

SAN JOAQUIN COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2017

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2017/056

December 27, 2017

TO COUNTY ASSESSORS:

**SAN JOAQUIN COUNTY
ASSESSMENT PRACTICES SURVEY**

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

Mr. Bestolarides 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.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

TABLE OF CONTENTS

INTRODUCTION.....	1
OBJECTIVE	2
SCOPE AND METHODOLOGY	2
EXECUTIVE SUMMARY	4
OVERVIEW OF SAN JOAQUIN COUNTY	5
FINDINGS AND RECOMMENDATIONS	6
ADMINISTRATION	8
EXEMPTIONS	8
ASSESSMENT OF REAL PROPERTY	11
CHANGE IN OWNERSHIP.....	11
CALIFORNIA LAND CONSERVATION ACT PROPERTY.....	12
TAXABLE POSSESSORY INTERESTS	14
MINERAL PROPERTY	16
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....	18
AUDIT PROGRAM	18
BUSINESS EQUIPMENT VALUATION	19
MANUFACTURED HOMES	20
AIRCRAFT	21
APPENDIX A: STATISTICAL DATA	23
TABLE 1: ASSESSMENT ROLL	23
TABLE 2: CHANGE IN ASSESSED VALUES.....	23
TABLE 3: GROSS BUDGET AND STAFFING	24
TABLE 4: ASSESSMENT APPEALS	24
TABLE 5: EXEMPTIONS – WELFARE	25
TABLE 6: CHANGE IN OWNERSHIP	25
TABLE 7: NEW CONSTRUCTION	26
TABLE 8: DECLINES IN VALUE	26
APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP	27
APPENDIX C: RELEVANT STATUTES AND REGULATIONS	28
ASSESSOR'S RESPONSE TO BOE'S FINDINGS	29

INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of specified county assessors' offices. This report reflects the BOE's findings in its current survey of the San Joaquin County Assessor/Recorder/Clerk's Office.¹

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, and the Senate and Assembly; and to the San Joaquin County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Steve Bestolarides, 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 Appendixes.

¹ This report covers only the assessment functions of the office.

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."² The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

The objective of the survey program is to promote statewide uniformity and consistency in property tax assessment, review each specified county's property assessment practices and procedures, and publishing an assessment practices survey report. Every assessor is required to identify and assess all properties located within the county – unless specifically exempt – and maintain a database or "roll" of the properties and their assessed values. If the assessor's roll meets state requirements, the county is allowed to recapture some administrative costs.

SCOPE AND METHODOLOGY

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.

Pursuant to Revenue and Taxation Code³ 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.

This survey examined the assessment practices of the San Joaquin County Assessor's Office for the 2015-16 assessment roll. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.

Our survey methodology of the San Joaquin County Assessor/Recorder/Clerk's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in San Joaquin County who provided information relevant to the property tax assessment program.

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, available on the BOE's website at

² Government Code section 15642.

³ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

<http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf>. In addition, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

We conducted reviews of the following areas:

- Administration

We reviewed the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, assessment appeals, and welfare exemptions.

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property.

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, aircraft assessments, and vessel assessments.

EXECUTIVE SUMMARY

We examined the assessment practices of the San Joaquin County Assessor's Office for the 2015-16 assessment roll. 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.

In the area of administration, the assessor is effectively managing staffing and workload and assessment appeals. However, we made recommendations for improvement in the welfare exemptions program.

In the area of real property assessment, the assessor has effective programs for new construction and declines in value. However, we made recommendations for improvement in the change in ownership, California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property programs.

In the area of personal property and fixtures assessment, the assessor has effective programs for processing business property statements and assessing vessels. However, we made recommendations for improvement in the audit, business equipment valuation, manufactured homes, and aircraft programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly, and that the overall quality of the assessment roll meets state standards.

We found no significant assessment problems as defined in Rule 371. Since San Joaquin County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, San Joaquin County continues to be eligible for recovery of costs associated with administering supplemental assessments.

OVERVIEW OF SAN JOAQUIN COUNTY

San Joaquin County is located in the heart of California's Central Valley. The county encompasses a total area of 1,391.32 square miles. San Joaquin County is bordered by Sacramento County to the north, Amador and Calaveras Counties on the east, Stanislaus County to the south, and Contra Costa and Alameda Counties to the west.



San Joaquin County was established by the California Legislature in 1850 as one of the original 27 counties. At the time of this survey, San Joaquin had a population of 726,106. There are seven incorporated cities in San Joaquin County. Those cities include Escalon, Lathrop, Lodi, Manteca, Ripon, Stockton (the county seat), and Tracy.

San Joaquin County's total assessment roll value ranks 19th among the 58 California counties for the 2015-16 assessment year.⁴

⁴ Statistics provided by California State Board of Equalization Annual Report, Table 7 – Assessed Value of County-Assessed Property Subject to General Property Taxes.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the San Joaquin County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

RECOMMENDATION 1:	Improve the administration of welfare exemption program by: (1) consistently notifying claimants when a property is denied or when a portion of the property is denied the welfare exemption, and (2) properly applying late-filing provisions for welfare exemption claims that are not filed timely.	9
RECOMMENDATION 2:	Properly implement the penalty process in accordance with section 482(b).	12
RECOMMENDATION 3:	Improve the CLCA property program by: (1) including all compatible use income generated on the property when determining restricted value, and (2) properly allocating restricted value between land and living improvements.	13
RECOMMENDATION 4:	Improve the taxable possessory interest program by: (1) obtaining current copies of all lease agreements or permits for taxable possessory interests, and (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.	15
RECOMMENDATION 5:	Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.	16
RECOMMENDATION 6:	Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, and (2) using a comprehensive audit checklist as a standard component of all audits.	18
RECOMMENDATION 7:	Value structural improvements reported on the BPS in the same manner as other real property structures.	20
RECOMMENDATION 8:	Provide evidence of the installation of a manufactured home on an approved foundation system.	20

RECOMMENDATION 9: Require certificates of attendance signed by the event coordinator when granting historical aircraft exemptions pursuant to section 220.5(b)(3).21

ADMINISTRATION

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.⁵

Our review of the assessor's exemptions program focused on the welfare exemption.

Welfare Exemption

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

The welfare exemption is co-administered by the BOE and county assessors.⁶ The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

In San Joaquin County, the exemptions program is administered by four staff members; the exemption supervisor and three support staff.

⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Exemptions*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf. In addition, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

⁶ Effective July 1, 2017, Assembly Bill 102, the Taxpayer Transparency and Fairness Act of 2017, restructured the BOE into three separate agencies: BOE, California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals. The welfare exemption function of determining an organization's eligibility for an OCC/SCC is part of CDTFA.

We reviewed several welfare exemption claims and found areas where improvement is needed.

RECOMMENDATION 1: Improve the administration of welfare exemption program by: (1) consistently notifying claimants when a property is denied or when a portion of the property is denied the welfare exemption, and (2) properly applying late-filing provisions for welfare exemption claims that are not filed timely.

Consistently notify claimants when a property is denied or when a portion of the property is denied the welfare exemption.

We found that the assessor does not consistently notify claimants when a property is denied or a portion of a property is denied the welfare exemption. A finding sheet, such as BOE-267-F *Welfare or Veterans' Organization Exemption Assessor's Finding On Qualification Of Property Use*, can serve as proper notification to the claimant when a property is denied the exemption or a portion of the exemption.

Section 254.5(c)(2) provides that if the assessor finds the claimant's property ineligible for the welfare exemption, the assessor must notify the claimant in writing of that finding. The assessor must also provide notification that if the claimant disagrees with the findings, the organization may seek a refund of property taxes by filing a claim for refund with the county board of supervisors and if the claim for refund is denied, the organization may then file suit in superior court.

By not issuing a finding sheet notifying claimants when a property is denied the exemption or a portion of the exemption, the assessor is not providing proper notification to the claimant.

Properly apply late-filing provisions for welfare exemption claims that are not filed timely.

We found instances where the assessor exceeded the \$250 maximum for penalty and interest for welfare exemption claims that were not filed timely. In these instances, the assessor either allowed an 85 percent exemption or allowed the full exemption less \$25,000, both resulting in penalties greater than the \$250 maximum. At a one percent tax rate, a \$25,000 net assessment amounts to a \$250 penalty. However, in almost all cases, the total tax rate is greater than one percent. For example, in one of the years in which a claim was filed late, the tax rate was 1.2098 percent, resulting in a penalty of \$303 rather than the \$250 maximum.

Section 255(a) provides that annual claims for the welfare exemption must be filed with the assessor between January 1 and 5 p.m. on February 15. Section 270 states that 90 percent of any tax, penalty, or interest shall be cancelled or refunded if the claim is filed on or before January 1 of the next calendar year. If a claim is filed with the assessor after January 1 of the next calendar year, then 85 percent of any tax, penalty, or interest shall be cancelled or refunded. However, section 270(b) provides that any tax, penalty, or interest may not exceed \$250.

Further, section 271(a) provides that a welfare exemption claim filed on property acquired after the lien date is considered filed timely if filed within 90 days from the first day of the month following the month in which the property was acquired or by February 15 of the following calendar year, whichever occurs earlier. If the claimant does not file within the prescribed time

period, but files later, then 85 percent of any tax, penalty, or interest is cancelled or refunded. In addition, section 271(c) provides that any tax, penalty, or interest imposed may not exceed \$250.

By not properly applying late-filing provisions on welfare exemption claims, the assessor may be exceeding the maximum penalty allowed by statute.

ASSESSMENT OF REAL PROPERTY

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.⁷

Legal Entity Ownership Program (LEOP)

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

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property.⁸ On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

⁷ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

⁸ Effective July 1, 2017, Assembly Bill 102, the Taxpayer Transparency and Fairness Act of 2017, restructuring the BOE into three separate agencies: BOE, California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals. The LEOP function of determining changes in ownership for legal entities is part of CDTFA.

The assessor discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, business property statements, information provided by taxpayers, newspaper publications, and online resources.

We reviewed several properties involving a change in control or ownership and found an area in need of improvement.

RECOMMENDATION 2: Properly implement the penalty process in accordance with section 482(b).

We found several instances where penalties were not applied when an entity failed to file a BOE-100-B or filed a BOE-100-B late, even though the assessor had been notified by the BOE's LEOP section to apply the penalty.

Sections 480.1 and 480.2 require the filing of a signed BOE-100-B whenever a legal entity has undergone a change in control or ownership. Section 482(b) provides that if a person or legal entity fails to file a BOE-100-B within 90 days of a change in control or ownership or within 90 days of a written request from the BOE, whichever occurred earlier, a 10 percent penalty shall be applied.

The BOE provides the assessor with several reports, as well as copies of BOE-100-Bs, indicating whether a penalty applies. The assessor should review these reports and the BOE-100-Bs to identify entities with late-filings or failures to file and apply penalties accordingly. By failing to apply the required section 482(b) penalty, the assessor is not following statutory requirements.

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 CLCA 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, such as hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.⁹

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate the allowable cash expenses (except

⁹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/clca_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses, such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents, and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

For the 2015-16 roll year, San Joaquin County had 6,128 parcels totaling approximately 507,370 acres encumbered by CLCA contracts, and 486 parcels totaling 62,619 acres restricted under the Farmland Security Zone (FSZ), which is a more restrictive form of the CLCA contract. No contracts were cancelled since our prior survey. The total assessed value for restricted land and living improvements for the 2015-16 roll year was approximately \$2.8 billion.

We reviewed several CLCA and FSZ properties and found the assessor's procedures comply with most applicable statutes. However, we found two areas where improvement is needed.

RECOMMENDATION 3: Improve the CLCA property program by:
(1) including all compatible use income generated on the property when determining restricted value, and
(2) properly allocating restricted value between land and living improvements.

Include all compatible use income generated on the property when determining restricted value.

After reviewing several properties under CLCA contract, we found that the assessor is not recognizing all of the income generated by some of these properties. In particular, the assessor is not recognizing income generated from cell tower sites on lands subject to a Williamson Act contract.

Even though property encumbered by a CLCA contract is assessed on the basis of its agricultural income-producing ability, this must also include, if present, any compatible use income. Most CLCA contracts allow some uses of the property that are not agricultural in nature but are deemed compatible with agricultural use; such uses are called "compatible uses" of the land. In defining the income to be capitalized, section 423(a)(3) provides that revenue shall be the amount of money that the land can be expected to yield to an owner-operator from any use of the land permitted under the terms by which the land is enforceably restricted. The income to be

capitalized should include the net income being obtained from any compatible uses of the agricultural land.

By not including cell tower compatible use income in the valuation process, the assessor is undervaluing open-space properties.

Properly allocate restricted value between land and living improvements.

The assessor correctly performs a three-way value comparison of the restricted property comparing the factored base year value, the current market value, and the restricted value. San Joaquin County has adopted section 423.3 which allows for a percentage of the factored base year value to be considered in the three-way comparison as follows. A three way value comparison is made between the restricted value as provided in section 423, the allowed percentage of the factored base year value as provided in section 423.3, and current market value. The percentages of factored base year value that San Joaquin County has adopted are 70 percent for prime lands and 90 percent for non-prime lands. In instances where the 423.3 value is determined to be the lowest value in the three-way comparison, the assessor correctly enrolls that value. However, we found that the assessor is incorrectly allocating the total section 423.3 value between land and living improvements. The assessor allocates the section 423.3 value by using the section 423 value on the land portion and the remainder on the living improvements portion. If the section 423.3 value is the value enrolled, the assessed value of the land should be the applicable percentage in section 423.3 multiplied by the factored base year value of the land, and the assessed value of the living improvements should be the applicable percentage in section 423.3 multiplied by the factored base year of the living improvements.

The assessor's practice of incorrectly allocating land and improvement value for restricted properties where the 423.3 valuation is enrolled could result in inaccurate direct assessments.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.¹⁰

For the 2015-16 roll year, the assessor enrolled 605 taxable possessory interests with a total assessed value of \$520,409,757. The majority of taxable possessory interests are private interests at the Port of Stockton and Stockton Municipal Airport. Other types of taxable possessory interests include, but are not limited to, private interests at the fairgrounds, cable television franchises, slips at public marinas, hangars at the Tracy Municipal Airport, grazing rights, public employee housing and public school concessions.

¹⁰ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

We reviewed several taxable possessory interest records and discovered areas where improvement is needed.

RECOMMENDATION 4: Improve the taxable possessory interest program by:
(1) obtaining current copies of all lease agreements or permits for taxable possessory interests, and
(2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

Obtain current copies of all lease agreements or permits for taxable possessory interests.

We found that the assessor does not consistently obtain copies of current leases or permits for taxable possessory interests. In some cases there are no copies of leases or permits in the files. The assessor primarily relies on information provided from the public agencies on the annual agency report.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Rule 21(d)(1) explains that the stated term of possession is deemed to be the reasonably anticipated term of possession except in certain situations. Rule 21(e)(3)(C) explains how to determine the net operating income for capitalization purposes.

These steps in the valuation process cannot be completed reliably if the contract conveying the taxable possessory interest is not reviewed. For example, the assessor may have some information relating to the initial lease term, but may not know of any renewal options contained in the lease or know the lessor/lessee expense allocations.

By not obtaining copies of current leases or permits, the assessor is unable to determine what terms were agreed to between the parties and, therefore, would be unable to accurately value the taxable possessory interests.

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

We reviewed several taxable possessory interests with stated terms of possession and found several instances where these taxable possessory interests were not reviewed for possible declines in value. Instead, the assessor enrolled the factored base year value (FBYV).

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended,

or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on lien date based on the remaining stated term of possession, compare this value to the FBV, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

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.¹¹

Mining Property

There are several sand and gravel operations located in the county. Upon review we found an area in need of improvement.

RECOMMENDATION 5: Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

We found that when measuring for declines in value for mineral properties, the assessor does not combine the values for mineral rights, improvements (including fixtures), and land into a value for a total appraisal unit value when determining whether to enroll the adjusted base year value or the current market value. Instead, fixtures are treated as a separate appraisal unit for determining a decline in value. This procedure conflicts with the intent of Rule 469(e)(2)(C).

In accordance with article XIII A, all real property receives a base year value and, on each lien date, the taxable value of the real property unit is the lesser of its adjusted base year value or current market value. Section 105 defines fixtures as a type of improvement and, hence, as real property.

For most properties, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value. Mineral properties, however, are treated differently.

¹¹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land, improvements including fixtures, and reserves. The assessor should use this unit for the purpose of measuring a possible decline in value.

Failure to properly determine the decline in value of a mineral property using the entire mineral property appraisal unit could result in an underassessment of the fixtures and equipment or an overassessment of the mineral rights.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.¹²

The assessor completed a total of 158 audits for the 2011-12 fiscal year, 172 audits for the 2012-13 fiscal year, 111 audits for the 2013-14 fiscal year, 178 audits for the 2014-15 fiscal year and 135 audits for the 2015-16 fiscal year. In order to complete auditing tasks and business property valuations, the assessor has budgeted eight auditor-appraisers and one supervising auditor-appraiser.

We reviewed the assessor's audit program and found areas where improvement is needed.

RECOMMENDATION 6: Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, and (2) using a comprehensive audit checklist as a standard component of all audits.

Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found that the assessor did not conduct the minimum number of audits as required under the provisions of section 469 for the past four years. For San Joaquin County, the minimum required number of audits to be conducted under section 469 each year is 179, with the additional requirement that 50 percent of those audits are to be performed on taxpayers selected from the pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.¹³

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well-managed

¹² For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

¹³ Refer to Letter To Assessors LTA 2009/049, *Significant Number of Business Property Audits*.

assessment program. Assessors' Handbook section 506, *Property Tax Audits and Audit Program*, provides guidance in developing and improving a property tax audit and the audit program by presenting and discussing statutory provisions, and suggesting organizational tools, audit practices, and procedures.

By failing to conduct the minimum number of audits, with fifty percent of those audits performed on taxpayers with the largest assessments, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

Use a comprehensive audit checklist as a standard component of all audits.

During our review of audits we found that an audit checklist was not included in the work papers. Without this, we could not determine the scope of the assessor's audit investigations.

An audit checklist can serve to remind auditor-appraisers of the various issues to research and procedures to follow during an audit. It may also provide an outline of topics and pertinent issues covered in the audit. Furthermore, it serves as a useful research tool when preparing for subsequent audits of the same entity. Most importantly, without a comprehensive audit checklist, it is difficult for a reviewer to know what topics were covered during the course of the audit and whether the findings are sufficiently supported.

The consistent use of a comprehensive audit checklist reinforces quality control and is a vital component in any audit program.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. Under this methodology, value for taxation purposes is established by multiplying a property's historical cost by an appropriate valuation factor.¹⁴

Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. We found an area in need for improvement concerning the way the assessor values taxable business property.

¹⁴ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

RECOMMENDATION 7: Value structural improvements reported on the BPS in the same manner as other real property structures.

We found the assessor applies business equipment depreciation schedules to structural improvements reported under column 1, Schedule B of the BPS. Structural improvements reported on the BPS should be assessed in the same manner as other real property structures enrolled to the parcel. In accordance with article XIII A, structural improvements receive a base year value that is subject to an annual inflation factor.

The assessor's practice causes differential treatment of structural improvements within the county. By valuing structural improvements in a manner similar to business personal property and trade fixtures rather than real property structures, the assessor may be underassessing this taxable property.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, 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.¹⁵

In San Joaquin County, there are a total of 3,364 manufactured homes located in 96 mobilehome parks, or on fee land. The 2015-16 assessment roll values of these homes are \$95,726,882. There are no resident-owned mobilehome parks in San Joaquin County.

We reviewed several manufactured homes records and found an area in need of improvement.

RECOMMENDATION 8: Provide evidence of the installation of a manufactured home on an approved foundation system.

We found several manufactured homes classified as real property without documentation that the foundation system met the requirements of Health and Safety Code section 18551. Foundations must conform to Health & Safety Code section 18551 before the home can be classified as real property.

In order to document the affixation of a manufactured home to a foundation system and determine that the property may be legally assessed as real property, it is essential that a copy of the recorded HCD 433(A) form or other document compliant to Health and Safety Code section 18551 (2)(A) be present in the assessor's file.

By not requiring proper documentation, the assessor is not compliant with statute.

¹⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

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. 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.¹⁶

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 the exemption is claimed.

There were five historical aircraft assessed on the 2015-16 roll in San Joaquin County with a total value of \$288,025.

We reviewed several historical aircraft assessments and found an area that needs improvement.

RECOMMENDATION 9: Require certificates of attendance signed by the event coordinator when granting historical aircraft exemptions pursuant to section 220.5(b)(3).

We found the assessor does not require signed certificates of attendance. The assessor's practice is to allow a list of locations where the aircraft was displayed to be sufficient in granting the exemption when the statute requires certificates of attendance from event coordinators.

When submitting an application for an exemption pursuant to section 220.5(b)(3), the claimant is required to include a certificate of attendance from the event coordinator of the event(s) at which the aircraft was displayed.

¹⁶ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Aircraft*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/aircraft_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

By not requiring signed certificates of attendance the assessor has granted exemptions not in compliance with section 220.5(b)(3).

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2015-16 assessment roll:¹⁷

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$19,272,038,265
	Improvements	\$39,263,228,577
	Fixtures	\$1,352,640,596
	Personal Property	\$1,344,306,875
	Total Secured	\$61,232,214,313
Unsecured Roll	Land	\$117,935,361
	Improvements	\$361,898,764
	Fixtures	\$1,059,238,686
	Personal Property	\$2,281,878,755
	Total Unsecured	\$3,820,951,566
Exemptions¹⁸		(\$2,325,339,405)
	Total Assessment Roll	\$62,727,826,474

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:¹⁹

YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2015-16	\$62,727,826,000	6.1%	6.0%
2014-15	\$59,100,400,000	9.1%	6.2%
2013-14	\$54,193,929,000	5.0%	4.3%
2012-13	\$51,590,024,000	-0.3%	1.4%
2011-12	\$51,766,580,000	-4.0%	0.1%

¹⁷ Statistics provided by BOE-822, *Report of Assessed Values By City*, San Joaquin County

¹⁸ The value of the Homeowners' Exemption is excluded from the exemptions total.

¹⁹ State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from \$9,428,594 in 2011-12 to \$9,537,340 in 2015-16.

The assessor has 80 budgeted permanent positions. These positions consist of the assessor, assistant assessor, 4 managers, 26 real property appraisers, 9 business property auditor-appraisers, 5 cadastral draftspersons, 11 technical/professionals, and 23 support staff.

The following table identifies the assessor's budget and staffing over recent years:²⁰

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2015-16	\$9,537,340	-2.0%	80
2014-15	\$9,728,980	-0.6%	81
2013-14	\$9,783,389	2.6%	83
2012-13	\$9,538,086	1.2%	87
2011-12	\$9,428,594	-0.8%	90

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:²¹

YEAR	ASSESSMENT APPEALS FILED
2015-16	724
2014-15	897
2013-14	924
2012-13	1,338
2011-12	1,785

²⁰ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

²¹ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:²²

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2015-16	581	\$1,515,252,058
2014-15	561	\$1,489,955,789
2013-14	585	\$1,472,162,312
2012-13	587	\$1,389,079,111
2011-12	560	\$1,430,484,500

Table 6: Change in Ownership

The following table shows the total number of reappraisals due to changes in ownership processed in recent years:²³

YEAR	REAPPRAISABLE TRANSFERS
2015-16	18,737
2014-15	18,374
2013-14	19,065
2012-13	21,085
2011-12	22,650

²² Statistics provided by BOE-802, *Report of Exemptions*.

²³ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 7: New Construction

The following table shows the total number of new construction assessments processed in recent years:²⁴

YEAR	NEW CONSTRUCTION ASSESSMENTS
2015-16	1,282
2014-15	986
2013-14	810
2012-13	704
2011-12	658

Table 8: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:²⁵

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2015-16	26,845
2014-15	34,938
2013-14	52,068
2012-13	90,916
2011-12	115,473

²⁴ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

²⁵ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

San Joaquin County

Chief

David Yeung

Survey Program Director:

Diane Yasui

Manager, Property Tax

Survey Team Supervisor:

Andrew Austin

Supervising Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Teresa Nguyen

Business Taxes Specialist I

Gary Coates

Associate Property Appraiser

Lee Coleman

Associate Property Appraiser

Michael Crook

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Eric Santana

Assistant Property Appraiser

Dany Lunetta

Associate Governmental Program Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	Description
<i>Government Code</i>	
§15640	Survey by board of county assessment procedures.
§15641	Audit of records; appraisal data not public.
§15642	Research by board employees.
§15643	When surveys to be made.
§15644	Recommendations by board.
§15645	Survey report; final survey report; assessor's report.
§15646	Copies of final survey reports to be filed with local officials.
<i>Revenue and Taxation Code</i>	
§75.60	Allocation for administration.
<i>Title 18, California Code of Regulations</i>	
Rule 370	Random selection of counties for representative sampling.
Rule 371	Significant assessment problems.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations 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 begins on the next page. The BOE has no comments on the response.



SAN JOAQUIN
—COUNTY—
Greatness grows here.

Office of the Assessor-Recorder-County Clerk

Steve J. Bestolarides, Assessor-Recorder-County Clerk

Karyn Johnson, Assistant Assessor-Recorder-County Clerk

November 30, 2017

RECEIVED

DEC 04 2017

County-Assessed Properties Division
State Board of Equalization

Dean R. Kinnee
Deputy Director, Property Tax Department
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0064

Dear Mr. Kinnee:

Pursuant to section 15645 of the Government Code, enclosed is our response to the Board's recommendations for San Joaquin County's 2015-2016 Assessment Practices Survey. Andrew Austin, the survey team supervisor, provided a draft of the report and recently met with our staff to explain the findings. The survey team found that the overall quality of the San Joaquin County Assessor Office's assessment roll meets state standards.

We have already addressed some of the findings and will continue to implement improvements in all areas. We are also focusing our efforts on strengthening our organizational capabilities through the following:

- An Updated Property Tax System - We are converting to the Megabyte Property Tax System and expected to go-live at the end of this year. The Auditor-Controller and Tax Collector have been using the system since 2002. This conversion will result in a truly integrated tax system with gained efficiencies and timeliness for all offices.
- Staff Development – Numerous retirements and the loss of institutional knowledge have created vacancies in critical valuation and management positions. Accordingly, we are faced with having to address huge gaps in our leadership and workforce pipeline. We have prioritized developing entry-level staff by utilizing all available BOE training and developing all managers by providing leadership skills training.

- Change Management - Formal documentation of “as-is” and “to-be” workflow and processes as we convert to a new tax system. We have prioritized change management to ensure the success of the Megabyte conversion project, to provide formal training material for current and future staff and to streamline processes.

I commend the level of professionalism and work ethic that your staff exhibited throughout the survey. My staff also expressed sincere appreciation for their courteous manner and patience during their onsite fieldwork. Please extend my appreciation to your team.

Sincerely,



Steve J. Bestolarides
Assessor-Recorder-County Clerk
San Joaquin County

Enclosure



Enclosure: Assessor's Response to BOE 2015-2016 Survey Recommendations

RECOMMENDATION 1:

Improve the administration of the welfare exemptions by:

1. Consistently notify claimants when a property is denied or when a portion of the property is denied the welfare exemption.
2. Properly apply late-filing provisions for welfare exemptions claims that are not filed timely.

Response:

1. *Agree. We are currently using the BOE-267-F finding sheet to notify claimants. We will be sending the finding sheets throughout the year to more consistently notify claimants.*
2. *Agree. We have already created a new procedure (calculation template) and trained exemption staff to properly apply late-filing provisions for welfare exemption claims that are filed late.*

RECOMMENDATION 2:

Properly implement the penalty process in accordance with Section 482(b).

Response:

Agree. We review the BOE-100B reports monthly and have identified the reports that indicate whether a penalty applies. The LEOP penalty process was being developed in our old system, however, we are now converting to a new system. As we transition to the Megabyte Property Tax System, we will develop a process to properly implement the penalty process in accordance with Section 482(b).

RECOMMENDATION 3:

Improve the CLCA property program by:

1. Including all compatible use income generated on the property when determining restricted value.
2. Properly allocating restricted value between land and living improvements.

Response:

1. *Agree: In calculating the value of CLCA restricted land, the income of all compatible uses will be included in the value calculations:*
2. *Agree: The Assessor's current system automatically allocates value based on a pre-determined allocation formula. Upon transition to the Megabyte system, values will be allocated more accurately.*

RECOMMENDATION 4:

Improve the taxable possessory interest program by:

1. Obtain current copies of all lease agreements or permits for taxable possessory interests.
2. Periodically reviewing all taxable possessory interests with state terms of possession for declines in value.

Response:

1. *Agree: Annual Usage Reports are mailed to all government entities in the County. When the agency does not respond, or the response is incomplete, the Assessor's staff follows up with phone calls, emails, etc. but has not been in the practice of documenting the follow up efforts. A procedure for documenting all agency contact will be put in place along with contacting not only the agency directly but also including the agency's management organization in all correspondence.*
2. *Agree: As San Joaquin County converts to Megabyte, the annual review of existing Possessory Interest accounts should become more consistent.*

RECOMMENDATION 5:

Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

Response:

Agree: In the future, the Assessor's staff will take the entire appraisal unit into consideration.

RECOMMENDATION 6:

Improve the audit program by:

1. Performing the minimum number of audits of professions, trades, and businesses pursuant to section 469.
2. Use a comprehensive audit checklist as a standard component of all audits.

Response:

1. *Agree: We will prioritize the audit work load and train staff necessary to meet section 469 minimum number of audits of professions, trades, and business.*
2. *Agree: The use of a comprehensive audit checklist will be incorporated into the audit program.*

RECOMMENDATION 7:

Value structural improvements reported on the BPS in the same manner as other real property structures.

Response:

Agree: In some instances, structural improvements have been included on the BPS and subsequently depreciated along with the personal property, fixtures and equipment. A more uniform communication procedure will be put in place to ensure that the real property and business sections coordinate in these instances.

RECOMMENDATION 8:

Provide evidence of the installation of a manufactured home on approved foundation system.

Response:

Agree. A copy of HCD 433(A) will be retained on file after receipt from the Recorder's Office of the recorded document.

RECOMMENDATION 9:

Require certificates of attendance signed by the event coordinator when granting historical aircraft exemptions pursuant to Section 220.5(b)(3).

Response:

Agree. Certificates of attendance will be required of all applicants when granting historical aircraft exemptions pursuant to Section 220.5 (b)(3).