

SAN MATEO COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2011

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February 9, 2011

TO COUNTY ASSESSORS:

KRISTINE CAZADD
Interim Executive Director

No. 2011/007

SAN MATEO COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the San Mateo 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 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 Warren Slocum, San Mateo County Chief Elections Officer & Assessor-County Clerk-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. (The Honorable Mark Church took office as the Chief Elections Officer & Assessor-County-Clerk-Recorder after this report and Assessor's Response were completed.) 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 Mateo County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from March through June 2009. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the San Mateo County Chief Elections Officer & Assessor-County Clerk-Recorder'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 Mateo 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 Warren Slocum, San Mateo County Chief Elections Officer & Assessor-County Clerk-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

¹ This report covers only the assessment functions 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 Code² 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 Mateo County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in San Mateo County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2008-09 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.

² 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.

During our survey, we noted several positive aspects in the administration of the assessor's office:

- The assessor has reduced the median interval between the dates of a residential sale and the generation of the notice of supplemental assessment from 77 days in fiscal year 2001-02 to only 17 days in fiscal year 2007-08.
- The assessor has closed the roll by July 1 every year since fiscal year 2002-03. Appraisal activities are current with no backlog.
- The assessor has implemented an electronic workflow program to aid in the processing of submitted form BOE-571-L, *Business Property Statement*. All submitted property statements are scanned prior to processing. The image, rather than the hard copy, is processed. Digital annotations have replaced handwritten notes. Additionally, workflow management is automated.

The assessor is effectively handling significant portions of the office's administrative functions, including staff property procedures, assessment appeals, exemptions, and assessment forms. Areas of administration that need improvement include appraiser certification and record documentation.

Upon review of the real property assessment programs, we found that the assessor is effectively managing the programs for declines in value and mineral properties. We made recommendations in the areas of change in ownership, new construction, California Land Conservation Act (CLCA) property, and taxable possessory interests.

In the assessment of personal property and fixtures, we found that the assessor has an effective audit program. Our findings indicated, however, areas of concern in the valuation of business equipment and aircraft.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

The San Mateo County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2008-09 assessment roll indicated an average assessment ratio of 99.55 percent, and the sum of the absolute differences from the required assessment level was 0.54 percent. Accordingly, the BOE certifies that San Mateo County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Ensure appraisers meet section 671 annual training requirements.6

RECOMMENDATION 2: Provide adequate documentation in appraisal records to support value conclusions.....7

RECOMMENDATION 3: Apply appropriate penalties as required by section 482(b) if a form BOE-100-B is not returned timely.15

RECOMMENDATION 4: Value construction in progress at current market value as of the lien date pursuant to section 71.....20

RECOMMENDATION 5: Improve the valuation of CLCA properties by: (1) capitalizing compatible use income in conformance with the Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, (2) estimating income attributable to trees and vines subject to open-space restrictions in conformance with the Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, (3) using appropriate risk components for different types of agricultural properties, and (4) valuing property subject to terminating restrictions as specified in section 426.22

RECOMMENDATION 6: Improve the taxable possessory interest assessment program by: (1) issuing supplemental assessments for changes in ownership of qualifying taxable possessory interests at the county fairgrounds and (2) revaluing taxable possessory interests only at the end of the reasonably anticipated term of possession used to establish the base year value.25

RECOMMENDATION 7: Uniformly use minimum percent good factors that are supportable as provided in section 401.16(b).29

RECOMMENDATION 8: Use the BOE-prescribed factor tables when valuing mobile agricultural equipment.30

RECOMMENDATION 9: Properly classify and assess all landlord-owned personal property in apartment complexes pursuant to section 602.30

RECOMMENDATION 10: Apply adjustments for condition and sales tax to the average aircraft retail price in the manner outlined in Assessors' Handbook Section 577, *Assessment of General Aircraft*.....32

OVERVIEW OF SAN MATEO COUNTY

San Mateo County is located on the San Francisco Peninsula and is bordered by the City and County of San Francisco to the north, San Francisco Bay on the east, Santa Clara and Santa Cruz Counties to the south, and the Pacific Ocean on the west. San Mateo County was created as a charter county on April 19, 1856. Redwood City is the county seat. The territory of San Mateo County encompasses 553 square miles (105 square miles are water area) and includes 45 miles of coastline and beaches.

San Mateo County has 20 incorporated cities. As of January 1, 2007, the county had a total population of about 707,000. The following table displays information pertinent to the 2008-09 assessment roll:

	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	219,589	\$133,289,758,000
Unsecured Roll	19,383	\$9,859,554,000
Total Assessment Roll	238,972	\$143,149,312,000

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

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2008-09	\$143,149,312,000	8.0%	4.7%
2007-08	\$132,498,099,000	7.7%	9.6%
2006-07	\$123,007,187,000	8.7%	12.3%
2005-06	\$113,176,685,000	7.5%	11.1%
2004-05	\$105,318,467,000	N/A	N/A

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 appraiser certification, record documentation, staff property procedures, assessment appeals, exemptions, and assessment forms.

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 appraiser's certificate issued by the Board. There are a total of 56 certified appraisers on staff; 26 hold advanced appraiser's certificates. We found the assessor's staff possesses the required appraiser's certificates. Additionally, we found the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In San Mateo County, the functions of the training coordinator are performed by the executive assistant to the assessor. Duties performed by the training coordinator include:

- Tracking staff training hours to ensure certified employees have the requisite training each year to maintain their appraisal certification.
- Arranging for staff to attend a variety of training functions each year, including courses and seminars presented in-house or at conferences, BOE courses, and Appraisal Institute courses.
- Tracking the progress of newly hired appraisal staff to ensure they complete the BOE's certification program within the allowed one-year timeframe.

During the course of our review, we found one area in the assessor's appraiser certification program in need of improvement.

RECOMMENDATION 1: Ensure appraisers meet section 671 annual training requirements.

Section 671 provides that, in order to retain a valid appraiser's certificate, an appraiser must complete 24 hours of training conducted or approved by the BOE each year. Appraisers with advanced certification need only complete 12 hours of training each year. During our review, we noted that a number of appraisers were 5 to 59 hours delinquent in continuing education hours.

The BOE's training unit provides each assessor with an annual report titled *Training Records Summary*, summarizing each appraiser's training and certification status. The assessor should ensure all appraisers are current in their continuing education requirements. Failure to maintain the required continuing education could create confusion about current appraisal procedures and could lead to providing outdated information to taxpayers.

Record Documentation

A total of 332 appraisal records were randomly selected, as a representative sampling of the local assessment roll, to be reviewed by the BOE survey team. The purpose of the BOE's sampling program is to determine how well the assessor is performing the valuation function. An important aspect of the valuation function is providing adequate documentation in support of value conclusions.

RECOMMENDATION 2: Provide adequate documentation in appraisal records to support value conclusions.

During the course of our review, we noted several instances where there was a lack of documentation in support of an appraisal. Some of the items missing were as follows:

- Appraisal worksheets to verify a taxpayer's qualification for a base year value transfer, and
- Adequate documentation (for example, a cost worksheet) explaining how the value for completed new construction was determined.

From the Appraisal Institute's, *The Appraisal of Real Estate*, an appraisal is defined as the act or process of estimating value. Appraisers perform analysis and render opinions or conclusions relating to the nature, quality, value, or utility of specified interests in, or aspects of, identified real estate. Real estate appraisal involves selective research into appropriate market areas, the assemblage of pertinent data, the use of appropriate analytical techniques, and the application of knowledge, experience, and professional judgment to develop an appropriate solution to an appraisal problem. An appraisal record should possess all of the documentation necessary to support the appraiser's estimate of value.

By not adequately documenting appraisal records, the assessors' value conclusions, even if correct, may not be fully understood by taxpayers or other appraisers.

Staff Property Procedures

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the valuation of their own properties.

In San Mateo County, the assessor's primary method of discovering staff-owned property, either for changes in ownership or completed new construction, is through self-declaration by the member of the staff acquiring or owning the property. Another method of discovery utilized by the assessor is the certified staffs' annual filing of the Fair Political Practices Commission Form 700, *Statement of Economic Interests*. Form 700 requests information regarding staff ownership in any real property, other than their primary residence, as well as ownership interests in any business entity. Information provided includes the nature of the interest and the percentage of ownership.

When an appraisal is required for a staff-owned property, the job is assigned to an appraiser or auditor-appraiser other than the owner of property. When an appraisal of a staff-owned property is completed, it is forwarded to the principal appraiser responsible for the district in which it lies for review and approval.

We reviewed a number of staff-owned properties and found no problems.

Assessment Appeals

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

In San Mateo County, there is one assessment appeals board consisting of three regular members and one alternate member. The board of supervisors appoints appeals board members. Each regular and alternate member serves on the assessment appeals board for a term of three years. All current members of the appeals board have successfully completed the training required by section 1624.02.

The appeals board hears applications for reductions in value affecting individual properties on the secured and unsecured tax roll. Taxpayers appealing their assessment on the regular roll must file an application with the clerk of the appeals board between July 2 and November 30 of the applicable assessment year. The clerk of the appeals board is responsible for scheduling assessment appeals board meetings. In San Mateo County, meetings are scheduled on the second and fourth Thursday of each month.

When an application is received by the clerk of the appeals board it is reviewed, validated, date-stamped, and entered into the tracking system. A copy of the application is forwarded to the assessor. Upon receipt, it is logged into a database and is routed to the principal appraiser responsible for the district in which the property under appeal is located. The principal appraiser assigns pending appeals to an appraiser for review and resolution. The resolution of appeals is tracked by both the clerk of the assessment appeals board and the assessor to ensure timely resolution.

The following table illustrates the assessment appeals workload during the previous two-year period:

ASSESSMENT ROLL	2007-08	2006-07
Appeals Filed	1,232	946
Appeals Carried Over From Prior Year	1,259	1,764
Total Appeals Workload	2,491	2,710
Resolution:		
Withdrawn	685	619
Stipulation	605	562
Appeals Reduced	86	80
Appeals Upheld	12	16
Appeals Increased	15	4
Other Determination	162	170
Total Resolved	1,565	1,451
To Be Carried Over	926	1,259

Pursuant to section 1604(c)(1), taxpayers and the assessor may sign a waiver for appeals not resolved within two years of the date of timely filing of an application for changed assessment. We found no appeal has gone unresolved for more than two years unless the taxpayer has agreed to a waiver of the statutorily defined time limit.

Overall, the assessor's portion of the assessment appeal program is well administered.

Exemptions

Church and Religious Exemptions

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

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

The assessor processed nine church exemption claims and 277 religious exemption claims for the 2008-09 assessment roll. The following table illustrates religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2008-09	277	\$213,519,000	9	\$12,038,000
2007-08	274	\$201,434,000	8	\$10,291,000
2006-07	269	\$189,680,000	8	\$7,759,000
2005-06	273	\$176,642,000	6	\$4,325,000
2004-05	284	\$170,944,000	8	\$5,966,000

Our review indicates the assessor properly processes church and religious exemption claim filings. We found no problems with the assessor's church and religious exemption program.

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. 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 has a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC 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.

The following table illustrates welfare exemption data for recent years:

ROLL YEAR	WELFARE EXEMPTION	EXEMPTED VALUE
2008-09	717	\$2,428,589,000
2007-08	685	\$2,188,776,000
2006-07	678	\$2,266,925,000
2005-06	662	\$1,965,826,000
2004-05	629	\$1,553,238,000

In San Mateo County, we reviewed a variety of welfare exemption claims, including first-time and annual filings. Our review included the inspection of exemption claims for both hospitals and for low-income housing properties, including properties owned by limited partnerships. We found the assessor is properly administering the welfare exemption. Accordingly, we have no recommendations related to this topic.

Assessment Forms

Government Code section 15606 requires the Board to prescribe and enforce the use of all forms for the assessment of property for taxation.³ Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally-developed forms to assist them in their assessment duties.

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

Our review of the forms used by the assessor during the 2008-09 tax year revealed the following:

- The assessor used 66 Board-prescribed forms.
- Of the 66 forms used, the assessor rearranged one.
- The assessor has provided the BOE with copies of rearranged forms, final prints, and forms checklists in a timely manner.

We have no recommendations in this area.

³ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

ASSESSMENT OF REAL PROPERTY

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

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

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed two percent.

Change in Ownership

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

Document Processing

The assessor maintains a thorough set of policies and procedures for staff to follow in all aspects of the change in ownership process. The declining real estate market is reflected in the drop in transfer activity between 2006-07 and 2007-08. The following table illustrates the total number of reappraisable transfers in San Mateo County in recent years:

ROLL YEAR	REAPPRAISABLE TRANSFERS
2007-08	9,266
2006-07	13,136
2005-06	13,136
2004-05	14,097

The assessor's primary source for the discovery of properties which have changed ownership is through the analysis of deeds and other recorded documents. The recorder requires that a completed form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, accompany documents submitted for recordation in the transfer of ownership of real property. If a transfer document is received without a PCOR, the recorder will apply a \$20 charge to the recording fee.

Copies of blank PCORs are available at both the assessor's and recorder's office, as well as in a downloadable format on the county's website. In order to facilitate accurate property identification, local ordinance requires the assessor's parcel number to be indicated on all deeds.

The San Mateo County Assessor also functions as the County Recorder. Staff in the recorder's office initially screens all recorded documents. Recorded documents, selected based upon a set of established parameters, are sent electronically each day to the assessor's office. The assessor's staff is typically two days behind the recorder in the dissemination of reviewed documents.

During processing of documents by the assessor's staff, the legal description is verified, the prior ownership is reviewed, and a determination is made as to whether the transfer constitutes a reappraisable event. If additional information is required, the assessor's staff will contact property owners, attorneys, title companies, or legal representatives. A code is then entered into the computer system indicating the type of transfer and whether or not the transfer is reappraisable.

The assessor predetermines every transfer to be reappraisable unless gathered information proves otherwise. Submitted PCORs are reviewed for applicable exclusions or exemptions. The computer system is coded to enable the mailing of appropriate letters, questionnaires, or claim forms for change in ownership exclusions to property owners. The property owner is requested to return completed claim forms within 60 days. Information gathered is entered into the computer system and forwarded to the appraiser. Appraisal staff obtains assignments from the computer activity event screen typically within seven days of the assessor's office receiving the recorded deed from the recorder's office.

During our review, we examined several recorded documents and found the assessor has an effective program for the discovery and determination of reappraisable events.

Penalties

The assessor does not utilize form BOE-502-AH, *Change of Ownership Statement (COS)*, when a PCOR is not filed with a recorded document. Instead, he uses an internally created change of ownership questionnaire, known by the staff as a *beneficial interest statement*, which is mailed to the property owner in lieu of the COS. The assessor believes the county generated form is more comprehensive than the COS and allows the county to obtain better data in making property reappraisal and valuation decisions. The county also finds there is a higher rate of return of the *beneficial interest statement*. The form does not contain penalty language, and the county does not apply penalties if it is not returned.

We have no recommendations at this time.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. Computers are available in the lobby of the assessor's office to enable public dissemination of transfer information. As required by section 408.1(b), the sales listing is divided into geographical areas by book number or address, and describes the transferee, the assessor's parcel

number, the date of recording, and recording reference number. The assessor updates this list every two weeks, and the confidentiality provisions of section 481 are observed.

Section 408.1 was enacted to assist the taxpayers in obtaining meaningful sales data to review assessments and to prepare for an assessment appeal. Although the assessor's sales listing meets the code requirements by including the required information, it includes any recorded documents received by the assessor. This makes searching for sales data cumbersome. However, we have no recommendation in this area.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, 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 corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of changes in control of legal entities, and thus, no corresponding recorded notice of any real property transfers.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property involved. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

The assessor discovers potential changes in control or ownership of legal entities from news articles, the Internet, submitted business property statements, and appraisal staff. The assessor also reviews the BOE's monthly LEOP report and disk, for entities holding property in San Mateo County. All parcel numbers reported on the listing and sited within the county are cross-referenced against the assessor's mainframe system to ascertain if additional parcels are affected. Both secured and unsecured properties are reviewed. If the assessor discovers a change in control or ownership not listed on LEOP reports, the county notifies the BOE's LEOP section by submitting a form BOE-100-BR, *County Assessor Legal Entity Transfer Referral*. Once a transfer has been determined by the assessor to be a reappraisable event, the related information is posted on the event activity screen for assignment to appraisal staff.

We reviewed several records which evidence that the county performs a thorough review of BOE LEOP reports and reassesses all property interests identified on form BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, in addition to properties not reported on the form but otherwise discovered. However, we did recognize one area in need of improvement.

RECOMMENDATION 3: Apply appropriate penalties as required by section 482(b) if a form BOE-100-B is not returned timely.

The BOE generated report titled, "*Questionnaire Due Dates and Filing Dates for Entities Indicating a Change in Control or Change in Ownership – By Company*," lists legal entities which have undergone a change in control or ownership and identifies due dates and actual filing dates of form BOE-100-B for each entity. Additionally, for each BOE-100-B filing BOE provides a copy of the envelope bearing the postmark, which is considered to be the filing date. When the assessor reviews this report and discovers late filing by the legal entity, a penalty is not applied.

Sections 480.1(a) and 480.2(a) state, whenever there is a change in ownership or a change in control of any corporation, partnership, limited liability company, or other legal entity a signed change in ownership statement shall be filed with the BOE at its office in Sacramento. Section 482(b) states, if a person or legal entity fails to file the statement within 45 days, a penalty of 10 percent of the taxes applicable to the new base year value reflecting the change in control or change in ownership of the real property owned by the corporation, partnership, or legal entity, or 10 percent of the current year's taxes on that property if no change in control or change in ownership occurred, shall be added to the assessment made on the roll.⁴

The information received on the BOE-100-B assists the assessor in determining if a change in ownership or change in control has occurred and in making an accurate assessment of a property. Forms filed beyond the due date are considered late and subject to a penalty. By failing to apply the required penalty of section 482(b), the assessor is inconsistently applying late-filing penalties.

Leases

The Change-In-Ownership unit processes all long and short term lease transactions discovered through recorded documents, appraiser canvassing, business property statements, published news, and auditor findings. The assessor successfully obtains copies of long term lease agreements in most instances. If a copy of the lease is not obtained at the time of the transfer, the party in question is contacted to obtain details and terms of the lease. Most leases are short term in nature, precluding the need for a copy of the agreement.

Once lease documents have been processed and determined to constitute a reappraisable event, the information is forwarded to the appraisal staff for valuation.

Change in Ownership Exclusions – Section 63.1

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of principal residence and the first one million dollars of other real property between parents and children. Certain transfers between grandparents and grandchildren are also eligible for this exclusion.

⁴ For filing prior to January 1, 2010, the penalty was automatically abated if the entity filed within 60 days of the BOE's notification of penalty.

When a PCOR is filed with the assessor which indicates the section 63.1 exclusion may apply, the assessor predetermines the transfer to be reappraisable and sends a *beneficial interest statement* and applicable claim form to the property owner. The property owner is requested to return the claim form within 60 days; subsequently, the property is reappraised. Applications and information regarding exclusions from reappraisal are available to the public at the assessor's office and on the assessor's website.

If a claim is reviewed and accepted, the property owner receives a notice of changed assessment indicating the allowance of the exclusion. If a claim is denied, a letter is mailed notifying the property owner. We found that, pursuant to section 63.1(i), the county maintains the confidentiality of claim forms by storing all submitted claim forms in a dedicated confidential file cabinet located away from public access.

The assessor contacts applicants who claim the exclusion for transfers involving property other than principal residences. Applicants are asked which property or properties he/she wishes to be reassessed and which to exclude under section 63.1. The applicable property record is given to an appraiser for revaluating any excess property not subject to the exclusion. We acknowledge the assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than principal residences.

Change in Ownership Exclusions – Section 69.5

Section 69.5 allows qualified homeowners who are 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of their principal residence to a replacement dwelling purchased or newly constructed within the same county. Claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Section 69.5 also allows counties to adopt ordinances to expand this exclusion to include intercounty transfers. The San Mateo County Board of Supervisors adopted such an ordinance to accept base year value transfers from other counties. Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website.

The assessor reviews all section 69.5 applications, determines if the exclusion is statutorily allowable, and applies appropriate percentages. Appraisal staff determines the assessed values of both the original and replacement properties. If a claim is allowed, the property owner receives a notice of changed assessment. If a claim is denied, a letter is mailed notifying the property owner.

When a submitted PCOR indicates a section 69.5 exclusion may apply, the county predetermines the transfer to be reappraisable and sends a *beneficial interest statement* and applicable claim form to the property owner. The property owner is requested to return the claim form within 60 days; subsequently, the property is reappraised. See the "Document Processing" section for further details.

To avoid duplicate filing of a section 69.5 claim, the assessor reviews the quarterly *Duplicate SSN Report* provided by the BOE to determine if any claims duplicate a claim made previously in another county. If a duplicate claim is filed, the county will mail a letter to the taxpayer asking

if the new claim qualifies for a disabled persons claim for transfer of base year value to replacement dwelling (Prop. 110) exclusion. If the newly submitted claim qualifies for a Prop. 110 exclusion, information is sent to the BOE for tracking. Otherwise, a roll correction is processed and the property is reassessed.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on the claim form by keeping all claim forms in a separate confidential file cabinet away from public access. The assessor submits the required quarterly reports to the BOE listing approved section 69.5 base year transfer exclusions.

Valuation

Once a change in ownership has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to confirm the reported sales price accurately reflects market value. Appraisers have access to multiple sales data sources to assist with the valuation process. In regards to residential changes in ownership, the sales price is typically enrolled. In cases of assessable commercial property transfers, market and income approaches to value are conducted to determine whether the sales price is an accurate indicator of market value. Field inspections of residential property to be appraised are typically conducted if the sales price appears to be outside of market range. Field reviews are conducted for all commercial properties. During our review, we found supplemental assessments are properly processed and enrolled.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the enrollment of properties meeting certain criteria with minimal appraiser involvement. The assessor utilizes a direct enrollment program for residential properties.

There are approximately 73 property transfers each week fitting direct enrollment criteria. Residential properties which meet the assessor's parameters for direct enrollment eligibility are placed on a list and in a holding status pending review by an appraiser. A single appraiser reviews all direct enrollment properties appearing on the list, setting aside transfers which require further investigation, and removing those which do not meet direct enrollment criteria. Those removed from the direct enrollment list are valued in the same manner as other residential properties. By the close of business each Friday, properties still remaining on the direct enrollment list subsequent to appraiser review are automatically enrolled and the property owner is mailed a notice of supplemental assessment.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. 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 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

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

Discovery

Building permits are the assessor's primary means of discovering new construction. Currently, the assessor receives building permits from 24 permit-issuing agencies. Eleven of these agencies send permit data electronically: the county of San Mateo and the cities of Atherton, Belmont, Burlingame, Daly City, Hillsborough, Millbrae, Redwood City, San Bruno, San Mateo, and South San Francisco. The remaining agencies, which include the cities of Brisbane, Colma, East Palo Alto, Foster City, Half Moon Bay, Menlo Park, Pacifica, Portola Valley, San Carlos, and Woodside, in addition to the Environmental Health Division (wells and septic) and the Housing and Community Development Division (HCD), send their permit information in hard copy form which must be processed manually. Additional sources of discovery utilized by the assessor include field inspections, inquiries from building permit departments, business journals, newspapers, television interviews, and reviews of properties listed for sale.

The following table exhibits the number of new construction permits processed, as well as those leading to new assessments during recent years:

ASSESSMENT ROLL	PERMITS RECEIVED	NEW ASSESSMENTS FROM PERMITS
2007-08	21,440	14,018
2006-07	22,127	12,858
2005-06	19,061	13,844
2004-05	24,166	15,154
2003-04	26,469	12,619

Permit Processing

Permits received by the assessor's office are screened to determine the assessability of the new construction. Permits for assessable new construction are entered into an activity list, which resides on the mainframe and is utilized by the appraisal staff to determine new construction activity in their assigned areas. The assessor also collects and retains permits which could impact the effective age or quality class of properties. Any remaining permits for non-appraisable events which have no bearing on property characteristics are discarded.

Valuation

The assessor estimates the full value of new construction as of the date of completion. The completion status of new construction is determined from direct contact with the building department, new construction questionnaire data, recorded dates of occupancy, or from onsite inspections. The cost data sources most utilized for residential, commercial, and industrial properties include the owner's reported cost and the published cost guide developed by Marshall & Swift. The income and sales comparison approaches to value are also sometimes conducted to determine new construction value. It is the assessor's practice to perform field inspections of all homes that are newly constructed, in addition to all structural additions with a cost of \$50,000 or more. Supplemental assessments are created and issued based on the date of completion for new construction activity where value is added. Most appraisal updates, including documentation and valuation, are posted to the assessor's mainframe computer system. Historical value summaries, real property building records, and other relevant property data are scanned into the computer system and are available for dissemination online. Currently, there are roughly five years of historical documents available on the computer system. These documents include returned questionnaires, market analyses, cost analyses, and other data applicable to new construction activities.

Self Reporting

The assessor sends questionnaires to property owners in response to most residential permit activity. Additionally, a questionnaire is automatically sent for all residential activity if the building permit event has not been closed within six months of entry into the system. It is left to the individual appraiser's judgment whether to send questionnaires to owners of commercial and industrial properties.

The assigned appraiser is responsible for the review of the information provided on the new construction questionnaires. The assessor's policy is to compare reported improvement costs with the Marshall & Swift published values. We reviewed a number of the assessor's records that had new construction activity and found that there was adequate documentation on the assessor's computer system supporting the valuation of the new construction. However, the supporting information was difficult to obtain and inconsistent with what was electronically available on the assessor's other online resources. These inconsistencies are due to delays in document scanning and appraiser processing.

Construction in Progress (CIP)

Section 71 requires the assessor to enroll construction in progress at its fair market value each year. The assessor values completed new construction by estimating its full value as of the date of completion. An appraiser determines the completion status of new construction from either an onsite review, a notice of completion from the building department, or information provided by the property owner. The assessor is correctly valuing new construction upon completion by determining the market value through the use of reported costs, published costs, and market analyses. However, in valuing construction in progress, the assessor is not determining actual market value on the lien date.

RECOMMENDATION 4: Value construction in progress at current market value as of the lien date pursuant to section 71.

We found the assessor does not establish the market value of construction in progress each lien date. Instead, the assessor first estimates the percentage of completion of the project and then multiplies that percentage by the value reported on the permit.

Section 71 requires that the enrolled value of construction in progress shall be its fair market value as of the lien date. The value reported on permits is based on published cost factors derived from a building journal and only reflects average costs throughout various regions in California; the values are not representative of construction costs in San Mateo County. Moreover, these estimates cannot account for variations in construction costs resulting from differences in square footage, construction quality, or the complexity of proposed projects. Thus, the values reported on the permits are not likely to represent fair market value. In order to develop an accurate indicator of value for construction in progress, the assessor must determine its market value using the cost, market, and/or income approaches. In addition to the sources already used, the assessor could use the Assessors' Handbook Section 531, *Residential Building Costs*, and local cost data. Additionally, the market and income approaches to value may also be utilized in determining the value of new construction.

The assessor's current practices in relation to construction in progress are not in compliance with section 71 and likely result in inaccurate assessments.

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 adjusted for inflation up to two percent.

The following table depicts the number of properties reviewed by the assessor for declines in value over recent years:

ROLL YEAR	NUMBER OF PROPERTIES REVIEWED
2008-09	9,000
2007-08	1,070
2006-07	772
2005-06	1,827
2004-05	3,330

Due to the weakening of the local real estate market, the number of properties experiencing a decline in value below the established factored base year value has increased. The assessor is

proactive in the identification of properties in the county warranting a decline-in-value assessment.

The discovery of declines in value of residential properties is accomplished through a sales ratio/comparison analysis. The county is broken down into geographical areas, or neighborhoods. Current sales are analyzed to determine which locations have had a decline in value, what factors should be used to identify parcels subject to a decline in value, and how much to adjust the assessed values to reflect a decline in value. Other methods of discovering declines in value include taxpayer requests for appraisal review and the appraisers' knowledge of property values in their assigned areas of responsibility.

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor to the prior year's taxable value and to assure the record will be reviewed in the coming year. The assessor sends a *Notification of Assessed Value* to property owners when (1) the assessed value has changed due to a decline in value, (2) the decline in value remains on the roll for the current assessment year, or (3) the decline in value has been fully or partially restored. The assessor's notice conforms to the requirements of section 619.

In general, the assessor properly reviews and adjusts parcels receiving decline-in-value assessments pursuant to section 51. During our examination, we found the assessor's records related to these properties to be well documented, complete, and reflecting reasonable value conclusions.

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, namely, hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

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

San Mateo County had 542 parcels encompassing 47,961 acres encumbered by CLCA contracts on the 2007-08 tax roll. These parcels included 322 acres restricted under a Farmland Security Zone (FSZ) contract, which is a more restrictive form of the CLCA contract. Included in the total CLCA acreage are 11 contracts in nonrenewal status. During 2007-08, no contracts were cancelled; only one has gone completely out of the program through the nonrenewal process.

The total assessed value enrolled to CLCA and FSZ land and living improvements during the 2007-08 tax year was approximately \$173.5 million.

Most of the rural property in San Mateo County is devoted to floral, nursery, and vegetable crops which are grown both indoors and outdoors. These uses account for 94 percent of all crops grown, as well as the bulk of the county's agricultural revenue.

The valuation of CLCA property in San Mateo County is the responsibility of one senior real property appraiser. The appraiser is responsible for determining the net economic rent for each property type. The appraiser properly obtains current market rents through an annual questionnaire sent to all participants in the CLCA program and uses the submitted income data to determine the value of restricted CLCA land. The appraiser combines the submitted information with other sources of agricultural data to determine the income and expenses attributable to crop types throughout the county. Information to value the properties is entered into a database computer program. Restricted values are automatically calculated in the computer system using the applicable capitalization rate, which includes components for property taxes and risk. Supplemental assessments are correctly enrolled for the unrestricted portions of the contracted parcels.

During our review, we found some weaknesses in the assessor's CLCA program.

RECOMMENDATION 5: Improve the valuation of CLCA properties by: (1) capitalizing compatible use income in conformance with the Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, (2) estimating income attributable to trees and vines subject to open-space restrictions in conformance with the Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, (3) using appropriate risk components for different types of agricultural properties, and (4) valuing property subject to terminating restrictions as specified in section 426.

Capitalize compatible use income in conformance with the Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*.

We found the assessor is not recognizing compatible use income reported by taxpayers.

Agricultural preserve property encumbered by a CLCA contract is assessed on the basis of its agricultural income-producing ability, plus any compatible use income. In defining the income to be capitalized when valuing open-space properties subject to enforceable restrictions, section 423(a)(3) provides that revenue shall be the amount of money which the land can be expected to yield to an owner-operator. Although this income can be derived from any permitted use of the land under the terms by which it is enforceably restricted, section 428 prohibits residential uses from receiving a restricted valuation. Under these provisions, and in accordance with Government Code sections 51238.1, 51238.2 and 51238.3, the assessor must assume that any use – other than a residential use – allowed by a contract approved by the county/city is a compatible

use. When income generated by this use is attributable to the land, it must be capitalized in the manner specified for restricted properties.

The assessor's current practice results in undervaluing properties subject to open-space restrictions that have reported additional income from compatible uses.

Estimate income attributable to trees and vines subject to open-space restrictions in conformance with the Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*.

We found the assessor uses a cash rent premise for valuation of trees and vines subject to open-space restrictions without providing any documentation supporting the utilized income and expenses.

The AH 521 describes the procedure for estimating the net income attributable to trees and vines subject to open-space restrictions. The net income attributable to the trees and vines is estimated by calculating the net income (prior to recapture of the trees and vines) for both the land and living improvements and deducting the net income attributable to the land. The residual income can then be capitalized into the value of trees and vines.

The assessor's valuation policy for these living improvements may result in inaccurate values.

Use appropriate risk components for different types of agricultural properties.

The assessor uses the same risk component in the valuation of all properties under CLCA contract, regardless of location, property characteristics, or crop. We found no study or market data to support the risk rate selections.

Typically, farmers recognize varying degrees of risk among different types of agricultural properties. Factors such as price stability, production costs, the availability of water, and the probability of damage due to wind and flooding might increase or decrease the risk of a particular property. These factors can affect the income stream to a property reliant on production, whereas a property receiving cash rent would not be subject to the same degree of risk.

The AH 521 recommends a basic risk component of 1 percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. The AH 521 also notes that the risk component will vary according to the risks associated with the development of the income to be capitalized. In addition, because location and characteristics of land vary throughout the county, it is reasonable to expect variations in the risk rate used by the assessor. The use of the same risk rate for all properties may have resulted in incorrect assessments of CLCA properties.

Value property subject to terminating restrictions as specified in section 426.

We found two instances where the assessor incorrectly determined the value of properties whose owners have initiated nonrenewal of their CLCA contracts. The assessor calculated the

nonrenewal value for these properties using an incorrect factored base year value and compound interest factor. We examined the assessor's valuation worksheets and noted examples where the factored base year value indicated on the worksheets does not correspond with the factored base year value reflected on the mainframe. The valuation worksheets in both cases also indicate the present worth factor designated for use in valuing property with seven years to termination was used to calculate the value of these properties, whereas both properties had only five years remaining until termination of the enforceable restriction.

Section 426 contains specific directives concerning the valuation procedure applicable to land subject to a terminating restriction. Such land shall be valued annually by:

1. Determining the full cash value of the land according to section 110.1 (factored base year value) or, if the land will not be subject to article XIII A upon the expiration of the contract, according to section 110 or other special restricted assessment provided for in the law;
2. Determining the restricted value of the land by the capitalization of income method specified for open-space land as provided in section 423;
3. Subtracting the restricted value from the value determined in 1 above;
4. Discounting the difference between the restricted value and the value determined in 1 above for the number of years remaining until the termination of the enforceable restriction at the interest rate announced by the State Board of Equalization by October 1 pursuant to subdivision (b)(1) of section 423; and
5. Adding this discounted value to the restricted value determined in 2 above.

The assessor's current methodology understates the enrolled value of properties that have initiated the nonrenewal process.

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.

For the 2008-09 assessment roll, the assessor enrolled 2,862 taxable possessory interests, with 102 enrolled on the secured roll and the remainder enrolled on the unsecured roll. The taxable possessory interest usages range from airlines, hangars, and rental car agencies at San Francisco International Airport, to private uses at the county fairgrounds, to boat slips and aircraft tie-downs at the various public marinas and airports in the county.

During our review, we noted the following areas for improvement to the taxable possessory interest program.

RECOMMENDATION 6: Improve the taxable possessory interest assessment program by: (1) issuing supplemental assessments for changes in ownership of qualifying taxable possessory interests at the county fairgrounds and (2) revaluing taxable possessory interests only at the end of the reasonably anticipated term of possession used to establish the base year value.

Issue supplemental assessments for changes in ownership of qualifying taxable possessory interests at the county fairgrounds.

We found the assessor does not issue a supplemental assessment when a taxable possessory interest at the county fairgrounds is revalued subject to a change in ownership.

Pursuant to section 75.10, a supplemental assessment must be issued upon a change in ownership or the completion of new construction. This includes all changes in ownership or new construction involving taxable possessory interests. Although section 75.5 excludes from supplemental assessment newly created taxable possessory interests established by month-to-month agreements with a full cash value of \$50,000 or less, we identified possessory interest assessments at the fairgrounds that did not fall under this exclusion and where supplemental assessments were not issued.

We acknowledge that the assessor applies supplemental assessments, where applicable, in relation to other possessory interests occurring in the county. However, the failure to properly levy a supplemental assessment in all cases where legally prescribed results in a diminished supplemental assessment roll and the loss of property tax revenue.

Revalue taxable possessory interests only at the end of the reasonably anticipated term of possession used to establish the base year value.

Aircraft tie-downs at the county's public airports, and boat slips at county marinas, are generally rented on a month-to-month basis. The assessor estimates reasonably anticipated terms of possession for these possessory interests. However, these possessory interests are being revalued annually instead of at the end of the anticipated term of possession determined as of the original assessment.

Section 61(b)(2) provides that a renewal or extension of a taxable possessory interest 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 anticipated term of possession. For example, if a taxable possessory interest 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 considered to have undergone a change in ownership until the expiration of the five-year term originally used to value the interest unless the interest transfers to a new tenant. The assessor should not annually reappraise these taxable possessory interests.

The assessor's current practice is contrary to statute and results in incorrect assessments.

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.

San Mateo County has eight parcels designated as mining properties and five parcels designated as petroleum properties. Of the eight mining parcels, only three are active. All of the petroleum properties are non-producing. We found no problems with the assessor's assessment of mineral properties.

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.

As of March 2009, the assessor's staff assigned to the business property program consisted of roughly 18 positions: 2 principal auditor-appraisers, 11 line staff auditor-appraisers, 1 real property appraiser, 3 assessor-recorder technicians, and a nearly dedicated information technology analyst. The real property appraiser values possessory interests at the airports and processes property statements for many of the business operations sited at the San Francisco International Airport. The business property division is under the direction of a Deputy Assessor-County Clerk-Recorder. The nearly full time support of an information technology analyst provides a significant aid in the administration of business property assessment responsibilities.

In this section of the survey report, we review the assessor's programs for conducting audits, valuing business property, and assessing aircraft.

Audits

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

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

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a *significant number of audits* as specified in section 469. The significant number of audits required is at least 75

percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

The following table indicates the total number of audits completed during recent years:

DESCRIPTION	2007-08	2006-07	2005-06	2004-05
Audits Scheduled				
Mandatory	188	279	228	304
Nonmandatory	24	10	23	17
Contract Audits (CCCASE)	77	45	46	49
Total Audits Scheduled	289	334	297	370
Unfinished From Prior Years	59	42	17	41
Total Audit Workload	348	376	314	411
Audits Completed				
Mandatory	291	307	249	377
Nonmandatory	24	10	23	17
Total Audits Completed	315	317	272	394
Audits Carried Forward	33	59	42	17

In San Mateo County audit responsibility falls upon 11 auditor-appraisers, of which four are senior level staff, which are all under the direction of a principal auditor-appraiser.

We reviewed the assessor's calculations which establish future audit workloads, as well as 2008-09 audit production to date. We found the assessor will likely meet his newly established production obligation under section 469. For the year to date, the assessor had completed 199 audits required by section 469. The statute requires the assessor to complete at least 217 of these audits per year hereafter. Therefore, it appears the assessor will complete the newly defined number of audits required.

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 sampled several recently completed audits and found that in all cases mandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. We found the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. Furthermore, we reviewed the assessor's application of roll corrections to reflect audit findings. After sampling several "Proposed Value Worksheets" along with the associated value changes, we found that when correcting for multiple-year audit findings, the assessor is enrolling roll corrections for each year in which the escape assessment took place pursuant to section 531.

We have no recommendations regarding the assessor's audit 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 with percent good factors. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

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

Application of BOE-Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in the AH 581 with the exception of specific types of equipment (namely, pagers, facsimile equipment, high tech medical equipment, and photocopiers) that the CAA recommends should not be trended. We found the assessor has mechanisms in place to ensure the consistent application of the CAA and BOE-recommended valuation tables.

Minimum Percent Good Factors

Section 401.16(b) was added to the Revenue and Taxation Code to prohibit the assessor from using minimum percent good factors that are determined in an unsupported manner. During our survey, we found the assessor is using unsupported minimum percent good factors.

RECOMMENDATION 7: Uniformly use minimum percent good factors that are supportable as provided in section 401.16(b).

We found the assessor is utilizing three valuation tables whose minimum percent good factors are not supported. The minimum valuation factors utilized in the assessor's four-year trended and untrended tables, as well as the assessor's 20-year commercial table, are based upon appraiser

judgment and are not supported by market evidence. This practice is not in compliance with section 401.16(b) and can lead to erroneous value conclusions.

Mobile Agricultural Equipment Trending and Percent Good Factors

The AH 581 includes specific tables for use in valuation of mobile agricultural equipment. Table 3 provides index factors, and Table 6 provides percent good factors for valuation of new and used mobile agricultural equipment. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for mobile agricultural equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. Where the condition upon purchase is known, the assessor should use the "new" or "used" table.

RECOMMENDATION 8: Use the BOE-prescribed factor tables when valuing mobile agricultural equipment.

We reviewed the assessor's factor tables, in addition to several processed property statements reporting agricultural equipment, and found that the assessor is not using the appropriate BOE-prescribed trending and percent good tables published in AH 581 for use in the valuation of mobile agricultural equipment. The assessor's current practice of not using the BOE-prescribed tables as intended may result in erroneous assessments.

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. In order to ensure consistent pro-ration of reported machinery and equipment to fixtures and personal property, the assessor has prepared a schedule to provide guidance to statement processors when estimating fixed machinery and equipment allocations.

Overall, the assessor has strong procedures in place to ensure accurate classification of business personal property with the exception of apartment personal property.

RECOMMENDATION 9: Properly classify and assess all landlord-owned personal property in apartment complexes pursuant to section 602.

Landlord-owned personal property in apartment complexes is assessable and reportable on the annual form BOE-571-R, *Apartment House Property Statement*. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, gym equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, and common area furniture. We found the assessor classifies the entire value of some apartment complexes and multi-residential properties as real property, with no allowance for taxable personal property. The assessor currently enrolls personal property separately for 95 multi-residential properties which constitute some of the larger complexes in the county. However, we found the assessor does not separately assess personal property owned and located at many of the county's medium to small multi-residential properties. We reviewed a random sampling of multi-residential assessments and found several properties likely to own taxable personal property with only land

and real property improvements enrolled for the 2008-09 assessment roll. Among the apartment complexes identified with no personal property assessments was a complex comprised of 694 rentable units. Concurrently, we identified several properties valued between \$4 million and \$32 million with no value allocated to personal property. It is highly likely that these enrolled values include sizable amounts of assessable personal property.

Section 602 requires that taxable property be classified by type on the assessment roll. Rules 121 through 124 provide guidance in the proper classification of property. Misclassifying personal property as real property improvements results in overassessments. In general, the taxable value of real property increases annually due to the application of the article XIII A inflation factor, while personal property generally depreciates in value over time. Additionally, real property improvements are subject to supplemental assessments. A further consequence of the assessor's current practice is that similar and competing multi-residential properties within the county are not being equitably assessed. Therefore, this practice not only fails to conform to section 602, but likely leads to overassessments and the inequitable treatment of similar property.

Computer Valuation

Pursuant to section 401.5, the BOE also issues valuation factors for computer equipment in the AH 581. We found the assessor has adopted the CAA factors for computer equipment. The factors agree with those found in AH 581.

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. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2008-09 assessment roll, the assessor enrolled 397 general aircraft with a total assessed value of \$306,717,945. The following table details recent aircraft assessment history:

ROLL YEAR	ASSESSMENTS	ENROLLED VALUE
2007-08	403	\$340,589,046
2006-07	423	\$263,406,789
2005-06	423	\$187,886,341
2004-05	414	\$185,387,149

In San Mateo County, an Assessor-Recorder Technician III and a partially dedicated Auditor-Appraiser II are responsible for general aircraft valuation. The assessor discovers aircraft through airport operators' reports, other county referrals, and the Federal Aviation Administration website.

Each year, the assessor mails an aircraft property statement to the owner of each aircraft in the county requesting current information. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The aircraft statement indicates a filing due date of March 15, and accompanies an official request containing penalty language pursuant to section 5367.

Upon receipt of the completed aircraft property statement, the assessor-recorder technician processes the majority of the returned statements and generates a value conclusion based upon value indicators published in the computerized version of the *Bluebook*. The auditor-appraiser reviews all aircraft statements processed by the assessor-recorder technician and keys the value data into the assessor's mainframe database. The auditor-appraiser then completes the entry by signing off each reviewed valuation worksheet. Property statement processing for the more complex aircraft assessments is conducted solely by the auditor-appraiser.

We reviewed several aircraft statements for legally prescribed application of late filing penalties, if applicable, and tested several assessments for proper valuation methodology. We found the assessor's general aircraft assessment program to be properly administered with one exception.

RECOMMENDATION 10: Apply adjustments for condition and sales tax to the average aircraft retail price in the manner outlined in Assessors' Handbook Section 577, *Assessment of General Aircraft*.

The assessor uses published value guides, such as the *Bluebook* and *Vref*, to value general aircraft. The assessor has concluded, however, that the application of adjustments for sales tax and condition would essentially be offsetting. Therefore, neither of the required adjustments is made to the indicated value.

The assessor should first adjust the indicated value by 10 percent to reflect an overall average condition, and then modify this value for other adjustments to reflect additional condition

adjustments, engine hours, airframe time, avionics, etc. Sales tax should be applied to the final adjusted value. The assessor's current practice is contrary to the BOE's valuation guidelines contained in the AH 577.

In conclusion, the assessor's general aircraft valuation methodology produces values that are inconsistent with values otherwise derived by following the guidelines prescribed in the AH 577 and LTA 97/03.

Fractionally Owned Aircraft

Effective as of the 2007-08 tax year, fractionally owned aircraft are assessed on a fleet-wide basis to the manager in control of the fleet. Pursuant to section 1161(c), fractionally owned aircraft shall be assessed on an allocated basis using an "allocation factor." This factor is a fraction, the numerator of which is the total number of landings and departures made by the fleet type in the county in the previous year, and the denominator of which is the total number of landings and departures made by the fleet type worldwide during the previous calendar year. Section 1162 contains a provision for the appointment of a lead county assessor's office to facilitate property reporting, allocation calculations, the transmittal of allocated values to other jurisdictions where situs has been established, and provide for coordinated multi-county audits.

We reviewed the assessor's procedures for the valuation of fractionally owned aircraft and found that San Mateo serves as the lead county to one fractionally owned fleet. The assessor correctly notifies the fleet manager, on an annual basis, by the statutorily prescribed deadline of October 15. We found that the unallocated value was accurately calculated, and that the value data was transmitted to other assessors in whose county situs was established.

Certificated Aircraft

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

Thirty-one commercial air carriers flew in and out of San Francisco International Airport during the 2007 calendar year. The auditor-appraisers responsible for certificated aircraft appraisal functions process the annual business property statements and calculate the pro-rated value according to the methodology set forth by the CAA subcommittee. Appraisals of this type are predicated upon the reported costs indicated on the air carrier business property statements. The auditor-appraiser applies the percentage of time the aircraft is situated in San Mateo County based on a one week sample, including both ground time and air time, to the airline's total audited fleet estimate of value, to derive a pro rata estimate of the certificated aircraft value.

We reviewed the assessor's certificated aircraft appraisal procedures, in addition to a sample of processed air carrier property statements, and found the program to be correctly administered and the estimates of value to be accurately calculated pursuant to section 401.17.

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 ten historical aircraft assessed on the 2008-09 roll in San Mateo County with a total value of \$865,665. The assessor properly obtains signed affidavits, in the format prescribed by the BOE, and certification of attendance for historical aircraft exemptions claimed within the county pursuant to section 220.5(c). We reviewed several historical aircraft assessments and exemption claims. We found the assessor has properly granted the exemption when the legal conditions are met. We also were able to confirm that the assessor correctly denied the exemption when the statutory requirements were not met. Due to the assessor's proactive communication with historical aircraft owners, there were no instances in recent years where the partial exemption was merited in accordance with section 276.5. However, the assessor has the proper mechanisms in place should circumstances merit the application of a reduced exemption. We found the assessor's historical aircraft exemption program to be managed in an effective and efficient manner.

APPENDIXES

A. County-Assessed Properties Division Survey Group

San Mateo County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck

Supervising Property Appraiser

Survey Team Leader:

Ronald Louie

Senior Specialist Property Appraiser

Survey Team:

Jim McCarthy

Senior Mining and Petroleum Appraisal Engineer

Mike Brennan

Associate Property Appraiser

Tammy Aguiar

Associate Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Angie Berry

Associate Property Appraiser

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁵ 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 1 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 Board of Equalization, 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 Board'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 Board's County-Assessed Properties Division (CAPD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁶

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.

⁵ 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.

⁶ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by Board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by Board employees.

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

15643. When surveys to be made.

- (a) The Board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the BOE shall each year, in accordance with procedures established by the Board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the Board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the BOE 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 the Board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



Warren Slocum

Chief Elections Officer & Assessor-County Clerk-Recorder

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September 13, 2010

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

Dear Mr. Kinnee,

Enclosed is our response to the recent State Board of Equalization Assessment Practices Survey of San Mateo County and its ten recommendations. This response is made pursuant to Section 15645 of the California Government Code. Please incorporate this response into your final Assessment Practices Survey Report.

I would like to express our appreciation for the professional and courteous manner in which the survey team conducted their business. Their constructive comments regarding our process and product are appreciated.

More importantly, I would like to acknowledge the staff of the San Mateo County Assessor's Office for their hard work, professionalism, and commitment to serving San Mateo County and the San Mateo County taxpayers. The results of your survey reflect the exceptionally effective work of our team. Their continuing dedication to improving service to our constituents and property owners is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "WSlocum", written over a horizontal line.

Warren Slocum

Enclosure

**Assessor's Response to State Board of Equalization
2009 Assessment Practices Survey Report**

Recommendation 1: Ensure appraisers meet section 671 annual training requirements.

Assessor's Response

We agree that a small percentage of our staff are delinquent in continuing education hours and we will continue to encourage and make available all possible training options to staff.

Recommendation 2: Provide adequate documentation in appraisal records to support value conclusions.

Assessor's Response

We agree that some documentation may not be available in the parcel files. However, when these documentations are not available, copies of MLS listings, Marshall Swift valuations or other documentations are always kept for replacement dwelling comparisons, new construction valuation and all open market transfers.

Recommendation 3: Apply appropriate penalties as required by section 482(b) if a form BOE-100-B is not returned timely.

Assessor's Response

We agree and starting in January 2010 we have enacted SB 816.

Recommendation 4: Value construction in progress as current market value as of the lien date pursuant to section 71.

Assessor's Response

We disagree. Construction costs change from year to year, on projects that last more than one year completing a valuation as of each lien date would mean that an appraiser might be valuing the same project 3 or 4 times. Frequently, some of the work performed is maintenance work, remodeling or does not contribute to market value. Additionally, the market for incomplete construction is limited; and if sold in that condition, would typically sell at a discount.

Recommendation 5: Improve the valuation of CLCA properties by:

(1) Capitalizing compatible use income in conformance with the Assessors' Handbook 521, Assessment of Agricultural and Open-Space Properties,

(2) Estimating income attributable to trees and vines subject to open-space restrictions in conformance with the Assessors' Handbook 521, Assessment of Agricultural and Open-Space Properties,

(3) Using appropriate risk components for different types of agricultural properties, and (4) valuing property subject to terminating restrictions as specified in section 426.

Assessor's Response

(1) We agree that capitalizing compatible use income should be determined for the CLCA lands that are actually productive, operating agricultural property. Much of the San Mateo County

property under CLCA contract is not actually utilized for agricultural purposes. The majority of the CLCA land is non-productive acreage used as open space. The issue is one of properly classifying the actual use of the CLCA property. We will better identify the actual productive operating agricultural properties, current land use classifications and income data, to establish compatible uses where applicable as staffing permits.

(2) We agree that estimating income attributable to trees and vines subject to open-space restrictions should be determined for the CLCA lands. We will identify the actual income attributable to trees and vines and will assess these properties accordingly.

(3) We agree that the appropriate risk components for different types of agricultural properties should be determined for the CLCA lands. We will better identify the actual productive operating agricultural properties, current land use classifications and income data to determine the risk component as staffing permits.

(4) We agree that valuing property subject to terminating restrictions in section 426 should be assessed as specified. Accordingly, we have created a non-renewal calculation program for properties whose owners have initiated non-renewal of their CLCA contracts to be in conformity with section 426.

Recommendation 6: Improve the taxable possessory interest assessment program by:

(1) Issuing supplemental assessments for changes in ownership of qualifying taxable possessory interests at the county fairgrounds; and

(2) Revaluing taxable possessory interests only at the end of the reasonably anticipated term of possession used to establish the base year value.

Assessor's Response

(1) We agree that supplemental assessments for Change of Ownership of qualifying taxable possessory interest should be assessed. We have implemented an unsecured supplemental assessment program to value the taxable PI.

(2) We agree and, as time permits, will establish an automated tracking system that will revalue the small PI in aircraft tie-downs and public marina boat slips.

Recommendation 7: Uniformly use minimum percent good factors that are supportable as provided in section 401.16(b).

Assessor's Response

We agree. Starting in 2011 we will use the 10% minimum for the 4-year trended and untrended table.

Recommendation 8: Use the BOE-prescribed factor tables when valuing mobile agricultural equipment.

Assessor's Response

We agree. Due to the limited amount of mobile agricultural equipment in our county, we have not developed a table for this type of property. We will incorporate this new table in our procedures for 2011.

Recommendation 9: Properly classify and assess all landlord-owned personal property in apartment complexes pursuant to section 602.

Assessor's Response

We disagree with the BOE conclusion that personal property assessments on small apartments would reach the threshold for a property tax audit. We do not see this recommendation as cost beneficial and would tend to cause additional administrative burden and confusion for the owners of small, multi-unit residential buildings. The actual value of personal property included in the sale price is typically de minimus and in most cases could be exempt under the County's Low Value Ordinance.

Recommendation 10: Apply adjustments to the average aircraft retail price in the manner outlined in Assessor' Handbook Section 577, Assessment of General Aircraft.

Assessor's Response

We disagree. The BOE guideline and the Assessor's process arrive at the same value conclusion. The process and deducting 10% then adding 9.25% versus using the price guide without adjustment is what is typically done in the market. Since the appraisal is an opinion of value, our process mirrors that of users in the market place and results in a value that is reasonable, supportable and within a de minimus range of the BOE recommended process.