves will change. These changes are the result of depletion, new discoveries, and changes in economics.

Rule 469(e)(2)(A) provides that the assessor annually determine reserves and their current market value so that the value of additions or deletions unrelated to depletion can be added to the adjusted base year value. Accurate reserve determinations are critical to ensure the property is correctly assessed. After determining the current reserves of the property, changes for other than depletion should be made to the adjusted base year value according to the procedure laid out in Rule 469(e)(1)(B). There is no documentation in the appraisal record to indicate that the assessor reviewed the reserve estimates, and determined the current market value of these reserves.

Taxpayers are required to annually file production reports with the assessor detailing the current reserves estimates, the amount of minerals produced and sold, and the operating costs. This is a good source of information for the assessor to check his reserve estimates with those of the taxpayer estimates. The assessor is not required to use the taxpayer's information; however if the assessor questions the reliability of the data or chooses to ignore it, the assessor should document that decision in the appraisal file.

The assessor is only adjusting for reserve estimate for production in the prior year. There is no documentation in the appraisal file reconciling the differences in assessor's reserve estimates and those reported by the taxpayer. In the latest report filed by the taxpayer, the taxpayer specifically notes that there was a change in reserves attributable to a reevaluation of the geologic information available and the assessor had no comments on this information.

### **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.<sup>7</sup> The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

San Joaquin County has six right-of-way pipeline assessments on the local roll with a total assessed value of \$2,504,625. All the pipeline rights-of-way are valued by one real property appraiser. The assessor maintains a separate base year value for each separate right-of-way interest, but assesses each taxpayer's intercounty pipeline rights-of-way to a single countywide parcel pursuant to section 401.8(a).

We checked the current roll values and confirmed that the values have been correctly factored from their 1975 base year. Each individual pipeline right-of-way receives a separate base year assessment. Additionally, each pipeline assessee files reports with the assessor either on Form BOE-571-RW, *Right-of-Way Property Statement*, or Form BOE-571-P, *Pipeline Property Statement*, pursuant to section 441.

The assessor properly administers his right-of-way assessment program.

---

<sup>7</sup> *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4<sup>th</sup> 42.

## **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.

### ***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 assessor has a total workload of 994 mandatory audit accounts, or an average of about 250 audits per year. The following table shows the assessor's audit workload for recent years:

Roll Year	2004-05	2003-04	2002-03	2001-02	2000-01
<b>Audits Scheduled Per Year:</b>					
Mandatory	244	247	238	297	247
Nonmandatory	5	4	2	9	3
<b>Total Audits Scheduled</b>	249	251	240	306	250
Audits Carried Over from prior year	27	18	29	14*	36
<b>Total Audit Workload</b>	276	269	269	320	286
<b>Audits Completed:</b>					
Mandatory	242	239	245	286	253
Nonmandatory	6	3	6	5	15
<b>Total Audits Completed</b>	248	242	251	291	268
<b>Audits Carried Forward:</b>					
Mandatory	28	26	18	25	14
Nonmandatory	0	1	0	4	4
<b>Total Audits Carried Forward</b>	28	27	18	29	18

\* Cancelled four nonmandatory audits in 2000 that were scheduled 1999.

We noted only one area for improvement in the assessor's audit program. This involves the assessor's failure to enroll small roll corrections and escapes resulting from an audit, which has been discussed under the topic of Assessment Roll Changes.

### 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.

There were six nonmandatory audits completed for fiscal year 2003. Over 35 such audits have been performed over the past 5 years. Although this is a relatively small number, the assessor is under no obligation to perform nonmandatory audits. We found that the completed nonmandatory audits to be in order and well documented.

### Audit Quality

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

analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

**Business Property Statement Program**

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

We reviewed the assessor's business property statement program, including written procedures, methods of discovery, use of BOE-prescribed forms, processing by noncertified staff, taxpayer interactions, completeness of the property statements, application of penalties, real property division coordination, direct billing, record storage, and retention.

**Workload**

The following tables show the assessor's total workload of property statements for the assessment rolls of recent years:

YEAR	COUNT	SECURED VALUE	UNSECURED VALUE	TOTAL VALUE
2004-05	32,908	\$1,823,119,629	\$2,279,529,630	\$4,102,649,259
2003-04	32,959	\$1,876,519,662	\$2,081,626,812	\$3,958,146,474
2002-03	32,855	\$1,855,678,148	\$2,041,797,953	\$3,897,476,101
2001-02	31,575	\$1,855,261,170	\$1,897,095,925	\$3,752,357,095
2000-01	31,717	\$1,788,878,253	\$1,776,668,227	\$3,565,546,480

**Discovery**

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate, current listings of assessable business properties. The assessor's sources of discovery are building permits, business licenses, business directories, phone directories, Form BOE-0600-B, *Schedule of Leased Equipment*, and tenant information from landlords. The assessor also maintains a list of taxpayers that have multiple penal assessments due to chronic failure to file the business property statements. These taxpayers are contacted as part of staff's fieldwork assignments.

We found the assessor's discovery process to be adequate.

## Direct Billing

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

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

In San Joaquin County, there are nearly 3,800 direct billing accounts on the 2004-05 assessment roll. This represents nearly 12 percent of 33,000 business property accounts processed and enrolled for that year.

The assessor's guidelines for direct billings are: (1) the cost of assets must be under \$100,000; (2) no multiple accounts; (3) consistent filings for the past two years; (4) no apartment, leased buildings, or a leasing or vending equipment account; and (5) the taxpayer is scheduled to receive a property statement every four years. Taxpayers are removed from the direct billing program if they fail to file in the fourth year, if the cost of assets exceeds \$100,000, or if, in the opinion of the auditor-appraiser, it is warranted. We reviewed a sample of direct billing accounts and did not find any problems with the program.

## **Business Equipment Valuation**

### Commercial, Industrial, and Agricultural Equipment

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

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

We disagree with the assessor's use of BOE's published value factors, as well as two other aspects of his valuation of business property.

**RECOMMENDATION 8:** Revise business equipment valuation procedures by: (1) using Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; (2) recognizing and enrolling fixed machinery and equipment as fixtures; and (3) properly assessing personal property in apartment complexes.

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

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment (pagers, facsimile equipment, and photocopiers) that CAA recommends should not be trended.

Beginning with the 2003 lien date, section 401.16 was added to prohibit assessors from employing minimum percent good factors that are determined in an unsupported manner. The assessor's use of the CAA-recommended untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, is not supported by a study.

**Recognize and enroll fixed machinery and equipment as fixtures.**

In San Joaquin County, all machinery and equipment reported on Schedule A of the business property statement (BPS) are assessed as personal property. The staff does not attempt to reclassify any of the machinery and equipment as real property (fixtures).

Machinery and equipment costs reported on Schedule A of the BPS may represent either personalty or fixtures or both. A fixture is an item of tangible property that was originally personalty, but is now classified as realty for property tax purposes. Fixtures become physically or constructively annexed to realty with the intent that they remain annexed indefinitely.

Classification is an important element of the local assessment function for several reasons. Principally, it is important because property tax law requires the assessment roll to show separate values for land, improvements (including fixtures), and/or personal property. It is also significant because of the following differences between real property and personal property: (1) only real property receives special assessments; (2) real property has a base year value; (3) personal property is appraised annually at market value; and (4) fixtures are a separate appraisal unit when measuring declines in value. Rules 122.5 and 124 provide specific guidance on how to classify items as fixtures or structural improvements.

The assessor's practice may result in erroneous valuations of fixed equipment.

**Properly assess personal property in apartment complexes.**

The San Joaquin County Assessor uses a fixed amount per living unit to value apartment personal property instead of relying on costs reported in property statements. When the statements are returned, they are forwarded to the rural and residential division. A real property

appraiser verifies the reported costs on the statement with the personal property assessment of the apartment units. After review, the statements are placed in the real property files.

The appraiser's estimate of personal property in the apartment units is based on experience, comparison with other apartments, and the allocated sale price of the subject property. Those apartment units that have an aggregate personal property cost of less than \$100,000 are assessed through the direct billing program.

Landlord-owned personal property in apartment complexes used in the course of a business is taxable, qualifying neither as household effects and furnishings under section 224 and Rule 134 or as business inventory under section 129 and Rule 133. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, exercise equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, draperies, and common area furniture.

Information supplied on Form BOE-576-R, *Apartment House Property Statement*, should be the starting point for the assessment of apartment personal property. Because the historical information on the property statement will reflect variations in the age, quality, and quantity of personal property from one apartment property to the next, using this information to develop a current value estimate will be more accurate and equitable than using a fixed amount per apartment unit or an arbitrary value allocation.

The assessor's practice may result in inaccurate valuations of personal property in apartments.

### **Computer Valuation**

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer and related equipment. In AH 581, Table 6: Computer Valuation Factors, the BOE provides valuation factors for use when valuing computer and related equipment.

The San Joaquin County Assessor's Business Property Division properly uses the valuation factors provided by the BOE in their valuation of non-production computers and related equipment.

### ***Leased Equipment***

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

Assesseees are required to report all leased property (taxable property in their possession but belonging to others) on their annual property statement. Assesseees are required to provide the

type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address.

In our 2001 survey, we recommended that the Form BOE-600-B, *Schedule of Leased Equipment*, be reviewed to discover assessable property. We found that the assessor does review the reports and makes assessments when appropriate.

Annual property statements for the ten leased equipment files we reviewed contained the required information. The assessor has adequate procedures for tracking and cross-checking leased equipment.

**Manufactured Homes**

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

The assessor's secured roll for 2004-05 included 3,045 manufactured homes with a total value of \$84,651,869. The assessor correctly enrolls manufactured homes on the secured roll and classifies them as personal property. Parcel numbers in the "700" series are used to identify manufactured homes in San Joaquin County. The table below lists categories of manufactured homes included on the 2004-05 roll:

TYPE ENROLLED	NUMBER OF MANUFACTURED HOMES
Located in manufactured home parks (approximately 100 manufactured home parks)	1,914
Located on fee land	1,091
On approved foundation	40

**Discovery**

The assessor has assigned countywide discovery and valuation of manufactured homes to one staff appraiser. The assessor discovers new manufactured homes and transfers of manufactured homes primarily through periodic lists provided by the Department of Housing and Community Development (HCD). In addition, he investigates building permits; dealers' *Reports of Sale*; HCD forms *Notice of Manufactured Home (Mobilehome) or Commercial Coach Installation on a Foundation System*, 433(A), and *Notice to Assessor* (of installation on a foundation system), 433(B); and certificates of occupancy.

The assessor also sends a *questionnaire* to owners of recently transferred manufactured homes, which aids in the discovery of taxable manufactured home accessories, such as awnings, carports, and porches.

We examined records of manufactured homes placed on permanent foundation. We found the assessor's manufactured home *property* records contained the required documentation, including change of ownership statements showing the manufactured home owner also owned the land or had obtained a long-term lease, forms HCD 433(A) and 433(B) permit information, and certificates of occupancy.

## Valuation

The assessor's primary valuation tool is *the N.A.D.A. Mobile/Manufactured Housing Appraisal Guide* (NADA), accessed in electronic format. All files contained NADA guide evaluations. Sale prices were enrolled as full cash value only when they approximated the NADA guide values. Because he considers NADA guide value recommendations, the assessor has ensured that he excludes value attributable only to the location of the manufactured home.

Although the assessor has no specific *study* to support declines in market values of manufactured homes, he has placed many manufactured homes in decline-in-value status. The assessor determined that, since many of these are older manufactured homes in poor condition, applying the inflation factor would result in values higher than those recommended in the NADA guide. The assessor routinely reviews manufactured homes having declining values. According to appraisal staff, NADA and market values are currently increasing for manufactured homes and many will soon be removed from decline-in-value status. Our review of manufactured home file documentation showed NADA guide reviews had been done prior to placing manufactured homes on decline-in-value status.

We also found the assessor correctly *applies* supplemental assessments for manufactured homes sold new, but does not issue them when a manufactured home is voluntarily converted from vehicle license fee to local property tax, or moved into San Joaquin County from another county or from another state.

We found the assessor's *manufactured* home program to be well documented and carefully administered.

## **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 general 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 following table summarizes the number and assessed value of the general aircraft (aircraft) in San Joaquin County for recent years:

ROLL YEAR	NO. OF AIRCRAFT	ASSESSED VALUE
2004-05	305	\$192,636,251
2003-04	292	\$70,811,329
2002-03	301	\$90,464,472
2001-02	317	\$70,827,236
2000-01	298	\$34,933,639

The total assessed value of more than \$192 million for the 2004 assessment roll represents a 272 percent increase from the previous year.

There are two changes to the assessor's general aircraft assessment procedures that would be beneficial.

**RECOMMENDATION 9:** Revise the general aircraft assessment program by: (1) adding sales tax to the acquisition cost of aircraft, and (2) filing the annual report required by section 5366.

**Add sales tax to the acquisition cost of general aircraft.**

The assessor does not add a sales tax component to the estimated values indicated by the guide values, which do not include sales tax.

Where price is the basis of value, sales/use tax, freight, and installation cost are elements of that value, and should be included in the estimate of market value. This principle has been confirmed by a higher court.<sup>8</sup> Furthermore, Rule 10(b) provides that, for assessment purposes, cost is the full economic cost, which includes all market costs, both direct and indirect, including sales tax or use tax.

The assessor's practice understates the market value of general aircraft.

---

<sup>8</sup> *Xerox Corp. v Orange County* (1977) 66 Cal. App.3d 746.

**File the annual report required by section 5366.**

The assessor does not submit the required aircraft data report to the California Department of Transportation.

Section 5366 requires the assessor to submit to the California Department of Transportation, Division of Aeronautics, by July 1 of each year a list of names and addresses of owners; make, model, and aircraft registration number; and assessed values of all aircraft that were using airports in the county as a base.

**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.

There were no certificated aircraft enrolled on the 2004 assessment roll submitted to the county auditor's office. However, there were two certificated aircraft accounts that had recently been set up by the assessor and were awaiting assessment at the time of fieldwork for this survey. Because the assessor had not yet valued these aircraft, we cannot comment on his methodology.

**Historical Aircraft**

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

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

There were 13 historical aircraft assessed on the 2004-05 roll in San Joaquin County with a total value of more than \$900,000. The assessor has properly obtained a signed affidavit for the historical aircraft exemption pursuant to section 220.5(c). However, we noted one area for improvement.

**RECOMMENDATION 10:** Correctly enroll the assessed value of historical aircraft.

In San Joaquin County, the regular assessment roll for 2004 shows zero value opposite the historical aircraft assessment numbers.

Under section 602, the local roll is required to have the following: (a) name and address of the assessee, if known; (b) land; (c) description of possessory interest and its assessed value; (d) personal property and its assessed value; (e) assessed value of real estate; (f) assessed value of improvements; (g) assessed value of improvements on real estate; (h) situs address; (i) total taxable value of all property assessed; and (j) any other things required by the board.

Section 602(d) specifically requires that the (regular) 601 assessment roll have among its contents the assessed value of personal property. Not including the assessed value on the roll is contrary to law.

**Vessels**

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

The following table summarizes pleasure vessel assessments for recent years in San Joaquin County:

YEAR	PLEASURE VESSELS		DOCUMENTED VESSELS	
	NUMBER	ASSESSED VALUE	NUMBER	ASSESSED VALUE
2004-05	10,493	\$133,790,656	6	\$5,059
2003-04	10,211	\$127,862,003	8	\$5,951
2002-03	9,755	\$116,162,781	8	\$2,764
2001-02	9,565	\$106,681,769	7	\$2,756
2000-01	9,677	\$100,044,483	9	\$3,543

Vessels entering the county are assessed based on reported purchase price, DMV values, *N.A.D.A. Marine Appraisal Guide*, *ABOS Marine Blue Book*, or the *BUC Used Boat Guide*. Trends in market values for all other vessels are categorized into cruisers, sail boats, runabouts, houseboats, and jet skis. Samples from the *N.A.D.A. Marine Appraisal Guide* and *ABOS Marine Blue Book* are used to determine the depreciation percentage for each category.

In our 2001 survey, we recommended that the assessor require owners of vessels costing \$100,000 or more to annually file Form BOE-576-D, *Vessel Property Statement*. Subsequently, the assessor implemented our recommendation. In our current survey fieldwork, we found only one practice that should be revised.

**RECOMMENDATION 11:** Accept only signed *Vessel Property Statements*.

We found several instances where the *Vessel Property Statement*, Form BOE-576-D, was submitted unsigned, but was accepted by the assessor.

Rule 172(a) requires that all property statements prescribed by the BOE and filed with the assessor, be signed by the assessee, a duly appointed fiduciary, or an agent. Rule 172(d) prohibits the assessor from knowingly accepting property statements that are not executed in accordance with the requirements of that rule. Rule 172(e) further explains that an unsigned property statement does not constitute a valid filing and that the penalty imposed by section 463 for failure to file shall be applicable to unsigned property statements.

Accepting unsigned *Vessel Property Statements* is contrary to existing law.

**Animals**

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and by Rule 133.

Show horses are one of a few types of animals subject to property taxation. Show horses (and other nonexempt horses) are assessed in the same manner as any other personal property.

The assessor has enrolled 181 active show horse accounts. He annually sends a *Registered and Show Horse Statement* (Form BOE-571-F2) to the owners of these horses. The eight largest stables in the county maintain 81 show horses, with the remaining accounts representing approximately 100 additional horses. Our review indicates there are also three riding and teaching stables in the county. Instructional horses are assessed at minimum value due to age and condition. There are no other taxable animals in the county.

We reviewed the procedures for assessing taxable horses and found that the program is being administered correctly. We found no problems with the assessor's animal assessment program.

## APPENDIXES

### A. County Property Tax Division Survey Group

#### San Joaquin County Assessment Practices Survey

*Chief, County Property Tax Division*

Mickie Stuckey

*Survey Program Director:*

Arnold Fong

Principal Property Appraiser

*Survey Team Supervisor:*

Peter Gaffney

Supervising Property Appraiser

*Survey Team Leader:*

Dale Peterson

Senior Specialist Property Auditor-Appraiser

*Survey Team:*

Jim McCarthy

Senior Petroleum and Mining Appraisal Engineer

Sally Boeck

Senior Specialist Property Appraiser

Glenn Danley

Senior Specialist Property Appraiser

Wesley Hill

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Kim Trotto

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Dave Barbeiro

Associate Property Auditor-Appraiser

Manny Garcia

Associate Property Auditor-Appraiser

Larry Gee

Associate Property Auditor-Appraiser

Erica Fisher

Office Technician

### **B. Assessment Sampling Program**

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing<sup>9</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>10</sup>

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

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

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

---

<sup>9</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>10</sup> The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **C. Relevant Statutes and Regulations**

#### **Government Code**

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

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

##### **15641. Audit of Records; Appraisal Data Not Public.**

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

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

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

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

**15642. Research by board employees.**

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

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

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

**15644. Recommendations by board.**

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

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

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

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

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

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

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

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

## Revenue and Taxation Code

### 75.60. Allocation for administration.

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

(b) For purposes of this section:

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

**Title 18, California Code of Regulations**

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

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

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

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

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

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

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

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

**Rule 371. Significant assessment problems.**

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

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

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

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

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

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

## **ASSESSOR'S RESPONSE TO BOE'S FINDINGS**

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

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



Gary W. Freeman  
San Joaquin County  
Assessor – Recorder – County Clerk

24 South Hunter Street, Stockton, CA 95202-3273

Assessor (209) 468-2630 FAX (209) 468-0422

Recorder – Clerk (209) 468-3939

David Leonard  
Assistant Assessor

Robert Andersen  
Chief of Valuation  
Rural/Residential

Debra Wilson  
Chief of Standards

Kenneth Blakemore  
Chief of Valuation  
Commercial/Industrial

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

RECEIVED

MAR 17 2006

County Property Tax Division  
State Board of Equalization

Dear Ms. Stuckey:

In accordance with Section 15645 of the Government Code, this is my official response to the Assessment Practices Survey for San Joaquin County. Please include my response in your final published report.

I would like to thank Pete Gaffney and his staff for the professional manner in which the Survey was conducted.

I believe the State's Report reflects the hard work and dedication my staff provides to the citizens of San Joaquin County. We strive to provide a fair, accurate and equitable assessment roll. I am in agreement with most of the Board's recommendations; however, there are some that I feel are unrealistic to implement with the current level of resources available to my office.

The Board states in their introduction to the survey "the State has both a public policy interest and financial interest in promoting fair and equitable assessments throughout California"; however, the survey fails to address if there are sufficient resources for the assessor to perform the vast duties required by law. **The most significant recommendation in the survey should be to properly fund the property tax program.**

Since the report was written, the State of California has decided to cut funding for 11.5 positions in my office by eliminating the Property Tax Administration Program. As a result of this lost revenue, I am currently analyzing what programs to trim or cut. Elimination of this funding will likely create the need for the Board of Equalization to write more recommendations in our next survey. This action by our state government does not promote fair and equitable assessments and is fiscally irresponsible.

The number one issue facing assessors throughout the state is the need to provide adequate funding for our offices. It is hoped the elected Board will partner with the assessors to address this critical issue.

Sincerely,

Gary W. Freeman  
San Joaquin County Assessor-Recorder-Clerk