

*ASSESSMENT
PRACTICES
SURVEY*

A REPORT ON THE ASSESSMENT OF NEWLY CONSTRUCTED PROPERTY AND PROPERTY UNDER
CONSTRUCTION

FALL 1982

ASSESSMENT STANDARDS DIVISION
DEPARTMENT OF PROPERTY TAXES
CALIFORNIA STATE BOARD OF EQUALIZATION

ASSESSMENT PRACTICES SURVEY

A REPORT ON THE ASSESSMENT OF NEWLY CONSTRUCTED PROPERTY AND PROPERTY UNDER
CONSTRUCTION

FALL 1982

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Conway H. Collis, Los Angeles.....First District
Ernest J. Dronenburg, Jr., San Diego.....Second District
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Kenneth Cory, Sacramento.....State Controller
Douglas D. Bell, Executive Secretary

Memorandum

To: Honorable Richard Nevins
Honorable Ernest J. Dronenburg, Jr.
Honorable Conway H. Collis
Honorable William M. Bennett
Honorable Kenneth Cory

Date: September 22, 1982

From: Gordon P. Adelman, Assistant Executive Secretary
Property Taxes Department

Subject: A Report on the Assessment of Newly Constructed Property and Property Under Construction, September 1982.

This report is the third in the series of special topic surveys authorized by the Board to supplement its Assessment Practices Survey Program.

The survey report is designed to present findings of the 1981 statewide survey of the assessment of newly constructed property and property under construction. The report brings together at a single point in time the practices and procedures employed by fifty-five county assessors (three county assessors chose not to participate in this survey) in assessing these important types of properties, which are important despite their limited numbers. We hope this report will direct attention to procedures found to be effective and will aid in promoting equalization among the 58 counties.

Appreciation is extended to those whose cooperation made this report a valuable reference document and tool to use in improving California's property tax program.

GPA:ebv

cc: Mr. Douglas D. Bell

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PREFACE

The California State Board of Equalization is required by law to conduct management audits of assessors' offices and to publish an Assessment Practices Survey report of each of the 58 county assessors' offices at least once every five years. Special Topic Surveys are conducted on a timely basis to supplement the Assessment Practices Surveys. A Special Topic Survey may encompass several or sometimes all of the county assessors' offices in California, focusing on particular subject areas or on major issues where timely information is needed by the State Board of Equalization, the county assessors and other State and local government agencies.

The Board selected as the subject of this Special Topic Assessment practices Survey, The Assessment of Newly Constructed Property and Property Under Construction. The survey was conducted and written by the staff of the Assessment Standards Division under the direction of the Property Taxes Department.

The narrative sequence of this Special Topic Survey begins with the introduction in Chapter I, then follows with conclusions in Chapter II. Definitions appear in Chapter III and Property Tax Department "positions" follow in Chapter IV. The response by assessors to the questionnaire on new construction is discussed in Chapter V.

Appendix 1 provides a comparison of the value of newly constructed property in 1978 and 1979 as determined by the First Security Bank, the State Department of Housing and Community Development, and as reported by the county assessors. Appendix 2 contains sections of the State Health and Safety Code that specify the use of building permits by all permit-issuing agencies in the State. Appendix 3 contains sections of the Administrative Code that deal with the treatment of new construction for property tax purposes. Appendix 4 is a copy of the questionnaire that was used to gather data for this report. Appendix 5 lists Board letters to county assessors regarding new construction. Finally, appendix 6 is a Board letter to county assessors regarding multistage construction.

Verne Walton, Chief
Assessment Standards Division
Department of Property Taxes
California State Board of Equalization

I. INTRODUCTION

In June 1978, the California electorate added Article XIII A to the State Constitution and changed the procedure for assessing newly constructed properties and properties under construction on the lien date, March 1 of each year. The State Board of Equalization, in executing its responsibility to maintain property tax equalization, instructed its Department of Property Taxes to conduct a comprehensive statewide survey and to prepare a documented survey report of its findings on the current practices being used to value and enroll newly constructed properties under construction on the lien date. In 1981 a questionnaire was sent to each of the 58 county assessors to gather information relative to the assessment of these properties.¹ Detailed information regarding individual county experience was also obtained and may be used in identifying the need for and the logical preparation of property tax rules and assessment practices guidelines for which the State Constitution and statutes hold the Board accountable. Information was also obtained from other public sources such as the Department of Housing and Urban Development, as well as from private sources that included lending institutions, private research firms, individual contractors, and property owners.²

Limiting conditions

The reader of this report is cautioned that a questionnaire can be occasionally misunderstood and that inappropriate answers to questions may be unintentionally submitted. Information found to appear inconsistent with information from earlier years has been rechecked to ensure that the questions were understood and that the best possible answers were given. Overall, the assessors' responses to the staff's questionnaire have been candid and were offered in a cooperative spirit.

¹ A copy of the questionnaire appears in Appendix 4.

² See Appendix 1.

II. CONCLUSIONS

The purpose of this Special Topic Survey is to determine the impact that Article XIII A had on the assessment of newly constructed property and construction in progress. A questionnaire was used to ask county assessors specific questions that would provide an indication of the workability of the current laws and also indicate those areas in which the staff should provide additional training, clearer guidelines, and initiate recommendations for changes in the rules or laws. Assessors were asked for suggestions that could improve the procedure for assessing new construction. Comments ranged from "too many rules" and "the rules change too often" to "the laws and rules need to be changed completely." Some respondents wondered if the established rules properly interpret the intent of Article XIII A. The need for stability in the rules and procedures for assessing new construction was stressed. A few comments suggested that more correlation is needed among county assessors, county counsels, the Property Taxes Department, and the Board's legal staff in interpreting the law.

The diversity of opinion expressed on the treatment of new construction suggests that uniformity of assessment practice does not exist. Some assessors want new construction identified by the impact it has on effective age and quality class. Others feel that any added value should be considered new construction. Still others suggest assessing everything except normal maintenance. These opinions and answers to other questions point to a range of treatment for new construction. Several assessors asked that the rules for the determination of new construction be simplified so that appraiser judgment can be used to replace complicated rules.

Among the comments were suggestions that more workshops or seminars on Rule 463, "Newly Constructed Property," should be conducted to clarify new construction. There was a request for a workshop related to new construction audits, and a task force was suggested to develop more definite guidelines. Several assessors suggested that they be provided additional specific "new construction" examples, indexed for convenience. Lastly, some assessors stated that existing appraisal records need to be redesigned to facilitate handling of new construction.

Assessors referred often to the need for better definitions of "remodeling," "substantially equivalent to new" and "new construction." Some said difficulty may exist because early in 1978 the Property Taxes Department stated that a raise in quality class and the extension of economic life are tests for new construction. Later in county assessors' letters (after Assembly Bill 1488) these conditions were not used as a basis for determining new construction. Some assessors' offices, however, still use these criteria.

The final question in the questionnaire asked "Do you have difficulty administrating or understanding any particular phase of processing new construction under the Jarvis-Gann initiative?" Responses to this question included many of the same comments noted above. Assessors asked, "What is new construction?" and "What is equivalent to new?"

Some of the problems listed were determining which alterations qualify as new construction and determining whether or not some types of so-called maintenance are actually, or should be considered, new construction. There is disagreement with the Board's rules, which seem to

exclude some remodeling from the category of new construction. It was suggested that the Board rule should read: "Any alteration that adds value should be appraised for value added.

On the problem of "equivalent to new," more definitive guidelines were requested. The questionnaires show there are differences of opinion as to what unit, subunit or component must be "equivalent to new." Some of the difficulty may be caused by the wording in the board rule which, in discussing improvements, adds the words "or any portion thereof." While the wording in the Board rule refers to an addition or a room as "any portion," county interpretations sometimes apply to more fragmented portions of the building such as residential (replacement) fixtures. Even when the guidelines are used as intended, differences appear in interpreting "substantially equivalent." Answers to other questions show that partial rehabilitation (short of the Board's guideline) is sometimes used. For example, a point system where 50 or more rehabilitation points out of 100 equals new. Another county considers 90 percent good as substantially equivalent to new.

Other problems (listed on question 36 of the questionnaire) included difficulty in the determination of "changes in use" and the "completion date" of some structures. There was also a problem mentioned in tracking new base years of new construction.

Based upon the information returned in the questionnaires, it is obvious that the language used in implementing the assessment of new construction and construction in progress needs additional clarification. And while this survey is not intended to measure the effectiveness of assessors or their specific compliance with new laws, it does indicate that similar properties situated in different counties are treated somewhat differently for tax purposes.

The following copy of the property tax rules are included for ready reference. Other property tax rules are presented in appendix 3.

III. DEFINITIONS

A. PERTINENT SECTIONS FROM CALIFORNIA ADMINISTRATIVE CODE

PROPERTY TAX RULES

Chapter 1. State Board of Equalization – Property Tax
Subchapter 4. Equalization by State Board of Equalization
Article 3. Taxable Property of a County, City or Municipal Corporation

Rule 460 GENERAL APPLICATION

Reference: Article XIII A, Sections 1 and 2, California Constitution.

(a) Sections 1 and 2 of Article XIII A of the Constitution provide for a limitation on property taxes and a procedure for establishing the current taxable value of locally assessed real property by reference to a base year full cash value which is then modified annually to reflect the inflation rate not to exceed two percent per year.

(b) The following definitions govern the construction of the terms in the rules pertaining to Sections 1 and 2 of Article XIII A.

(1) **BASE YEAR.** The assessment year 1975-76 serves as the original base year. Thereafter, any assessment year in which real property, or a portion thereof, is purchased, is newly constructed, or changes ownership shall become the base year used in determining the full value for such real property, or a portion thereof.

(2) **FULL CASH VALUE.**

(A) The full cash value of real property means:

1. The "full cash value" as defined in Section 110.1 of the Revenue and Taxation Code, as of the lien date 1975 for properties with a 1975-76 base year, or
2. The "full cash value" as defined in Section 110 of the Revenue and Taxation Code as of the date such real property is purchased, is newly constructed, or changes ownership after the 1975 lien date, the full cash value of which shall be enrolled on the lien date next succeeding the date when such real property, or portion thereof, is purchased, is newly constructed, or changes ownership.

(B) If real property has not been appraised to its appropriate base year full cash value, then the assessor shall reappraise such property to its full cash value for the appropriate base year lien date. Such reappraisals may be at any time, notwithstanding the provisions of Section 405.6 of the Revenue and Taxation Code but 1975-76 base year values must be determined prior to July 1, 1980.

(3) **RESTRICTED VALUE.** Restricted value means a value standard other than full cash value prescribed by the Constitution or by statute authorized by the Constitution.

(4) **FULL VALUE.** Full value (appraised value) means either the full cash value or the restricted value.

(5) **INFLATION RATE.** For each lien date after the lien date in which the base year full value is determined, the full value of real property shall be modified to reflect the percentage change in cost of living, as defined in Section 2212 of the Revenue and Taxation Code; provided that such value shall not reflect an increase in excess of 2 percent of the taxable value of the preceding lien date.

(6) **TAXABLE VALUE.** Taxable value means the base year full value adjusted for any given lien date as required by law or the full cash value for the same lien date, whichever is less.

(7) **PROPERTY TAX RATE.** The property tax rate is the rate calculated in accordance with the ad valorem tax limitations prescribed by Section 1 of Article XIII A of the Constitution.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978
Amended January 25, 1979, effective March 1, 1979. Applicable to assessments for 1979 and years thereafter.
Amended August 16, 1979, effective August 22, 1979. Amended (b) (2) (A) 1. and 2. and (B), (b) (6), repealed (b) (7) and renumbered (b) (8) as (b) (7).

Rule 460.1. 1975 BASE YEAR VALUES.

Reference: Section 110.1, Revenue and Taxation code.

(a) For the 1978-79 fiscal year and years thereafter, the assessor shall determine base year value for property or portion thereof with a 1975 base year at the value appearing on the 1975-76 assessment roll when that value resulted from a "periodic appraisal" made for the 1975 lien date, whether or not the 1975-76 roll value differed from the 1974-75 assessment roll value.

(b) The value of a parcel of property shall be presumed to have been determined pursuant to a "periodic appraisal" for the 1975-76 fiscal year if the assessor's determination of the value for that year differed from the 1974-75 assessment roll value, but the assessor may rebut the presumption by evidence that notwithstanding such differences in value, the property was not "periodically appraised" for the 1975-76 fiscal year.

Value differences between the 1974-75 and 1975-76 assessment rolls resulting from such things as zoning changes, new construction, or interim adjustments not designed to equal 1975 general revaluation levels will not be considered as resulting from "periodic appraisals."

(c) For the 1978-79 fiscal year and years thereafter, any property or portion thereof whose 1975-76 value was determined as a result of an appeal filed in 1975 with a county board shall have that value as its 1975-76 base year value.

(d) The base year value of any property not appraised for the 1975 lien date or not determined as a result of an assessment appeal filed in 1975 shall be valued by the assessor using only those factors and indicia of fair market value actually utilized in "periodic appraisals" made for the 1975 lien date. Such values shall be consistent with the values established for comparable properties that were reappraised for the 1975 lien date.

(e) Determinations of value made pursuant to (d) of this section shall be made at any time until June 30, 1980, and if made prior to June 30 of any year may be added to either the roll for the fiscal year in which the value determination is made or included with the assessments for the succeeding fiscal year.

No escape assessments may be made because of value increases to the 1975 base year that result from redetermination of values pursuant to this section, but decreases in such values shall be certified to the auditor by the assessor as corrections to the roll prepared for the 1978-79 fiscal year and fiscal years thereafter, as is appropriate.

History: Adopted May 23, 1979, effective May 25, 1979.

B. NEW CONSTRUCTION: DEFINITIONS OF TERMS

Sections 70 and 71 of the Revenue and Taxation code and Property Tax Rule 463 make repeated reference to certain terms. These terms, closely associated with the topic of new construction, must be defined and clearly understood before an understanding of correct appraisal procedures for new construction is possible. Following are the terms that have proven to be stumbling blocks for persons involved with property tax assessments.

1. "Addition":

The act or process of adding; also, the unit or component of a unit that is added. The act of adding implies that there is a pre-existing structure or base to which something is added. For property tax purposes, additions made to a property do not change the base year or base value of the pre-existing portion of the property.

2. "Alteration":

The act or procedure of altering; a modification or change. An alteration qualifies as new construction when it

- a. rehabilitates real property to the point that it is "like new," or
- b. converts the real property to a different use.

3. "Date of Completion":

The date when the property or portion thereof is available for use. The appraiser's estimate of the proper date of completion for purposes of assigning a base-year value will depend upon his opinion of whether the project is completed in stages or as a single-phase project. A few examples will illustrate the judgment that must be made.

A suburban country club is developed as a multiphase project. The initial construction consists of a small number of outdoor tennis courts, a swimming pool, parking lot and clubhouse with sauna, pro shop, racquet ball courts, etc. The facilities may be expanded if and when membership subscriptions reach a certain level; years later, when membership has reached the desired level, the developer launches the second phase of his club, which consists of a second swimming pool, an enlarged parking lot, and a second wing of outdoor tennis courts. In this instance, correct procedure would be to establish a base-year appraisal for the first phase of the country club as of the date of its completion. The completion of the second phase of construction would be regarded as additions to real property. This phase would be assigned a different base year and would be valued as of the date it is available for use.

A second example illustrates a different set of circumstances. A taxpayer has been acting as owner-builder of this own single-family residence. When the structure is approximately 85 percent complete, the taxpayer moves into the unfinished house and continues to work toward its

completion. It would be valid to conclude that the residence was substantially equivalent to a completed house at the time the owner moved in and began living there; in other words, the property was available for use at that time. The remaining 15 percent of completion could be treated as an addition to real property which would be assigned a different base year and whose value would be determined at the time 100 percent completion was achieved.

The third example involves a shopping center consisting of two suburban strip store buildings and a large, separate anchor store. The master plan calls for the completion of the anchor store first, then for the shells of each of the two strip store buildings to be completed. The interior finish of the two strip buildings will not be completed except as individual tenants are found and leases signed. The shopping center developer will finish the interiors to suit individual tenant needs. In this case, it would be proper to assign a separate base year and base value to the anchor store at the time that it was 100 percent complete, including its interior finish. The date this anchor store was "available for use" would be the date when ordinary retail business could commence—that is, when it was ready to open to the public. The dates of completion of the strip stores would be when the basic shell—concrete floor, walls and ceiling—was complete. The subsequent finishing of each partitioned store space would qualify as additions to real property, that is, as new construction having independent base years and base values.

4. "Modernization":

To real estate appraisers generally, this word means taking corrective measures to bring a property into conformity with changes in style, whether exterior or interior or additions necessary to meet standards of current demand. It normally involves replacing parts of the structure or mechanical equipment with modern replacements of the same kind and hence seldom includes capital improvements. For property tax purposes, modernization implies curing functional obsolescence and physical deterioration to the degree that the structure or fixture is substantially equivalent to new after the modernization has been completed. When this "like new-ness" is achieved, modernization qualifies as new construction as defined in Section 70 of the Revenue and Taxation Code and Property Tax Rule 463.

5. "Normal Maintenance":

Maintenance is the action of continuing, carrying on, preserving, or retaining something; it is the work of keeping something in proper condition. Maintenance performed on real property is normal when it is regular, standard, and typical. Normal maintenance keeps a property in condition to perform efficiently the service for which it is used. Such expenditures do not extend the useful life of the property. In contrast to "addition," it is the upkeep of real property which preserves its value, but it does not increase the "book value" of the property because the expenditures involved are not considered capital improvements. Normal maintenance will ensure that a property will experience an economic life of typical duration. Depreciation tables are based upon presumed normal maintenance; they are a typical representation of the value behavior of a maintained property.

6. "Rehabilitation":

The restoration of a property to satisfactory condition without changing the plan, form, or style of a structure. It involves curing physical deterioration. If rehabilitation brings about the substantial equivalence to new condition of a structure or a fixture, it qualifies as new construction for property tax purposes.

7. "Remodeling":

Changing the plan, form, or style of a structure to correct functional or economic deficiencies.

Commercial tenants will frequently give their stores a primarily cosmetic "facelift" although nothing in their store was physically worn out. The competition within certain service industries (e.g., restaurants) for customer's business compels operators to constantly be seeking a "new look" in order to remain attractive to the public. It is our position that remodeling can be new construction. In remodeling, property is removed and other property of like utility is substituted for it. The old property should be removed at its factored base-year value, and the new property should be enrolled at its current market value as of the date of replacement.

8. "Replacement":

Substituting an item that is fundamentally the same type or utility for an item that is exhausted, worn out or inadequate. For property tax purposes, replacements made as normal maintenance, which do not make the entire structure or fixture the equivalent of new, are not new construction. Replacements can be so extensive and extreme as to make a building "like new." For instance, when a very old house is stripped to its studs and rebuilt from the foundation up, such work would then be considered new construction. It is a matter of degree and calls for appraisal judgment.

9. "Renovation":

Renovation is "making into new condition." The restoration of a structure or fixture to the substantial equivalent of new, whether through rehabilitation or modernization. When renovation results in "like newness," there is new construction.

10. "Substantially Equivalent to New":

Rule 463 (b) (3) defines newly constructed as:

"Any physical alteration of any improvement which converts the improvement or any portion thereof to the substantial equivalent of a new structure..."

Substantially equivalent to new – means the improvement must be physically altered to a point where the new value is at least 80 percent of the value of a comparable new improvement.

Example: An old house is being altered and the contract cost to remodel is not available. The renovation is not 100 percent but falls into one of those grey areas where only partial restoration has occurred. The replacement cost new of a comparable new complete house would be \$100,000. In this example, substantially equivalent to new exists when alterations increase value to \$80,000 or more.

11. "Portion Thereof":

A portion is defined as "a section or quantity within a larger thing; a part of a whole." We are concerned with portions when valuing new construction, whether to land or to improvements. Both land and improvements can be broken down into portions. For instance, a farmer might level only 40 acres of his 640-acre section; the homeowner might add a bedroom and a bath to his home.

It is essential to define "portion" because both Revenue and Taxation Code Section 70 and Property Tax Rule 463 use this term in the context of new construction. We must understand its meaning and application if we are to understand proper assessment procedures for new construction under Article XIII A.

A portion, for property tax purposes, is a component of a land parcel, structure or fixture that is easily recognized by the appraiser; it is a part that has evidence of design for independent, separate use within the structure or fixture as whole. In a hydroelectric plant, it might be the penstock that channels flowing water into a generator; on a large industrial machine, it might be an attached stairway and platform that facilitates servicing and maintenance of the machine; and in a house, it might be a kitchen or bathroom.

It will always require appraisal judgment to correctly identify the portion that has been newly constructed, whether it has been made "like new" or has been physically altered for a new and different use. Similarly, estimating the value added by the alteration will always be a matter of appraisal judgment.

C. DEFINITION OF A UNIT, SUBUNIT, COMPONENT, AND FIXTURE

We use the following terminology in this report in order to identify the property and portions thereof being discussed.

1. "UNIT":

Means one property, including land and improvements, typically traded in the real estate market. Examples: shopping center, apartment building, commercial building, store building, residence, farm, and a single lot in a developed subdivision (it could be the whole subdivision or portion thereof held for sale by the developer).

2. "SUBUNIT":

Means a smaller portion of a UNIT. It is not normally traded in the real estate market but is often leased. Example: store in a shopping center, apartment in an apartment building, office in a commercial building, store in a store building, a room in a residence, a field of a farm, a single lot or portion of a subdivision unit held for sale by a developer.

3. "COMPONENT":

Means a portion of a UNIT or SUBUNIT. Example: foundation, floor, wall, and roof.

4. "FIXTURE":

Means a device or thing that formerly was personal property not subject to value restrictions of Article XIII A, but which has been attached or is used so as to be considered an integral part of real property. As used in this report and under the terms and condition of Article XIII A, FIXTURES does not mean the normal household fixtures such as are located in the kitchens, bathrooms, utility rooms etc. Instead, we mean trade fixtures and other types of real property fixtures found in commercial, industrial, agricultural and any other nonresidential properties.

IV. PROPERTY TAXES DEPARTMENT POSITIONS

A. CHANGE IN USE

Rule 463 (b) (2) and (3) state that physical alterations that lead to a change in the way property is used qualifies as "new construction." The value added by the physical alteration is assessable, but the value attributable to the change in use is not assessable.

Basically, there are five general classifications of use types. These are agricultural, residential, commercial, industrial and recreational. Any physical alteration of land or improvements leading to a change from one of these uses to another would qualify as new construction.

Further, there are sub-uses within each of these general classifications, and any physical alteration leading to a change from one sub-use to another would also qualify as new construction. For example, leveling rolling dry farm land for use as irrigated row crop land would qualify as new construction.

Within each sub-use category there are related uses (e.g. orchards can be peaches, plums, etc.), and a change from one of these related uses to another would not qualify as a change in use. The fact that there is no change in use would not necessarily mean there is no new construction. For example, a change from a peach orchard to a prune orchard would qualify as new construction because one improvement is removed and another substantially equivalent to new is added. Even though the change from a peach orchard to a prune qualifies as new construction, it does not do so on the basis of its being a change in use. Moreover, a change in use will not cause reappraisal unless there is a physical alteration leading to the change in use; and only the additional value created by the new construction that facilitates the change in use may be added to the tax roll.

Following is a list of uses, both general and sub-uses. The list is not intended as all inclusive but rather as illustrative. For example, a change from apartment to condominium would not require reappraisal unless there was a physical alteration. With a physical alteration, only the newly constructed property would be reappraised, (e.g., only the newly added partitions in the attics).

General Use

Agricultural

Sub-Use

Undeveloped Land
Dry farm
Irrigated Row and Field Crops
Orchards and Groves
Kiwis
Jojoba Beans
Grape Vine
Asparagus
Bush Berries

<u>General Use</u>	<u>Sub-Use (Contd.)</u>
Residential	Single Family Multi-Family Condominium Timeshare
Industrial	Mining or Extraction Manufacturing Processing Warehouse
Commercial	Office Buildings Financial Buildings Retail Stores Professional Buildings Food Services Cocktail Lounges Food Sales Automotive Sales Service and Repair Shops
Recreational	Courts Clubhouses Ranges Tracks Swimming Pools Rinks Fields

B. NEW CONSTRUCTION VALUATION PROCEDURES

1. Purpose of Appraisal

To estimate the full value of qualifying new construction as of the date of completion or on the lien date if construction is in progress.

2. Definition of Full Value of New Construction

The full value of new construction is that portion of the increase in the value of the total property upon completion that is attributable directly to the qualifying new construction. The full value does not include elements of value attributable to:

- a. The curing of economic obsolescence.

As economic obsolescence is caused by factors outside the property, value increases attributable to the curing of such obsolescence cannot be incorporated in the new construction assessment.

- b. The curing of functional obsolescence unless:

- (1) The improvement or a portion thereof is substantially equivalent to new upon the completion of the work, or

- (2) The new construction is directly related to a change in use of the property.

Most construction directed toward the curing of physical deterioration is classified as maintenance (roof replacement, repairs, etc.) and is therefore not assessable. Only when the construction is of such magnitude that the improvement becomes substantially equivalent of new or when a change in use of the property is involved can value increments attributable to the curing of physical obsolescence be incorporated in the assessment of new construction.

3. Roll Value Determination

To determine the appropriate roll value following the completion of new construction the assessor shall:

- a. Delete that portion of the factored base year value attributable to property that has been removed.
- b. Add the full value of the newly constructed property. This portion of the property assessment will not be subject to Consumer Price Index (CPI) factoring on the lien date immediately following the date of completion.

4. Valuation Techniques

All three standard approaches to value can be used to appraise new construction. It is desirable to use all approaches possible and to correlate the value indicators into a final value conclusion. However, a lack of available data may prevent the appraiser from using all of the standard approaches in every instance.

- a. The Comparative Sales Approach.

The comparative sales approach is the preferred approach when sufficient sales data are available. To value newly constructed property by this method, the property is appraised with and without the new construction as of the date of completion, using the selling prices of comparable properties. The difference between the appraised values is an indicator of the value of the new construction.

When the new construction consists of an addition to an existing structure, an alternative procedure may be used. The value of the addition can sometimes be directly derived from sales of similar properties without the necessity of making two appraisals of the subject property. This can be accomplished by subtracting the land value of the sold property from the selling price and determining the value attributable to each square foot of improvement area.

Example of Procedure

A 200 sq. ft. addition is added to a 2,000 sq. ft. D6 house. Sales of similar houses in the area (D6-2,200 sq. ft.) indicate a market value of \$50 per sq. ft. of improvement after the deduction of the land value.

Value of addition $200 \times \$50 = \$10,000$

Two major shortcomings to the comparable sales approach are:

- (1) the need for highly comparable market data; and
- (2) the fact that the value derived may apply to all aspects of value increase, some of which may not be attributable directly to the qualifying new construction. For example, the work may involve elements of maintenance as well as assessable new construction or an addition may reduce functional obsolescence of the entire property, an increment of value that should not be included in the assessment of the new construction.

These problems can be avoided if comparable sales data are available that excludes these factors, but from a practical standpoint, the application of this approach is generally limited to the valuation of complete units such as a home or a commercial building and the valuation of additions to single family residences in reasonable homogeneous neighborhoods.

b. The Income Approach.

When new construction involves income-producing properties, the value of the new construction may be established by the income approach. The difference in economic rent for the subject property, with and without the new construction, can be capitalized using current market-derived rates. Generally, the building residual technique is most appropriate when improvements are involved. Direct capitalization is appropriate when there is new construction to land.

The limitations of this approach are similar to those of the comparative sales approach. There is a need for highly reliable market-derived yield and income data, and the value derived may, in certain circumstances, be attributable to more than the qualifying new construction. However, the approach is very useful in the valuation of new commercial and multi-residential buildings and should be applied to these properties whenever possible.

c. The Cost Approach.

The cost approach is the most universally applied approach in the appraisal of new construction because it is the one approach that can be applied to all properties, and it is more applicable to incremental valuation. It is more objective in some of its aspects, and its simplicity makes it desirable when time and resources are limited.

It is axiomatic that costs do not necessarily equate to market value. To compensate for this shortcoming, the values derived should be checked against values derived from the other approaches to value whenever possible. Both the historical cost concept and the replacement cost concept are appropriate for valuing qualifying new construction.

1. Historical Cost.

Because new construction is valued as of the date of completion and because the actual costs of construction represent value to the property owner, the historical cost approach has become the preferred cost concept for the valuation of qualifying new construction. When known costs are full economic costs they should be used to appraise new construction unless the appraiser has market data that indicate these costs do not equate with market value. In applying this cost concept the following procedures should be followed:

- a. Determine the full economic costs. These costs should include all fees, charges, and demolition or removal costs incurred in the project. A general discussion of what costs are appropriate to include is contained in Assessors' Handbook AH501, General Appraisal Manual. The validity of reported costs can be checked with data obtained from local contractors.
- b. Adjust the total costs by applying a percent good factor appropriate for the improvement at the completion of the new construction. If an entire structure is new, the factor would generally be 100 percent. If an addition to an older improvement is constructed, the factor would be that which is appropriate for the total improvement, including the new addition.
- c. Check the validity of this value estimate by comparing it to other available indicators of value.

Example of Procedure

The original building is a residence with an estimated percent good of 80. An addition is constructed at a total cost of \$20,000. In addition to the construction costs, the owner paid \$1,000 to have a wall removed prior to the actual construction. After the addition is completed, the entire improvement is considered to be 85 percent good. The value of the new construction by the historical cost approach would be:

Construction Costs	\$20,000	
Removal Costs	<u>\$ 1,000</u>	
Total	\$21,000	
	x <u>.85</u>	(percent good)
	\$17,850	

2. Replacement Cost

If historical costs are not known or the reported costs are found to be unreliable, the replacement cost approach should be used. While the appraiser can develop his own local costs through contact with local contractors, it is generally more practical to use the Board or Marshall Swift cost factors and adjust them for location and time variables. When Board factors are used, the approach should be applied in the following manner:

- (1) Determine the area of the new construction.
- (2) Determine the appropriate basic cost factor according to size, quality, and shape. If the new construction is an addition, the cost factor should be based upon the size, shape and quality class of the entire structure following the addition.
- (3) Adjust the cost factor for regular additives not indicated in the basic factor (air conditioning, etc.).
- (4) Adjust the factor for time and location.
- (5) Apply the adjusted cost factor to the newly constructed area.
- (6) Add for any construction not normally associated with the quality class (extra plumbing, etc.).
- (7) Multiply the total value derived in step (5) by a percent good factor based upon the condition of the entire improvement following the new construction.

"In any instance in which an alteration is substantial enough to require reappraisal, only the value of the alteration shall be added to the base year value of the pre-existing land or improvements. Increases in land value caused by appreciation or a zoning change rather than new construction shall not be enrolled..."

The following example is demonstrative of this principle:

Example 1

In 1980, a 50-acre parcel of agricultural land zoned for agricultural use was rezoned for residential subdivision use. Following rezoning, the owner contoured the land to facilitate its residential development but continued to farm the land. The 1975 base-year value was \$50,000. The fair market value of the land after rezoning but before contouring was \$250,000. The fair market value of the land after rezoning and contouring but still used for agriculture was \$300,000. The value to be enrolled is \$100,000; the pre-existing base-year value of \$50,000 plus the value of new construction (contouring) \$50,000. Only the value added by new construction may be added to the tax roll.

As this demonstrates, the \$200,000 attributable to the change in zoning (\$250,000 current value less \$50,000 base-year value) is not assessable until there is a change in use or ownership. If the property were to sell at this point, it would have a new base-year value of \$300,000.

Property can increase in value as a result of something done on an adjacent property. For example, a shopping center built near the property in Example 1 could conceivably double the value of the 50 acres of residential land. This increase in value to the residential property is due to the construction of the shopping center, but the additional value is not assessable until the residential property changes use or ownership. Similarly, if a city puts in a sewer system with all lines buried in city-owned streets, this is new construction. The value of the new construction would accrue to the privately owned land, but it would not be assessable until that land changes ownership. With no construction occurring on the privately owned lots, there would be no cause to reappraise (see Example 2).

Example 2

A privately owned lot has a base-year value of \$10,000. The city installs a sewer system, and the lot value increases to \$15,000. This value increase is not assessable until the lot changes ownership. When the lot owner installs sewer pipe and connects to the sewer, the value of the sewer-pipe installation would qualify as new construction. The value of the lot connected to the sewer, as demonstrated by sales or typical costs, is \$17,000. The \$2,000 attributable to the new construction would be added to the property's base-year value of \$10,000 for a new taxable value of \$12,000 (inflationary factoring ignored for simplicity).

Again, the value attributable to appreciation from causes other than new construction on the property being appraised is not assessable until the real property changes ownership.

When real property is subdivided, the assessment problems become more complicated. A significant problem is deciding what property is to be reappraised. In general, we would look to ownership of the property to guide us in determining what is subject to reappraisal. In Example 1, the entire 50-acre property is the property subject to appraisal. Even though it has been "split" into separate parcels, it should, for valuation purposes, be treated as one property until such time as the parcels change ownership and become the property of new owners. Using this as a guide, we can better define the terms "site" and "offsite." An offsite improvement is an improvement built on property that is not part of the property being appraised (e.g. publicly owned land as in Example 2, or the shopping center referenced in connection with Example 1). Of course, it is possible to have separate properties owned by the same person (e.g. a single-family residence in a residential neighborhood and a commercial property in a business district). If this is the case, new construction would only be assessed on the "site" where it actually occurs.

When a subdivision is developed, it is important to know the procedure followed by the municipality involved. If the street improvements and underlying land are not accepted for dedication by the municipality until they pass final inspection, then they remain the property of the developer until that time. It is our understanding that this is the most common occurrence. This being the case, we would suggest appraisal and assessment in the same manner as prior to Article XIII A (i.e. value the new construction and assess it to the individual lots where the value actually occurs).

Upon acceptance of the streets there will be a change in ownership, and the property acquired by the public entity will become tax exempt. Under this situation, it is the staff's position that the value of the land transferred to the public entity should be removed from the tax roll.

The value of improvements located on the land transferred to the public entity should be prorated to all the land served by the improvements, including the land dedicated. This may be accomplished in a number of ways: on a per lot basis, on a per square foot basis, or on a unit of value basis. Each increment of land, regardless of how identified, will receive its prorated share of the improvement value; and the improvement value prorated to the dedicated land should be removed from the roll when the dedicated land value is removed.

D. NEW CONSTRUCTION OF LAND

New construction to land means and includes: any substantial additions to land, or any substantial physical alteration of land which constitutes a major rehabilitation of the land or results in a change in the way the property is used.

It is important to note that new construction to land does not occur unless there is a substantial addition to land or substantial physical alteration to the land. Anytime there is a substantial addition to the land, new construction has occurred. When substantial physical alteration of land occurs, it is to be considered new construction only when the alteration constitutes a major rehabilitation to the land or results in a change in the way property is used.

It is the staff's position that position that "physical alteration" of land is "substantial" and results in major rehabilitation whenever the value created by the alteration (new construction) exceeds

\$1,500 or is equal to ten percent of the value of similar land to which the altered land will be compared when the alteration (new construction) is completed. Comparability in this instance must be established very clearly, taking into account all present and possible future uses for the land.

The following are positions regarding new construction as it applies to land.

1. Agricultural Land

New construction takes place on agricultural land when (1) there is any substantial addition to the land, and (2) when significant physical or chemical alteration of the land occurs and brings about a permanent or semi-permanent major rehabilitation of the land and prepares the land for a more (or less) intense agricultural use, or facilitates a change from agricultural use to a different use such as commercial, residential, industrial or non-specific interim use.

a. Examples of "New Construction" to Agricultural Land

- (1) Permanent land leveling (original leveling). This is new construction because the land has been substantially altered, resulting in a major rehabilitation of the land. In addition, a change of use will normally occur when land is leveled and converted, for example, from dry farm to irrigated crop land.
- (2) Permanent (first time) deep tillage that fractures or displaces growth, inhibiting hardpans, claypans, etc. In this case the land has been substantially altered, and the land rehabilitated. A change of use could also accompany this activity.
- (3) Substantial reclamation projects, including application of soil amendments that permanently neutralize growth-inhibiting elements or compounds, are considered new construction to land. These activities are normally in conjunction with projects that will bring undeveloped land into production or permanently upgrade the productivity of land already in production. In these instances there has been substantial chemical alteration to the land, resulting in a major rehabilitation of the land. Again, a change in use usually occurs.
- (4) Removal of land improvements is considered new construction. For example, the removal of levees, earthen dams and drainage canals is an act of new construction. However, the new construction may not add value to the property. This becomes a valuation problem and, even though new construction has occurred, additional value may not have been created. If additional value has been created, the new construction will have a separate base year. If no value has been added, there will be no change in the base year. If the new construction causes a loss in value, the base year will

remain unchanged and consideration given to decline in value procedures as stated in Section 51 of the Revenue and Taxation Code.

- (5) Clearing of brush, rocks, trees, etc., (other than planted fruit and nut trees and vines which are improvements) may be considered new construction to land when the clearing constitutes a substantial alteration to the land and the land is thereby substantially rehabilitated or the use is changed. For example, if the clearing of land converts its use from grazing land to cropland, there is substantial alteration and a change in use; therefore, land new construction has occurred.
 - (6) Installation of land drainage systems.
 - (a) Installation of underground tile lines constitute new construction when first installed, when additions are made to an existing system, or when an existing system is replaced and results in the substantial equivalent of a new system. These activities are additions and replacements and qualify as new construction.
 - (b) The construction of drainage canals and ditches (additions).
 - (c) Construction of levees, dikes, ridges, contours and dams (additions).
 - (7) Construction of new wells is a form of new construction. Occasionally, wells are rehabilitated by replacement of the casing or by deepening the well hole. Such alterations constitute new construction, and the value created thereby is assessable if such alterations bring about a major rehabilitation.
- b. Examples of routine agricultural activities that do not qualify as new construction:
- (1) Periodic plowing with disk, moldboard, chisel, sweep plows, etc.
 - (2) Periodic chiseling and/or ripping when utilized as part of a normal crop-growing operation and not to bring undeveloped land into production or to permanently upgrade the productivity.
 - (3) Repair to or maintenance of drainage system.
 - (4) Removal of and replanting of an orchard or vineyard (classified as improvements) does not constitute new construction to the land. No substantial alteration of the land has occurred. This does not mean, however, that the removal of and replanting of an orchard or vineyard does not cause reappraisal. A reappraisal is necessary to revalue the new improvements (trees and vines) that have been added.

2. Non-Agricultural Land

The same concepts that apply to new construction to agricultural land also apply to non-agricultural land; there must be either an addition to the land or substantial alteration of land before there can be "new construction."

a. Examples of New Construction to Non-Agricultural Land:

- (2) Leveling, excavation, and/or compacting a lot to prepare it for a building site constitutes substantial alteration. This activity is considered new construction.
- (3) The construction of a well constitutes an addition to the land and, therefore, is new construction (see agricultural land).
- (4) The addition of landscaping, retaining walls or contours and/or fill material all constitute new construction.
- (5) Conversion from vacant land to parking lot. This can only be new construction if substantial additions to or physical alteration of the land occurs: such alteration normally consists of land clearing and leveling.
- (5) When vacant land is subdivided, new construction can occur. Examples of the new construction include land clearing, leveling, road construction and drainage alterations. The act of surveying, mapping, and subdividing by themselves are not new construction; substantial physical alteration or additions to the land must take place before new construction has occurred.
- (6) Dredging operations can qualify as new construction. An example is a dredging project to construct a marina or to enlarge an existing marina. Routine redredging to maintain the facility is not new construction, rather it is considered normal maintenance.

b. Examples of Activities Normally not Considered to be New Construction:

- (1) Conversion from an agricultural use to a "paper subdivision." Until substantial additions or physical alterations to the land occurs, no new construction has taken place.
- (2) Removal of improvements. Even though the market value of the land has been enhanced by the removal, no new construction to the land has occurred unless substantial addition or physical alteration of the land takes place.

New construction can occur if the removal of the improvement included substantial physical alteration of the land. An example is the removal of a large commercial building with a substantial foundation or basement system. The improvement removal would include foundation removal, filling the excavation and releveling, which is substantial physical alteration to the land.

E. CONSTRUCTION IN PROGRESS—IMPROVEMENTS

Section 71 of the Revenue and Taxation states:

"...New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of the property which is newly constructed shall be reappraised at its full value."

Property under construction on the lien date is called "construction in progress" and is referred to as CIP. It may be a total property such as a single-family residence or it may be only a portion of an improvement such as a room addition to a single-family residence. CIP is assessed at its full value on each lien date until construction is complete and the property is available for use. At the time of completion the CIP is reappraised, and this date and value become the "base-year" and the "base-year value" of the improvement or the portion newly constructed.

When CIP is an addition to an existing property, the incremental values of the CIP and the existing property are recorded separately by the assessor so that the base-year value of the existing property may be properly adjusted for inflation as required by law. CIP is not adjusted by the inflation factor during construction (rather it is reappraised), and individual values do not appear separately on the tax roll.

A problem may develop in situations where new construction is interrupted, postponed, or discontinued. It is the staff's position that if no construction (labor or materials) is added to CIP during the 24 consecutive months prior to any lien date, the assessor should assign the property a base-year value. If construction continues at a later date, the assessor should retain the base-year value previously derived, adjusted for inflation, and add the value created by the continued CIP.

F. MULTIPLE-STAGE NEW CONSTRUCTION

Multiple-stage construction occurs when a total property is constructed in stages. Certain portions of the total property are completed and available for occupancy while the remainder of the total property is still being constructed. An example might be a new shopping center where some of the mall shops and one of several planned anchor store buildings are complete and available for occupancy while the remainder of the mall shops and anchor store buildings are either under construction or awaiting construction to begin. A second example might be a high-rise building under construction in which a number of lower floors are complete and available for occupancy while construction of the upper floors continues.

The importance of assessing completed portions of whole (multiple-stage) properties concerns the assignment of the base-year and the determination of base-year value. Except for adjustments upward not to exceed two percent annually for inflation and downward adjustments for any reason, base-year values remain unaltered on all future tax rolls over the life of the property unless a transfer occurs or future new construction occurs. Even with future new construction, the base-year value remains intact for the portion of the property not part of the new construction. The base-year value has a significant impact on the assessment of a property over its lifetime.

It is the staff position that any portion of a property constructed in stages should be assessed as of the date such portion becomes available for use. This position prevailed in the decision of the Superior Court of the State of California for the County of Los Angeles on May 6, 1982, which held that property or a portion thereof is assessable for property tax purposes on the date it becomes available for use.¹

In paragraph 11 of the Complaint of Declaratory Relief, filed by the plaintiff in the above referenced court case, reference is made to Board of Equalization Assessors' Letter 80/77 sent to all assessors on May 8, 1980. The contents of that letter included four examples that demonstrated the proper assessment of properties constructed in stages over one or more lien dates. The court found those examples to be valid.

The following examples are intended to clarify the base-year concept when construction is not complete on the lien date.

EXAMPLE 1

Assume that a shopping center project is being built in stages. One large anchor building and a wing of adjacent stores are complete and occupied on the lien date. The master plan calls for the construction of another anchor building and a group of peripheral buildings in the next year. The completed improvements can be viewed as an independent phase and a base-year value assigned. On the other hand, if the initial stage (the anchor building and adjacent stores) is incomplete on the lien date, it should be valued as construction in progress.

EXAMPLE 2

Assume a high-rise structure has the first level complete and the upper levels completed except for interior finishing on the lien date. The plans call for the upper level to be finished as they are leased. In this case the entire structure, as it exists on the lien date, should be given a base-year and base-value. The interior finishing work will be appraised as new construction on the date or dates of completion.

¹ See: Alexander H. Pope, County Assessor of the County of Los Angeles v. Board of Equalization of the State of California LASC No. C 331120.

EXAMPLE 3

Assume the first store in a commercial building that will contain six stores is complete and occupied, but the remaining five stores are under active major construction. Indications are that the work will progress continuously for another few months until completion. Should the assessor determine a separate base-year value for the occupied portion? In this instance the entire project should be treated as construction in progress until the basic structure is complete. Completion need not include interior finish as indicated in Example 2.

EXAMPLE 4

A residence presents a somewhat different type of problem, particularly recreational homes and owner/builder structures. Assume, as sometimes happens, an owner moves into his owner/builder structure before it is fully complete with the intention of finishing it while living there. Further assume that after a period of years the owner still has not finished the structure. The valuation procedure now becomes questionable. It is not proper to continue valuing this structure year after year as construction in progress. On the other hand, the structure is technically incomplete. The assessor should use his judgment and establish a base-year and base-year value when it appears that the structure is "substantially equivalent" to a completed home and is a livable unit. Finishing at a later date should be handled as new construction.

The completion of property under construction is sometimes delayed for reasons beyond the control of the owner/builder. For example, unforeseen factors such as labor strikes, financial stress, accidents, acts of violence, etc. sometimes affect the progress of construction. It is the staff's position that the principles held valid by the above referenced court case remain valid and that such delaying factors have no impact on the assessment of property. Any property or portion thereof under construction is appraised as of the date it is completed, and a base-year value reflecting that value is enrolled the next following lien date. Any property that is incomplete and not available for use on the lien date is appraised on the lien date as construction in progress, but it is not assigned a final base-year value until construction is complete, the property is available for use, and it has been totally reappraised, except when the delay exceeds 24 consecutive months. In such cases, a base-year value is assigned to the 24-month old construction and the conditions specified in Section E above prevail.

G. ASSESSMENT OF NONPORTABLE IRRIGATION SYSTEMS

1. Classification

Property Tax Rule 124 classifies irrigation system components (engines, motors, pumps, platforms, panels, and underground pipelines) as improvements.

2. New Construction

Newly installed irrigation systems and components added to existing systems are assessable as new construction.

3. Reconditioned, Renovated, or Modernized Components

The value created when individual subunits of an irrigation system are reconditioned, renovated, or modernized is assessable only when such components in the "after" condition are substantially equivalent to new components. In this instance, substantially equivalent to new is 80 percent of RCN (replacement cost new).

4. Maintenance and Repair

Maintenance such as lubrication, painting, and replacement of minor parts is not new construction.

5. Major Rehabilitation

The replacement or rehabilitation of major parts such as the windings and bearings in a motor, drive shafts, bowl assemblies in pumps, and major electrical and plumbing parts does not constitute new construction unless such work brings an individual component or the whole system to substantially equivalent to new. In this instance, substantially equivalent means 80 percent of RCN.

6. Underground Irrigation Pipeline

A newly installed irrigation pipeline is assessable as new construction.

7. Maintenance, Repair, and Replacement of Underground Pipeline

Replacement of part of an underground pipeline does not constitute new construction unless the following condition exists after the replacement is complete:

The value of the new part in place must be at least \$1,500 or ten percent of the value of the whole pipeline as if new, whichever is higher; and the value of the whole pipeline, after the installation of the new part, is equal to at least 80 percent of the value of the whole pipeline as if new.

Valves, standpipes, risers, and vents when installed as intrinsic components of a newly installed pipeline or when added as additional features to an existing pipeline are assessable as new construction. However, such components are very often damaged by tillage equipment and their periodic repair and replacement is not new construction.

H. CLASSIFICATION AND ASSESSMENT OF FIXTURES

A fixture is tangible property which has some of the characteristics of personal property and additional characteristics that require it to be classified as an improvement. Property becomes a fixture and therefore an improvement when there is an intention to make the property a permanent accession, not perpetual, to the real property as reasonably manifested by outward appearances.

A fixture is designated as a trade fixture when its use or purpose directly applies to or augments the process or function of a trade, industry, or profession. Conversely, a fixture is classified as a structure when its primary use or purpose is for housing or accommodation of personnel, personalty, or fixtures and has no direct application to the process or function of the trade, industry or profession.

Newly constructed fixtures include any alteration to fixtures since the last lien date which constitute a major rehabilitation thereof and convert the fixture(s) to the substantial equivalent of a new fixture(s).

Any replacement of a fixture or rehabilitation, renovation, or modernization that converts a fixture to substantially equivalent to new is one in which the productive capacity of the unit replaced, rehabilitated, or modernized is increased to approximate the productivity or efficiency of its original productive capacity. That portion of the value which can be measurably attributed to the increased capacity should be considered new construction and assessable under present guidelines.

For purposes of Property Tax Rule 463, the phrase, "or a portion thereof," is defined as one machine or a series of machines that perform a distinct function or process in a trade, industry, or profession. The unit of appraisal can be a lathe, a drill press, an entire processing line in a continuous process plant, or the initial store fixtures in a commercial establishment. (When measuring declines in value, the unit of appraisal is the total of all machinery and equipment classified as fixtures.)

Replacement of the unit or its restoration to substantially equivalent to new constitutes new construction to a "portion thereof." Repair or renovation to a part only, for example, a new gear for the lathe or drill press, does not qualify as "a portion thereof."

Physical alteration to change the use of the property is considered new construction; alteration or replacement performed for the purpose of normal or routine maintenance is not.

V. QUESTIONNAIRE INFORMATION

Information returned by the 55 county assessors who participated in this Special Topic Survey is arranged in 17 categories as follows:

- A. Discovery of assessable new construction
- B. Building permits
- C. Identification of new construction
- D. Maintenance v. reconditioned to equal new
- E. Escaped assessments
- F. Replacement cost factors
- G. The income approach
- H. Date of completion
- I. New subdivision street improvements
- J. Condominium conversions
- K. Construction in stages
- L. Appeals hearings
- M. Workload capability
 - 1. Appraisal and clerical time per appraisal
 - 2. Appraisal and clerical time for new construction appraisal program
- N. Low-value assessments
- O. Statistics regarding additions, alterations, and entire units
 - 1. Number of appraisals
 - 2. Dollar amount of new construction
- P. Assessors' recommendations for appraisal of new construction
- Q. Assessors' recognition of good appraisal programs in other counties

A. DISCOVERY OF ASSESSABLE NEW CONSTRUCTION

It is the assessor's responsibility to discover and assess all taxable new construction in the county. This requires careful and constant attention to all the sources of information available. Such sources include building permits, business property statements, and business audits. In addition to such documentary evidence, the assessor also uses public information sources such as newspapers, trade journals, financial statements, public meetings, etc.

Assessors were asked to rank in order of importance by property type (residential, commercial, rural, and industrial) their most important source of information for the discovery of assessable new construction. They reported that building permits are by far the most important. The second most important is field inspection, especially for residential and rural properties. They reported the business property statement is the second most important for commercial and industrial properties, while the business audits (both regular and mandatory) are the third most important for commercial, industrial, and rural properties.

Assessors were asked to list the three most troublesome problems in discovering assessable new construction. Not all agreed; therefore, we have listed the problems in decreasing order of the number of times each was mentioned in the returned questionnaires.

Summary (All Items)

- 29 Construction without building permit
- 12 Property statements incomplete
- 10 Rural construction not requiring permits
- 7 Permits not received or permits not processed properly
- 7 Lack of staff to search out new construction, gates locked, etc.
- 6 Land use changes; alterations
- 5 Tree and vine plantings
- 4 Leasehold improvements
- 3 Machinery and equipment expenses; own labor and material used
- 2 New machinery and equipment
- 2 Construction beyond amount of permit
- 2 Construction on federal lands; cabin improvements
- 1 Department of Motor Vehicles; poor records
- 1 Mobilehome sales
- 1 Lack of coordination between real property and business property departments.

B. BUILDING PERMITS

Section 72 of the California Revenue and Taxation Code requires city and/or county officials to transmit copies of any building permits to county assessors. In some jurisdictions this is not being done on a regular or timely basis as noted in current Assessment Practices Surveys. This lack of cooperation and disregard for the law contributes to the difficulty of the assessor's work and adds to the complexity of adjusting to the terms and conditions imposed by Article XIII A.

An important function of the building permit is to provide the situs and identity of property being altered or constructed so that the assessor's staff may treat it properly for property tax purposes. Thirteen assessors reported they have asked the agencies issuing building permits in their respective counties to standardize the permit forms in order to facilitate faster and more accurate processing. Thirty-nine assessors reported they have not made such a request. Many assessors reported that parcel numbers already appear on the building permits issued in their counties. The Housing Act of 1980 now requires that all building permits list certain specific information. See Appendix 2 for a copy of this act.

Assessors were asked to report the specific types of property most often found constructed without a building permit. The following list provides this information by property type in decreasing order of the number of times reported.

(A) <u>Residential</u>	(B) <u>Commercial</u>	(C) <u>Industrial</u>
Patios	Interior Office partitions	(This list is essentially the same as for commercial.)
Sheds, Outbuildings	Paving	
Garage Conversions	Leasehold Improvements	
Yard Improvements	Remodel for Different Use	
Hot tubs, Spas	Signs	
Garages	Fences	
Docks	New Fixtures	
Paving	New Outbuildings	
Basement Conversions	Security Devices	
Pools		
Carports		

(D) <u>Rural</u>
Barns
Sheds
Outbuildings
Decks
Spas
Patios
Irrigation Wells
Irrigation Pumps
Trees and Vines
Land Improvements such as Leveling, Drainage Systems
Dairy Equipment such as Stanchions, Shelters, etc.
Garages
Paving

Forty-five country assessors reported that the value of new construction listed on building permits is normally lower than the actual market value of the completed project. Three assessors reported that the value is normally higher than the market value of the completed project, and five assessors reported values have been found both ways – some higher and some lower. Many agencies issuing building permits do not concern themselves with the precise value of new construction. Instead, they choose to use only an estimate in conjunction with the specific type of work to be done in order to select a flat-rate fee to charge the owner. The flat-rate fee has little to do with the property value and is used only to recover the cost of the administration, building inspections, and enforcement work done by the issuing agency.

C. IDENTIFICATION OF NEW CONSTRUCTION

Making the distinction between assessable new construction and new construction that is not assessable is one of the basic problems facing assessors. In order to achieve equalization in such

decisions, it seems logical that some intracounty guidelines should be established. When assessors were asked if they had developed such guidelines, they responded as follows:

1. Improvement New Construction

Five assessors reported they have developed "numerical" systems such as setting minimum percent good levels and/or minimum percent increase in total property value as the basis for assessment of new construction. Thirteen assessors reported they have not developed numerical criteria but have adopted descriptive lists of specific types of assessable new construction. And, forty assessors reported they have developed neither numerical nor descriptive criteria that identify assessable new construction.

2. Land New Construction

Thirteen assessors have each adopted a descriptive list of specific types of land improvements that require assessment. Forty-two assessors reported they have not developed a descriptive list nor any numerical criteria to identify the types of new construction to land that is to be assessed. Many stated they prefer to follow State Board of Equalization rules and leave the decision to the field appraisers.

3. Water Wells

Assessors were asked if installation of a new well casing (equal in size to one being replaced) should be considered as new construction. Almost all agreed that such an installation should not be treated as new construction.

Occasionally wells are rehabilitated by deepening the well hole and/or by replacing the well casing. It is the Board's position that such rehabilitation is "substantial" if the value created by such work exceeds \$1,500 or ten percent of the value of a new well of equal capacity. See Chapter IV.

4. Fixtures

Assessors were asked if they have adopted a "level" of productivity that a renovated, rehabilitated, or modernized fixture must achieve in order to be considered substantially equivalent to new. Over 80 percent of those who responded to this question stated that they had not adopted such a "level."

Four of the positive responses referred to the Board's rule of substantially equivalent to new. One county assessor revalues "when the renovation creates new income" and another "if the life is extended for more than one year." Two other county assessors attempt to apply the same rules for "fixture" new construction as for structures, although the board's rule states substantial equivalency shall be ascertained by comparing productive capacity. (The term "fixtures" as used here does not apply to household fixtures.)

Based upon the information returned by assessors, it appears that level of production or productive capacity is not being used to determine equivalent to new for fixture new construction. The Board recommends that the provisions of Board Rule 463(b) (5) be followed (See Appendix 3 and chapter IV).

D. MAINTENANCE V. RECONDITIONED TO EQUAL NEW

Assessors were asked what method they used to distinguish between "maintenance" and "reconditioned to equal new." Their responses were as follows:

Eighteen assessors offered little specific information and reported they rely on such methods as appraiser judgment, onsite observation, consider the effect on the entire unit, and State Board of Equalization guidelines.

Ten assessors reported they rely upon the following factors to identify "reconditioned to equal new":

1. If the work raises the quality classification or effective age.
2. If the work improves the quality or the utility.
3. If the work corrects functional obsolescence.
4. If the work substantially extends the economic life.

Nine assessors indicated that any work more substantial than normal maintenance or replacement is new construction within the category of "reconditioned to equal new" and listed the following criteria:

1. Consider the intent of the owner and the effect on value.
2. Did the work require substantial alteration and extended useful life?
3. Reconditioning is more extensive work than just simple replacement.
4. Cumulative effect of multiple renovations.

Eight assessors indicated the determination is made using the "equal to new" test or stressing that complete renovation has been accomplished. Some use systems such as assigning points to individual types of work. When a certain sum is reached (say 80), the work is assessed as new construction substantially equivalent to new. One assessor uses 90 percent good as the basic criterion of new construction substantially equivalent to new. Another requires complete renovation at one time.

As discussed in Chapter IV, it is the Board's position that maintenance refers to activities which are ongoing to retain the level of benefits produced by the property. Rehabilitation refers to

activities that occur periodically to bring back the capability of a property to produce benefits for the owner.

E. ESCAPED ASSESSMENTS

We presented this situation: In June 1980 it was discovered that an improvement had been under construction since 1976 but no value for construction-in-progress had ever been enrolled. We asked assessors for which years should escaped assessments be enrolled. Almost all answered they would enroll escaped assessments for 1976, 1977, 1978 and 1979. These comments are in agreement with the statutes which allow a four-year limitation on such escaped assessments. See Chapter IV where the positions adopted by the Board of Equalization on this subject are discussed.

F. REPLACEMENT COST FACTORS

If an addition to an existing structure is to be appraised by using the replacement cost method, the appraiser must choose the proper cost factor to use. He must also make certain the factor is applied to the proper area. The options are:

1. Multiply the area of only the addition by the cost factor for that amount of area.
2. Multiply the area of the addition by the cost factor that is appropriate for the total area of the existing structure and the addition.

Nine assessors chose option 1, 38 assessors chose option 2; and several assessors described differing methods that use a combination of both 1 and 2.

In many instances, construction of an addition includes modern design techniques and modern building materials superior to those found in the existing structure. In such cases, the physical and/or functional obsolescence of the older improvement may cause a reduction in the value of the addition, while at the same time the older, pre-existing improvement may experience an increase in value from the modern nature of the addition. Assessors were asked if they considered this exchange of values when using the cost approach. Eighty percent of those responding stated that they did. The remaining 20 percent who did not include this consideration in their value estimates offered no reasons for ignoring this feature of the cost approach to value.

As stated in Chapter IV, the appraiser should use the cost factor for the existing structure and the addition; then multiply the total value by a percent good factor which reflects the condition of the entire improvement after new construction.

G. THE INCOME APPROACH

When appraising newly constructed income-producing properties, it is always a good practice to complete an income approach, taking into consideration the present worth of all the future net benefits that the property is capable of earning. Twenty-four assessors reported that they always attempt an income approach for such property. A lesser number reported that while they do use

the income approach, they do not always use it. Still others reported they use the income approach only when adequate data regarding net income, yield rate, and recapture are available. Overall, the returned questionnaires indicate that Article XIII A has not caused a substantial shifting away from the use of the income approach.

It is the Board's position that the income approach is very useful in the valuation of new commercial and multi-residential buildings and should be applied to these properties whenever possible. See Chapter IV where the position on this subject is discussed.

H. DATE OF COMPLETION

Assessors were asked which date they would use in assigning a date of completion to newly constructed property. Of the 55 assessors who answered this question, almost all indicated they would use one or more of several choices, depending upon the circumstances. The responses to this question were:

1. Fifty-one assessors said they would use the date the property is ready for occupancy; only one said he would not use this date.
2. Thirty-one assessors stated they would use the date of occupancy as the date of completion; eleven said they would not use this date.
3. Thirty-one assessors stated they would use the date of the notice of completion; eleven said they would not use this date.
4. Twenty-nine assessors reported they would use the date on a permit of occupancy; nine stated they would not use this date.
5. Eleven assessors stated they would use the date that rent is first earned by the property; twenty-four stated they would not use this date.

It is quite obvious that most assessors prefer to use the date the property is available for use as the date of completion; however, other dates are considered as well.

Trade Fixtures

Assessors were not specifically asked how they are treating trade fixtures but the Board's position is:

For properties that are to be owner occupied, the base-year value is not adopted until the trade fixtures are in place and the property is ready for owner occupancy. For example, a structure was completed (except for fixtures) prior to the lien date; fixtures were installed after the lien date. The structures and land would be assessed as construction in progress. When the fixtures are installed and the total property is complete and ready for owner occupancy, the whole property, including the fixtures, would be reappraised.

Assume a property is developed to be leased to any separate nonaffiliate. In the above example the property would be assessed at its base-year value when complete and ready to receive the tenant's trade fixtures. Thus, in this latter example the land and building could have one base-year value assessable to the owner of the property while the fixtures could have a separate base-year value, as of a different date, assessable to the owner of the fixtures. There would be no reappraisal of the total property when the fixtures were in place.

I. NEW SUBDIVISION STREET IMPROVEMENTS

Assessors were asked how they would assess new street improvements in a newly developed subdivision under the following conditions:

1. The final subdivision map has been recorded,
2. The street and utility improvements, located therein, have been completed; and
3. The street has not yet been accepted for dedication by the public agency.

The answers to this question varied considerably. A problem arises because new street construction (off-site improvements) may be assessed in several ways.

A new street (prior to its dedication to a public entity) may be separately parcelized and its value assessed to the owner/developer. Upon dedication, the new street becomes exempt public property and its value is removed from the assessment roll. In reality, the value created by the new street flows to the lots served by it and will be included as an intrinsic part of each lot's value as the lots are sold to individual lot buyers and assessed separately following the changes in ownership.

A second method available to the assessor is to allocate the value of new street improvements directly to the lots served by the street prior to the street's dedication. This avoids the assignment of a parcel number to the street and eliminates the process of adding (before dedication) and eliminating (after dedication) the street's value on the assessment roll. Moreover, in instances where a long time elapses between dedication and the sale of the lots, the value created by the new street will not avoid assessment as exempt public property. It will have been allocated to the lots which are assessable to the owner/developer prior to lot sales. Assessors responded to our questionnaires as follows:

- a. Eight assessors said they add no value until the individual lots are sold. At the time of sale any new street land and improvement value would be reflected in the lot's value at the time of reappraisal caused by the change in ownership.
- b. Twenty assessors said they appraise the street land and improvements as of the date of completion and assess the value to the developer (the owner of the street prior to dedication).

- c. Twenty-six assessors said they would allocate the completed street and street improvement value to the individual lots to be served. (Most did not say, but we presume the assessment would go to the developer until the lots were sold).

A second part of this question asked for the same information but under the condition that the street had now been accepted for dedication. Their responses were:

- a. Twelve assessors said they would remove the value of street and street improvements from the assessment roll following acceptance of dedication.
- b. Thirty-six assessors said they would allocate the value of streets and street improvements to the lots to be served by them, maintaining a separate base-year value for each lot and for the value allocated to it until the lot is sold. Reappraisal would then provide a new base-year value incorporating all value attributable to the lot.

The Board takes the following position regarding land and improvements dedicated to public purposes:

- a. The value of land dedicated to public purposes should be removed from the tax roll as of the date dedication is accepted by the public entity.
- b. The value of improvements located on land dedicated to public purposes should be prorated to all land served by those improvements, including the area of dedicated land. Only the improvement value prorated to the dedicated area should be removed from the tax roll as of the date dedication is accepted.

See Chapter IV where the Board's position on this subject is discussed in greater detail.

J. CONDOMINIUM CONVERSIONS

Assessors were asked if they treated condominium conversions as new construction. Almost all assessors agreed that without a change in ownership or physical alteration reappraisal would not be warranted.

K. CONSTRUCTION IN STAGES

Occasionally, real estate improvements are designed to be constructed in stages – both horizontally and vertically. An example of such a property might be a shopping center that has an anchor store and mall completed during one year with additional anchor stores and malls scheduled for completion over several years. Another example might be a high-rise commercial or office building in which the lower floors are complete and occupied prior to the completion of the upper floors. Assessors were asked how they would assess such properties. Fifty-one assessors reported they would enroll as base-year value the completed part of the property. As a second part of this question, 51 assessors reported they would also enroll as construction in progress the value of succeeding stages concurrently under construction on the lien date.

It is the Board's position that any portion of a property constructed in stages should be assessed as of the date such portion becomes available for use.

See Chapter IV where the Board's position on this subject is discussed in more detail.

L. APPEAL HEARINGS

Forty-five of the fifty-five assessors responded to our question regarding the number of appeal hearings held for (a) entire units of new construction, (b) additions, and (c) alterations. The responses were:

	<u>Entire New Construction</u>	<u>Additions</u>	<u>Alterations</u>
¹			
Counties Having <u>More Appeals</u>	15 (33%)	5 (11%)	4 (9%)
Counties Having <u>Less Appeals</u>	8 (18%)	15 (33%)	16 (35%)
Counties Having <u>No Change</u>	22 (49%)	25 (56%)	25 (56%)
Total	100%	100%	100%

M. WORKLOAD CAPABILITY

Fifty-three of the fifty-five assessors stated that no new employee positions were created in their counties to assist in the discovery and assessment of newly constructed properties.

We conclude that most assessors have found workable solutions to workload problems encountered in the assessment of newly constructed property and that no new employee positions have been made available to them.

¹ Number of appeals pre-Article XIII A compared to the number post Article XIII A.

1. Appraiser and Clerical Time Per Appraisal

Assessors were asked how many appraiser and clerical hours are typically required to complete one appraisal of newly constructed property (units or portions of units) of the four major property types: residential, commercial, industrial and rural. Not all assessors responded to this question, and many who did qualified their answers with the note that it was an estimate. Thus, only estimates are shown below.

<u>Property</u>	<u>Appraiser</u>	<u>Clerical</u>
a. Residential	1-2 hours	¼ hour
b. Commercial	2-3 hours	¼ hour
c. Industrial	3-8 hours	¼ hour
d. Rural	2-3 hours	¼ hour

In 26 counties, Article XIII A caused a 15 percent increase in the time required to process new construction. It caused no such increase in 26 different counties. In analyzing this difference, we found no clear relationship between the time required to process new construction and the character of the reporting counties; i.e., size, location, rural, urban, etc. The only conclusion drawn is that one-half the assessors found the requirements imposed by Article XIII A made it necessary to spend more time on the assessment of new construction, while one-half of them did not.

2. Appraisal and Clerical Time For New Construction Appraisal Program

Assessors were asked to estimate the total number of appraiser-days required per year to process new construction. In order to interpret the results, we correlated the number of days required with the number of building permits issued in 1979. The number of building permits processed per appraiser day varied from 1.47 to 11.43 on a statewide basis. The data indicates 4.8 permits per appraiser-day in the most densely developed counties, 2.5 in moderately developed counties, and 1.5 in the mountain counties.

We also asked for this information for clerical time. Again, we related the time reported to the number of building permits issued in 1979. The results indicate that in highly urban counties the ratio approximates 40 building permits per clerical day. In moderately sized, moderately developed counties, the rate indicated an average of 30 permits per day; and in mountain counties, the rate appears to be about 15 permits per day. Some of these rates are strongly influenced by the complexity of the property involved, the repetition of similar type properties, and the degree of electronic or mechanical processing available. It should also be noted that these rates are averages that reflect time in the office on days when no permits were received for processing. We have no data that reflects net time spent only on those days that permits were received for processing.

N. LOW-VALUE ASSESSMENTS

With escalating property values, many owners are choosing to build additions to their existing improvements rather than invest in a totally new (larger) property that would require a higher investment in land, structure, and loan costs. Assessors have expertly made a determination of whether to inspect and assess every new project or only inspect and assess those that appear to produce enough tax revenue to warrant the expense of doing the job. It must be remembered that a one-time expenditure of assessment time may provide the information for annual assessments for a number of years.

Without regard to Section 155.20 of the Revenue and Taxation Code, which permits the exemption of \$1,500 of full value or base-year value if a proper ordinance has been adopted by the board of supervisors, we asked assessors a series of four questions regarding their treatment of low-value properties such as fences, small decks, etc.

Twenty-three assessors stated that they inspect and enroll the value of all new construction. Eleven assessors reported they inspect and enroll the value of some low-value new construction. Ten assessors stated they do not inspect low-value new construction, and eighteen assessors do not enroll low-value new construction.

The term "low-value" is interpreted to mean zero dollars by 15 assessors, less than \$1,000 by 25 assessors, and between \$1,000 and \$5,000 by eight assessors.

O. STATISTICS REGARDING ADDITIONS, ALTERATIONS, AND ENTIRE UNITS

1. Number of Appraisals

In order to know the number of new construction appraisals and its impact on the overall appraisal program, we asked assessors to provide the actual number (or estimates if so noted) of structural alterations and additions, and the number of entirely new units completed in their county in 1979-80. We asked for this information by property type: single-family and multi-family residences, commercial, industrial, rural and other. It was understood when this information was requested that it would be difficult to obtain and that assessors would have to make many estimates. But this type of information, which is not available from any other source, is an important component in the workload planning and staff management functions necessary to every efficient assessor's office. Only 28 assessors were able to provide, in one form or another, the information we requested. We grouped counties according to 1979 total taxable retail sales.

County by Retail Sales Group	Single Family <u>adds new</u>		Multi Family <u>adds new</u>		Commercial <u>adds new</u>		Industrial <u>adds new</u>		Rural <u>adds new</u>		Other <u>adds new</u>	
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5-100 million

Del Norte	681	105	16	2	48	7	8	1	40	6		
Lassen	100	200	2	4	5	20		2			50	1258
Mariposa	537	144			1	5	1					
Modoc	166	95	3	3	12	7	1	1	60	40		
San Benito	300	200		15	30	8	5	5	100	150	25	25

100-500 million

El Dorado	499	1609		20		36		22			1835	643
Inyo	500	80	30	5	80	3	20	1	50	6		
Lake	1600	783	22	9	180	98		6	320	150	25	10
Mendocino	870	580	9	166	200	50	25		100	400	50	50
Napa	2000	450	400	75	350	30			1500	250		
Nevada	203	1667		24	23	184						
Siskiyou	592	427			37	70	3	2	40	23		
Sutter	831	300	200	82	190	10	50	5	139	200		
Tuolumne	150	1108	10	6	20	24	10	8		356		

500 million-
1 billion

Humboldt	927	456		23	256	46	2	7				
Santa Cruz		1150*		525*		25			10	6		

1 billion –
5 billion

Fresno	14622	4668	695	836	2592	563			7576	1137		
Marin	2970	490	120	20	280	40	60	10	60	10		10
Riverside		43599*			2907*				4981*			
San Bern.	10500	12965	75	466	1025	416	340	416	170	18	50	10
San Fran.	145	176	45	188	21	64	2	13				
San Joaquin	2000	1500	100	750	500	500	200	200	1000	3000		
San Mateo	545	1200	40	30	145	100	243	125	56	65	79	12
Tulare		1975*		558*	375	215		1				1687

*Combined Figures

County by Retail Sales Group	Single Family <u>adds new</u>	Multi Family <u>adds new</u>	Commercial <u>adds new</u>	Industrial <u>adds new</u>	Rural <u>adds new</u>	Other <u>adds new</u>
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5 billion –
10 billion

Orange	21200	8562	675	4070	6448	3292				
Santa Clara	17400*		750*		550*		744	2800		210
San Diego	10158*		1575*		2776*					

58.8 billion

Los Angeles	45189	26245	3415	1812	1552	764	1019		7	13	59	16
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We attempted to relate production per man-hour to the percentage that each type of property is to the whole number of properties reported but found no clear trends.¹

2. Dollar Amount of New Construction

Assessors were asked for the appraised value of all new construction in their counties for the years 1978-79 and 1979-80. In addition, they were asked that the information be supplied according to property type: single-family residences, multi-family residences, commercial, industrial, rural, and other. Twenty-two assessors responded to our request (nineteen with partial figures, estimates, or percentages). Eight counties had fairly complete figures for at least one year. Most of those counties which reported percentages used a percentage of the new construction only and not the total roll as requested.

For comparison, the counties were separated into six groups according to total (1979) taxable retail sales. Comparisons are difficult due to the limited information. Many county figures are estimates, but the larger counties have more precise figures. New construction value figures from a commercial bank are available for each county and category. These figures show wide variations from those reported by the counties.²

¹ See Workload and Staff Productivity Study published by this Board in 1982.

² See Appendix 1 for basic data.

County Examples:	County	Bank
A	\$ 13,000,000	\$ 40,052,000
B	41,000,000	123,926,000
C	267,710,097	556,911,000
D	319,000,000	333,431,000
E	1,514,507,000	1,352,760,000
F	4,233,690,000	3,801,265,000

These data show a significant difference in the value of new construction reported by several counties as compared to value reported by a commercial bank. However, assessors often enroll newly constructed property as "change in ownership" since newly constructed property is often sold soon after construction is completed; the bank may not make this distinction. Moreover, new construction started in one year and so noted by the bank may not be completed until one or more years later when the assessor will note it as completed. Thus, data reported by differing entities must be considered very carefully.

The bank also estimates percentage change of total building valuation by county. See Appendix 1 for 1978-79 graph and figures.

P. ASSESSORS' RECOMMENDATIONS FOR APPRAISAL OF NEW CONSTRUCTION

Assessors were asked if they would recommend to other assessors the use of their appraisal program for new construction. Twenty-six assessors reported they are confident their program is the best available for their county at this time. A number of assessors feel the programs that work in small counties will not work in larger counties and vice versa.

Q. ASSESSORS' RECOGNITION OF GOOD APPRAISAL PROGRAMS IN OTHER COUNTIES

Assessors were asked if they could recommend the appraisal programs for new construction used by any other county assessor. The two programs that were recommended were the property owners' self-reporting programs used by Los Angeles county and the Riverside county. A discussion of these programs follows.

PROPERTY OWNERS' SELF-REPORTING PROGRAMS IN LOS ANGELES AND RIVERSIDE COUNTIES

Two counties use direct mailout programs in assessing low-value residential new construction. These programs utilize building permits to identify properties to be assessed. Ninety days after receiving the copy of the building permit or notice thereof, a "New Construction Statement" is mailed by the assessor to the owner of the property to which the building permit applies. Among other things, the owners are asked to describe the property being constructed, altered, or added onto, the cost of the work, and the date of completion. Both counties have developed forms and procedures that are accepted by existing data collecting and processing programs. Both counties have also developed screening techniques that divert complex or nonapplicable properties away from this program.

One county reports that approximately 95 percent of all new construction statements mailed out are returned. The second county reports that approximately 85 percent are returned and one of these approximately 95 percent have been found to be complete and accurate. However, there are hazards in this program and careful monitoring must be maintained by the county to ensure compliance. Even so, it appears at this early stage that salary, travel, and staffing costs are being saved and that this may be a procedure that can be beneficially used by counties as a short-term reduction in field approval time.

We have summarized, in a step-by-step outline, the basic procedures used by these two counties and attached copies of the forms they use. Steps 7 and 8 are not necessarily included in the current procedures used by the two subject counties; however, they are vital steps needed for maximum control and development of the program.

DESCRIPTION OF A PROGRAM FOR SELF-DECLARED NEW CONSTRUCTION

Step 1. All building permits are received in the assessor's office from the various issuing agencies.

- A. Permits are screened for assessability and possible inclusion in the Self-Declared New Construction (SNC) program, then indexed, logged, and batched.
- B. Permits that meet the SNC program requirements are sent to the Valuation Section.

(A SNC program should be limited to lower-valued residential new construction involving additions and remodeling.)

Step 2. Valuation clerks send the first Property Owner's Statement of New Construction (PSNC) Form 90 days after the date the permit was issued.

- A. Clerks place permits that have generated a PSNC Form in an "aging" file.
 - 1. If after 45 days from the mailing of the first PSNC Form a response has not been received, a follow-up PSNC request is mailed.
 - 2. If after 20 days a response is still not received, a demand letter is sent.

Step 3. Clerks put the returned PSNC in the appropriate appraisal record file and forward it to the valuation appraisal supervisor for assignment.

Step 4. Appraisal supervisors review the appraisal record folder and estimate the projected time to work the parcel(s).

- A. Assign the work to be done and review it when completed.
- B. Determine which parcels cannot be worked by the SNC program and process them for normal new construction maintenance work.

Step 5. Assigned appraiser works the SNC parcels in the office using appraisal judgment.

- A. Determines the reasonableness of reported costs by comparing them to costs from recognized cost tables.
- B. Uses the reported costs if they appear reasonable.
- C. Contacts taxpayers if necessary.

Step 6. Completed and reviewed appraisal folders are forwarded to assessment roll division for processing and enrollment.

Step 7. At least every twentieth SNC enrolled assessment should be field reviewed to ensure the effectiveness of the program by determining:

- A. The degree of reporting accuracy by the taxpayers.
- B. The relationship of the issuing agencies assigned permit face values and actual final valuation estimates, and the completeness and accuracy of the permit information.

(This can be accomplished in conjunction with the normal new construction maintenance work program.)

Step 8. Standards control unit should routinely study and evaluate the SNC program and report results and conclusions to the assessor and make recommendations for improving aspects of the SNC program where needed.



COUNTY OF LOS ANGELES OFFICE OF ASSESSOR
STATEMENT ON NEW CONSTRUCTION

* ON CLUSTER	ASSESSOR'S IDENTIFICATION NUMBER		
	MAPBOOK	PAGE	PARCEL

PERMIT DATE	PERMIT NO
	PERMIT INFORMATION

Correct above address, if necessary.

Assessee, please note: Section 441(d) of the Revenue and Taxation Code reads in part: "At any time, as required by the Assessor for assessment purposes, every person shall make available for examination information or records regarding his property." Our records indicate a building permit was issued for the above address for new construction.
 In accordance with the above, complete this form and return it to the Office of Assessor before the date shown below. Include any additional information which you believe to be important in evaluating the new construction.

For assistance call: (between 2:00 and 5:00 p.m.) **(213) 974-3287** Complete and return this form to Office of Assessor by:

Please check appropriate boxes.

STRUCTURAL CHANGES

- New structure or addition — complete sections 1 and 5 Alteration — complete sections 2 and 5
 Demolition — complete section 3 Other (minor improvement) — complete section 4

TOTAL COST OF NEW CONSTRUCTION \$	DATE OF COMPLETION (Estimate if not yet complete.)	CONTRACTOR'S NAME	CONTRACTOR'S PHONE
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1. NEW STRUCTURE OR ADDITION — Describe the new structure or addition. List any related minor improvements, i.e., fencing, bumpers, etc. in section 4.

Description: _____

Building materials: Brick, block, concrete Wood frame Metal

Area of new structure or addition: _____ sq. ft

Systems: Check if new (N) or replacement (R).

- N R**
 Heating - Type: _____ BTU: _____
 Cooling - Type: _____ Tons: _____
 Lighting - Type: _____ No. of fixtures: _____
 Sprinklers - Type: _____ Sq. ft covered: _____
 Other: _____

List new plumbing fixtures and indicate number of each:

FIXTURE	NUMBER	FIXTURE	NUMBER
_____	_____	_____	_____
_____	_____	_____	_____

3. DEMOLITION OF STRUCTURE — Total Partial

Date of demolition: _____

Identify structure demolished: _____

Provide a plot plan in section 5 indicating by address or building number the location of the demolished structure.

2. ALTERATION — Interior office Store front

- Ceiling/partitions - added, altered, removed
 Other: _____

In section 5 and in the Remarks section (on reverse) indicate the square footage, location and nature of the alteration.

Systems: Check if new (N) or replacement (R).

- N R**
 Heating - Type: _____ BTU: _____
 Cooling - Type: _____ Tons: _____
 Lighting - Type: _____ No. of fixtures: _____
 Sprinklers - Type: _____ Sq. ft covered: _____
 Other: _____

List new plumbing fixtures and indicate number of each:

FIXTURE	NUMBER	FIXTURE	NUMBER
_____	_____	_____	_____
_____	_____	_____	_____

4. OTHER — List each additional minor improvement, i.e., paving, bumpers, fences, etc., and indicate its square footage and cost.

- _____ sq ft \$ _____
 _____ sq ft \$ _____

5. DIAGRAM OF NEW CONSTRUCTION

Diagram the new construction and show its exterior dimensions and location in relation to other buildings on the lot.

AREA COMPUTATION OF NEW CONSTRUCTION

_____ X _____ = _____
 _____ X _____ = _____

TOTAL SQ FT _____

_____ NAME OF FRONTAGE STREET

REMARKS

The Office of Assessor may audit this statement for completeness and accuracy and may contact you for additional information as required.

I declare under penalty of perjury that this statement, including any accompanying schedules and financial statements, is true, correct, and complete to the best of my knowledge and belief.

SIGNATURE OF OWNER OR AGENT		DATE	TITLE (if agent)	
STREET ADDRESS	CITY	STATE	ZIP CODE	PHONE (8 AM-5 PM)

RETURN COMPLETED STATEMENT TO ►

COUNTY OF LOS ANGELES • OFFICE OF ASSESSOR
 ROOM 291, 500 WEST TEMPLE STREET, LOS ANGELES, CALIFORNIA 90012

COUNTY OF RIVERSIDE • OFFICE OF ASSESSOR PROPERTY OWNER'S STATEMENT ON NEW CONSTRUCTION		ASSESSOR'S PARCEL NUMBER															
CORRECT ABOVE MAILING ADDRESS IF NECESSARY		PROPERTY ADDRESS IF DIFFERENT FROM MAILING ADDRESS _____ _____ _____															
PLEASE COMPLETE AND RETURN THIS FORM WITHIN 10 DAYS OF RECEIPT TO THE ASSESSOR IN THE ENCLOSED ENVELOPE. IF YOU NEED ASSISTANCE PLEASE CALL: (714) 787-2917.																	
<p>Our records indicate a building permit was issued for the above address for new construction. Section 441-D of the Revenue and Taxation Code reads in part:</p> <p style="text-align: center;"><i>“At any time, as required by the assessor for assessment purposes, every person shall make available for examination, information or records regarding his property.”</i></p> <p>In accordance with the above, complete this form and return it with any additional information you believe important in evaluating the new construction, to the Office of Assessor before the date shown above.</p>																	
OWNER'S NAME _____ (CHECK BOX IF OWNER-BUILDER) <input type="checkbox"/>		CONTRACTOR _____															
PERMIT DATE _____	PERMIT NO. _____	CONTRACTOR'S ADDRESS _____															
PERMIT INFORMATION _____		CONTRACTOR'S PHONE _____															
		COMPLETION DATE (ESTIMATE IF NOT YET COMPLETED) _____															
PLEASE CHECK APPROPRIATE BOXES																	
1. STRUCTURAL CHANGES <input type="checkbox"/> NEW STRUCTURE <input type="checkbox"/> ADDITION <input type="checkbox"/> ALTERATION <input type="checkbox"/> POOL OR SPA <input type="checkbox"/> OTHER - Please explain on reverse side TOTAL SQ. FT. OF NEW STRUCTURE OR ADDITION (SEE ITEM NO. 7 FOR AREA COMPUTATIONS) _____ SQ. FT.	Briefly describe work in the remarks section on reverse side.	2. HEATING/AIR CONDITIONING N R (N = NEW UNIT R = REPLACEMENT UNIT) <input type="checkbox"/> <input type="checkbox"/> CENTRAL AIR CONDITIONING <input type="checkbox"/> <input type="checkbox"/> THRU-WALL AIR CONDITIONING <input type="checkbox"/> <input type="checkbox"/> FORCED AIR FURNACE <input type="checkbox"/> <input type="checkbox"/> FLOOR OR GRAVITY FURNACE <input type="checkbox"/> <input type="checkbox"/> WALL HEATER <input type="checkbox"/> <input type="checkbox"/> OTHER: _____															
TOTAL COST OF WORK (LABOR AND MATERIALS) \$ _____		COST OF WORK \$ _____															
3. PLUMBING ITEMS <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: center;"><i>Number</i></td> </tr> <tr> <td><input type="checkbox"/> TOILET</td> <td style="text-align: center;">_____</td> </tr> <tr> <td><input type="checkbox"/> BATH TUB</td> <td style="text-align: center;">_____</td> </tr> <tr> <td><input type="checkbox"/> STALL SHOWER</td> <td style="text-align: center;">_____</td> </tr> <tr> <td><input type="checkbox"/> SINK</td> <td style="text-align: center;">_____</td> </tr> <tr> <td><input type="checkbox"/> DISHWASHER</td> <td style="text-align: center;">_____</td> </tr> <tr> <td><input type="checkbox"/> WATER HEATER</td> <td style="text-align: center;">_____</td> </tr> <tr> <td><input type="checkbox"/> OTHER:</td> <td style="text-align: center;">_____</td> </tr> </table>		<i>Number</i>	<input type="checkbox"/> TOILET	_____	<input type="checkbox"/> BATH TUB	_____	<input type="checkbox"/> STALL SHOWER	_____	<input type="checkbox"/> SINK	_____	<input type="checkbox"/> DISHWASHER	_____	<input type="checkbox"/> WATER HEATER	_____	<input type="checkbox"/> OTHER:	_____	4. CABINETS, APPLIANCES, ELECTRICAL <input type="checkbox"/> RANGE <input type="checkbox"/> OVEN <input type="checkbox"/> CABINETS <input type="checkbox"/> NEW ELECTRICAL SERVICE ADDED <input type="checkbox"/> OTHER BUILT-INS
	<i>Number</i>																
<input type="checkbox"/> TOILET	_____																
<input type="checkbox"/> BATH TUB	_____																
<input type="checkbox"/> STALL SHOWER	_____																
<input type="checkbox"/> SINK	_____																
<input type="checkbox"/> DISHWASHER	_____																
<input type="checkbox"/> WATER HEATER	_____																
<input type="checkbox"/> OTHER:	_____																
COST OF WORK \$ _____		COST OF WORK \$ _____															
Please complete the reverse side																	

5. POOL TYPE: <input type="checkbox"/> GUNITE <input type="checkbox"/> PLASTIC LINED <input type="checkbox"/> FIBERGLASS SIZE: _____ HEATER: <input type="checkbox"/> GAS <input type="checkbox"/> SOLAR <input type="checkbox"/> ATTACHED SPA-SIZE _____ <input type="checkbox"/> POOL SWEEP <input type="checkbox"/> UNDERGROUND EQUIPMENT PIT APPROXIMATE SQ. FOOTAGE OF DECKING _____ FINISH: <input type="checkbox"/> CEMENT, <input type="checkbox"/> COOL DECK COST OF WORK _____ \$	6. SELF-CONTAINED SPA OR HOT TUB TYPE: <input type="checkbox"/> GUNITE <input type="checkbox"/> FIBERGLASS <input type="checkbox"/> REDWOOD SIZE: _____ HEATER: <input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> GAS <input type="checkbox"/> ELECTRIC <input type="checkbox"/> SOLAR COST OF WORK _____ \$
--	---

7. SKETCH OF NEW CONSTRUCTION
 Make a sketch of the "new construction" showing its dimensions and position in relation to any existing structure.

Area Computation of "New Construction"

_____	x	_____	=	_____
_____	x	_____	=	_____
_____	x	_____	=	_____
_____	x	_____	=	_____
_____	x	_____	=	_____
_____	x	_____	=	_____
_____	x	_____	=	_____
TOTAL SQ. FT.				_____

INTERIOR — DETAIL:
 Floors: Tile, Carpet, Linoleum, Other. _____
 Walls: Dry Wall, Paneling, Plaster, Other. _____

EXTERIOR - DETAIL:
 Walls: Stucco, Siding, Brick, Other. _____
 Roof Covering: Composition Shingle, Wood Shingle,
 Gravel or Rock, Composition Roll, Other. _____

REMARKS:

The Assessor's Office may audit this statement for completeness and accuracy and may contact you for additional information as required.

I declare under penalty of perjury that this statement, including any accompanying schedules and financial statements, is true, correct, and complete to the best of my knowledge and belief.

SIGNATURE OF OWNER OR AGENT	DATE	TITLE (IF AGENT)		
STREET ADDRESS	CITY	STATE	ZIP CODE	PHONE (8 AM-5 PM)

VI. EPILOGUE

At the time of the questionnaire, some assessors' offices were still having difficulty in obtaining copies of building permits from building departments. (Answers to question 12 in the questionnaire mention "non-receipt of permit information, lack of coordination with building department, etc".) Also, it was stated that the permit forms vary in different jurisdictions.¹

On the subject of low-cost building permits (question 18), 20 percent of the counties responding said they do not field check low-value permits. At the same time, several comments pointed out that low-value cost permits often turn into higher cost projects upon inspection. Several assessors commented that they don't have the personnel to field check all new construction although on question 3 all reported having enough staff.

¹ The Building Permit form required by Section 19825 of the Health and Safety Code (Appendix 2) does not now require the use of the assessor's parcel number. The inclusion of this number would be of great assistance to assessors.

APPENDICES

APPENDIX 1
Page 1 of 3

VALUE OF NEW CONSTRUCTION - 1978/1979
(In Thousands of Dollars)

	New Single-family		New Multi-Family		Residential Alterations & Additions		New Commercial		New Industrial	
	1978	1979	1978	1979	1978	1979	1978	1979	1978	1979
Alameda	\$ 249,410	\$ 295,905	\$ 79,254	\$ 91,666	\$ 62,301	\$ 69,585	\$80,293	\$ 145,190	\$ 53,561	\$ 96,408
Alpine	---	---	---	---	---	---	---	---	---	---
Amador	21,119	20,192	1,353	185	1,367	1,198	3,315	1,143	252	494
Butte	39,228	47,462	10,269	27,469	5,059	5,005	16,371	16,549	3,750	4,069
Calaveras	25,809	43,072	390	1,546	1,806	2,730	1,109	612	199	102
Colusa	2,913	3,283	479	364	820	527	92	1,167	582	1,848
Contra Costa	227,411	269,120	31,806	25,335	25,759	29,727	71,402	57,412	13,422	20,271
Del Norte	6,459	5,500	1,588	216	37	33	1,165	1,541	240	130
El Dorado	88,798	85,107	2,282	2,538	4,684	5,122	4,064	6,278	1,488	2,910
Fresno	146,445	142,572	75,475	56,224	12,496	14,323	56,180	64,256	31,535	20,184
Glenn	4,556	6,264	692	3,599	885	906	912	377	6,122	1,437
Humboldt	20,391	21,536	4,113	12,679	4,147	3,944	5,175	8,598	1,941	355
Imperial	18,698	18,088	8,160	4,771	2,818	3,220	6,512	6,814	973	4,539
Inyo	3,806	5,751	670	1,108	569	970	2,405	1,169	852	137
Kern	107,419	139,553	35,295	34,179	8,937	9,041	25,934	50,532	10,827	42,729
Kings	17,163	17,731	2,257	6,591	1,475	2,105	2,904	1,962	15,936	16,353
Lake	29,301	36,857	2,673	1,646	2,381	4,549	2,538	3,726	1,017	487
Lassen	6,325	7,681	1,264	3,021	969	1,201	1,614	1,367	101	735
Los Angeles	829,171	810,401	880,219	992,228	283,739	358,706	615,224	1,020,568	529,535	619,362
Madera	41,911	37,068	6,563	14,068	1,568	1,685	5,648	5,977	7,614	8,506
Marin	80,320	45,004	26,947	6,137	17,645	21,269	41,207	27,506	2,546	5,053
Mariposa	6,857	7,245	77	---	364	422	799	883	89	---
Mendocino	29,636	26,142	9,998	2,313	2,358	3,062	4,968	5,535	1,834	3,000
Merced	43,505	55,605	13,910	17,756	3,986	5,165	8,659	8,144	2,766	4,997
Modoc	2,070	1,183	322	44	378	405	366	564	27	15
Mono	6,895	14,196	6,239	23,197	3,478	855	1,037	1,499	61	187
Monterey	78,073	79,710	26,310	29,156	13,792	14,450	22,982	30,941	8,652	14,193
Napa	38,258	26,273	9,825	902	5,824	6,534	12,139	12,403	3,314	12,601
Nevada	76,547	60,805	4,485	4,487	2,117	2,535	5,912	4,183	1,256	347
Orange	618,965	583,285	307,041	272,435	71,369	72,942	324,327	332,242	256,212	195,425
Placer	116,200	122,259	19,144	8,908	6,873	8,078	14,164	16,756	1,811	6,327
Plumas	9,263	15,690	305	2,651	767	1,014	676	829	555	1,005
Riverside	447,629	401,708	111,444	130,223	23,056	25,451	68,488	93,459	24,684	33,481
Sacramento	203,760	252,588	53,749	74,463	18,332	21,382	74,780	99,566	21,355	41,827
San Benito	10,699	10,330	536	787	583	1,054	1,092	2,440	1,181	1,736
San Bernardino	615,184	533,131	117,068	115,311	47,659	48,906	78,392	112,940	42,143	55,833
San Diego	709,139	627,599	416,792	298,431	67,636	88,315	232,540	263,853	104,671	74,562
San Francisco	16,651	22,085	87,954	114,248	36,530	37,149	235,844	381,036	6,282	2,393
San Joaquin	168,801	145,895	63,909	59,329	10,359	11,530	26,924	57,161	14,560	20,019
San Luis Obispo	82,814	83,261	15,360	17,727	5,981	6,666	10,297	10,487	5,726	7,591
San Mateo	95,868	153,490	62,454	35,511	40,938	50,558	36,037	66,799	19,289	27,073
Santa Barbara	75,857	114,793	23,746	26,697	10,309	11,843	25,379	26,508	15,348	12,165
Santa Clara	350,611	383,610	90,399	62,938	53,776	60,294	139,220	168,278	228,876	297,322
Santa Cruz	65,881	68,462	29,775	17,954	8,595	10,985	12,633	11,200	5,588	15,325
Shasta	58,953	67,761	14,422	5,618	3,915	3,353	14,379	9,005	5,931	13,749
Sierra	2,862	1,927	840	---	284	394	436	89	227	121
Siskiyou	16,234	15,789	2,114	2,279	1,325	2,347	1,829	4,441	438	446
Solano	164,766	154,560	22,378	24,792	9,770	10,787	19,581	27,063	11,693	21,381
Sonoma	113,024	167,279	23,553	32,190	8,482	12,448	33,465	47,807	17,675	27,053
Stanislaus	85,611	101,819	38,936	23,247	11,119	7,892	36,993	48,776	13,701	17,224
Sutter	24,135	22,294	5,139	10,951	1,691	2,096	6,168	3,134	2,225	2,692
Tehama	16,061	16,822	5,551	2,152	1,576	1,761	2,421	3,286	371	1,743
Trinity	4,964	3,820	336	68	342	374	765	1,040	39	12
Tulare	86,221	87,635	27,563	23,633	13,666	12,513	13,700	14,974	4,221	9,386
Tuolumne	24,365	33,620	995	2,446	1,597	2,288	1,924	4,377	226	164
Ventura	295,149	316,999	85,505	54,465	13,823	17,206	51,551	68,592	33,051	26,835
Yolo	32,360	34,180	4,296	10,027	3,277	3,202	10,062	9,797	16,792	14,660
Yuba	17,812	13,516	4,926	8,868	1,428	1,284	2,681	3,050	767	2,955
Statewide Total	\$6,778,332	\$6,885,513	\$2,879,144	\$2,801,772	\$946,817	\$1,101,384	\$2,477,674	\$3,375,878	\$1,556,132	\$1,811,954

SOURCE: Research Department, Security Pacific National Bank

STATEWIDE ANNUAL INCREASES IN NUMBER OF HOUSING UNITS (ESTIMATED)

County	Single Units		2 to 4 Units		5 or More Units		Mobilehomes Units		Total	
	1/1/79	1/1/80	1/1/79	1/1/80	1/1/79	1/1/80	1/1/79	1/1/80	1/1/79	1/1/80
Alameda	258,039	262,380	59,745	60,015	114,289	115,486	6,486	6,546	438,559	444,427
Alpine	558	591	58	58	260	312	44	44	920	1,005
Amador	8,050	8,467	339	339	213	242	625	663	9,227	9,711
Butte	36,521	37,337	4,286	4,516	5,692	6,063	9,747	10,354	56,246	58,270
Calaveras	9,204	10,065	339	345	152	165	872	1,102	10,567	11,677
Colusa	4,233	4,298	522	524	432	432	515	511	5,702	5,765
Contra Costa	174,745	180,706	22,263	22,664	34,566	35,458	6,562	6,734	238,136	245,562
Del Norte	4,610	4,707	312	321	356	356	1,785	1,910	7,063	7,294
El Dorado	32,230	34,306	3,032	3,072	2,984	2,984	3,033	3,132	41,279	43,494
Fresno	126,739	129,434	17,702	18,766	24,779	27,062	9,247	9,662	178,467	184,924
Glenn	6,213	6,346	440	469	299	305	1,116	1,236	8,068	8,356
Humboldt	30,501	31,048	3,709	3,848	3,366	3,382	4,776	5,083	42,352	43,361
Imperial	20,951	21,267	1,756	1,806	3,334	3,544	3,612	3,793	29,653	30,410
Inyo	4,599	4,737	491	491	749	754	2,303	2,381	8,142	8,363
Kern	105,075	107,326	14,411	15,178	10,871	11,310	12,079	13,741	142,438	147,555
Kings	19,805	20,109	1,802	1,864	1,404	1,512	1,646	1,750	24,657	25,235
Lake	12,556	13,195	789	823	479	489	4,886	5,576	18,710	20,083
Lassen	5,761	5,953	454	454	498	704	1,343	1,553	8,056	8,664
Los Angeles	1,590,561	1,600,598	226,875	229,486	938,803	959,256	39,827	40,031	2,796,066	2,829,371
Madera	18,088	19,333	975	1,126	998	1,149	2,628	2,878	22,689	24,486
Marin	59,662	61,853	8,357	8,512	18,614	18,239	1,731	1,739	88,364	90,343
Mariposa	3,628	3,824	186	186	716	716	946	1,080	5,476	5,806
Mendocino	19,181	19,510	1,668	1,826	1,588	1,715	3,909	3,961	26,346	27,012
Merced	33,641	34,716	5,353	5,620	3,075	3,571	3,471	3,819	45,540	47,726
Modoc	2,921	2,957	136	136	199	199	531	637	3,787	3,929
Mono	6,739	6,962	283	328	389	706	590	619	8,001	8,615
Monterey	65,827	67,022	11,890	12,184	14,450	15,135	5,486	5,526	97,653	99,867
Napa	26,180	26,545	3,774	3,820	3,382	3,602	3,216	3,272	36,552	37,239
Nevada	18,142	19,974	839	893	1,057	1,067	2,587	2,670	22,625	24,604
Orange	411,975	419,984	88,462	93,495	158,511	165,899	29,994	30,184	688,942	709,562
Placer	38,035	40,132	4,814	4,937	3,345	3,954	3,851	4,047	50,445	53,070
Plumas	6,047	6,310	991	1,093	661	661	1,258	1,349	8,957	9,413
Riverside	167,711	178,294	22,194	23,374	29,735	31,675	39,757	42,530	259,397	275,873
Sacramento	194,444	204,115	41,973	43,507	60,231	62,032	12,325	12,692	308,973	322,346
San Benito	6,545	6,791	722	767	428	428	474	502	8,169	8,488
San Bernardino	251,676	264,615	23,463	24,581	34,070	38,458	25,331	27,053	334,540	354,707
San Diego	390,350	401,643	77,962	80,927	162,224	172,150	38,706	39,342	669,242	694,062
San Francisco	105,790	106,040	74,676	74,925	139,637	140,278	342	342	320,445	321,585
San Joaquin	87,550	90,417	12,639	13,821	18,043	19,293	6,668	6,927	124,900	130,458
San Luis Obispo	40,526	41,603	6,290	6,636	6,046	6,645	6,727	6,985	59,589	61,869
San Mateo	150,556	151,659	17,564	18,067	57,171	58,019	2,914	2,989	228,205	230,734
Santa Barbara	67,880	67,791	12,699	12,672	24,035	26,408	6,080	6,087	110,694	112,958
Santa Clara	296,263	302,899	47,340	48,729	97,156	98,907	17,955	18,735	458,714	469,270
Santa Cruz	53,176	54,374	7,827	8,153	8,124	8,508	6,132	6,114	75,259	77,149
Shasta	28,888	30,396	3,398	3,548	3,650	3,816	9,126	9,811	45,062	47,571
Sierra	1,645	1,686	73	77	109	109	168	177	1,995	2,049
Siskiyou	12,622	13,051	1,291	1,400	963	1,018	2,781	2,982	17,657	18,451
Solano	55,991	59,208	10,494	10,728	9,725	9,945	4,218	4,232	80,428	84,113
Sonoma	83,983	86,467	10,243	10,743	10,277	10,580	9,731	9,918	114,234	117,708
Stanislaus	72,022	74,158	9,246	9,944	7,981	8,926	6,754	7,080	96,003	100,108
Sutter	13,492	13,780	1,566	1,795	2,601	2,705	1,495	1,577	19,154	19,857
Tehama	10,610	10,958	1,122	1,229	955	961	3,487	3,845	16,174	16,993
Trinity	3,996	4,153	66	70	32	32	1,075	1,162	5,169	5,417
Tulare	66,056	67,963	5,596	6,132	4,822	5,174	6,978	7,529	83,452	86,798
Tuolumne	14,096	14,862	735	744	425	438	2,693	2,864	17,949	18,908
Ventura	118,651	124,913	15,539	16,279	24,966	26,923	9,969	10,397	169,125	178,512
Yolo	25,794	26,409	4,264	4,312	8,898	9,556	2,740	2,754	41,696	43,031
Yuba	11,704	12,173	1,812	1,848	1,726	1,786	2,291	2,495	17,533	18,302
Statewide Total	5,493,034	5,622,410	897,849	924,203	2,064,541	2,131,199	397,619	414,704	8,853,043	9,092,516

Source: Department of Housing and Community Development

1-1-0341A

TOTAL BUILDING VALUATION BY COUNTY 1978-79

No. County	%	Per Cent Change 1978-79										In Thousands of Dollars	
		Loss in Valuation					Gain in Valuation					1978	1979
1. Alameda	30	[Loss]					[Gain]					617,709	803,307
2. Alpine	0												
3. Amador	13-	[Loss]					[Gain]					29,171	25,356
4. Butte	24	[Loss]					[Gain]					90,167	112,119
5. Calaveras	62	[Loss]					[Gain]					30,776	49,871
6. Colusa	26	[Loss]					[Gain]					6,431	8,101
7. Contra Costa	9	[Loss]					[Gain]					414,988	451,713
8. Del Norte	26-	[Loss]					[Gain]					15,403	11,315
9. El Dorado	.5											109,109	109,626
10. Fresno	4-	[Loss]					[Gain]					368,652	353,420
11. Glenn	2-	[Loss]					[Gain]					14,423	14,112
12. Humboldt	33	[Loss]					[Gain]					44,487	59,314
13. Imperial	4-	[Loss]					[Gain]					45,570	43,921
14. Inyo	28	[Loss]					[Gain]					11,700	14,914
15. Kern	43	[Loss]					[Gain]					217,996	312,120
16. Kings	10	[Loss]					[Gain]					46,881	51,485
17. Lake	15	[Loss]					[Gain]					41,069	47,370
18. Lassen	32	[Loss]					[Gain]					14,471	19,081
19. Los Angeles	21	[Loss]					[Gain]					3,585,748	4,349,459
20. Madera	10	[Loss]					[Gain]					72,373	79,464
21. Marin	34-	[Loss]					[Gain]					183,257	121,364
22. Mariposa	8	[Loss]					[Gain]					8,865	9,531
23. Mendocino	18-	[Loss]					[Gain]					56,225	45,921
24. Merced	30	[Loss]					[Gain]					82,480	107,010
25. Modoc	12-	[Loss]					[Gain]					4,059	3,589
26. Mono	122	[Loss]					[Gain]					18,670	41,386
27. Monterey	17	[Loss]					[Gain]					167,725	195,579
28. Napa	22-	[Loss]					[Gain]					86,822	67,887
29. Nevada	18-	[Loss]					[Gain]					94,091	77,349
30. Orange	5-	[Loss]					[Gain]					1,736,874	1,645,155
31. Placer	0											174,255	174,222
32. Plumas	80	[Loss]					[Gain]					13,629	24,553
33. Riverside	11	[Loss]					[Gain]					745,555	828,806
34. Sacramento	26	[Loss]					[Gain]					435,000	549,734
35. San Benito	5	[Loss]					[Gain]					16,094	16,967
36. San Bernardino	5-	[Loss]					[Gain]					997,197	952,605
37. San Diego	10-	[Loss]					[Gain]					1,656,419	1,494,353
38. San Francisco	15	[Loss]					[Gain]					530,193	611,557
39. San Joaquin	6	[Loss]					[Gain]					319,548	338,334
40. San Luis Obispo	10	[Loss]					[Gain]					130,006	143,098
41. San Mateo	25	[Loss]					[Gain]					310,771	386,917
42. Santa Barbara	21	[Loss]					[Gain]					169,739	205,122
43. Santa Clara	10	[Loss]					[Gain]					999,649	1,097,673
44. Santa Cruz	3	[Loss]					[Gain]					131,440	134,668
45. Shasta	11	[Loss]					[Gain]					106,279	117,885
46. Sierra	47-	[Loss]					[Gain]					5,358	2,864
47. Siskiyou	19	[Loss]					[Gain]					25,235	30,134
48. Solano	6	[Loss]					[Gain]					238,704	253,241
49. Sonoma	45	[Loss]					[Gain]					216,902	313,842
50. Stanislaus	8	[Loss]					[Gain]					213,453	230,431
51. Sutter	6	[Loss]					[Gain]					43,516	46,167
52. Tehama	.1-	[Loss]					[Gain]					29,404	29,371
53. Trinity	15-	[Loss]					[Gain]					7,233	6,139
54. Tulare	2-	[Loss]					[Gain]					171,667	168,565
55. Tuolumne	54	[Loss]					[Gain]					31,033	47,636
56. Ventura	3	[Loss]					[Gain]					517,580	531,644
57. Yolo	3-	[Loss]					[Gain]					81,283	79,035
58. Yuba	11	[Loss]					[Gain]					29,548	32,845
STATEWIDE TOTAL	9	[Loss]					[Gain]					16,562,880	18,079,235

Source: Research Dept. Security Pacific National Bank

HEALTH AND SAFETY CODE

CHAPTER 9, LOCAL BUILDING PERMITS (NEW)

Article 1. Contents (New).....Section 19825
2. Owner-Builder. Information (new).....19831
 Chapter 9 was added by Stats. 1978, c. 1301, p. 4524, § 1, operative July 1, 1980
 Former Chapter 9 was repealed by Stats. 1970, c. 1436, p. 2786, § 6.

ARTICLE 1. CONTENTS (NEW)

Section 19825. Declarations to be printed on front side, left column.
The heading of article 1 was added by Stats. 1979, c. 976, p. 1, § 1, operative July 1, 1980.

Law Review Commentaries

Growth control ordinances: Need for accommodation. (1978) 12 U.S.F.L. Rev. 357.

§ 19825. Declarations to be printed on front side, left column. Every city or county, which requires the issuance of a permit as a condition precedent to the construction, alteration, improvement, demolition, or repair of any building or structure, shall, in addition to any other requirements, print the following declarations in substantially the following form upon the front side, left column of any building permit issued:

BUILDING PROJECT IDENTIFICATION

Applicant's Mailing Address	_____
Address of Building	_____
Owner's Name	_____
Telephone No.	_____
Contractor's Name	_____
Contractor's Mailing Address	_____
	Lic. No. _____
Architect or Engineer	_____
Architect's or Engineer's Address	_____
	Lic. No. _____

ARTICLE 2. OWNER-BUILDER INFORMATION (NEW)

Section 19831. Owner-builder verification.
19832. Transmittal of notice and verification; return of verification.
Article 2 was added by Stats. 1979, c. 976, p. 1, § 3, operative July 1, 1980.

§ 19831. Owner-builder verification. A city or county, which is required to give notice pursuant to Section 19830, shall attach to such notice, and, as a condition precedent to issuing a building permit, require the completion, and whenever notice is given by mail, require the return of, an owner-builder verification in substantially the following form:

"OWNER-BUILDER VERIFICATION

"Attention Property Owner:
 "An 'owner-builder' building permit has been applied for in your name and bearing your signature.
 "Please complete and return this information in the envelope provided at your earliest opportunity to avoid unnecessary delay in processing and issuing your building permit. No building permit will be issued until this verification is received.

1. I personally plan to provide the major labor and materials for construction of the proposed property improvement (yes or no) _____.
2. I (have/have not) _____ signed an application for a building permit for the proposed work.
3. I have contracted with the following person (firm) to provide the proposed construction:

Name _____
 Address _____ City _____
 Phone _____ Contractors License No. _____

4. I plan to provide portions of the work, but I have hired the following person to coordinate, supervise, and provide the major work:

Name _____
Address _____ City _____
Phone _____ Contractors License No. _____

5. I will provide some of the work but I have contracted (hired) the following persons to provide the work indicated:

Name	Address	Phone	Type of Work
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Signed:
Property owner _____
Social Security number _____
Date: _____".

(Added by stats. 1979, c. 976, p. __, § 3, operative July 1, 1980.)

§ 19832. Transmittal of notice and verification; return of verification. A city or county, whether general law or chartered, shall transmit the notice required pursuant to Section 19830 and the owner-builder verification required pursuant to Section 19831 by mail to the property owner applying for such owner-builder building permit and shall not provide such notice or such verification in person to the person applying for such building permit. The return of the owner-builder verification shall be a condition precedent to issuance of the building permit.

(Added by stats. 1979, c. 976, p. __, § 3, operative July 1, 1980.)

CHAPTER 10. BUILDING RECORDS (NEW)

Section 19850. Filing building plans by city or county.

19851. Inspection of records.

19852. Fees.

19853. Exclusion of banks, financial institutions or public utilities.

Chapter 10 was added by Stats. 1971, c. 616, p. 1218, § 1.

§ 19850. Filing, building plans by city or county. The building department of every city or county shall maintain an official copy, which may be on microfilm or other type of photographic copy, of the plans of every building, during the life of such building, for which such department issued a building permit.

"Building department" means the department, bureau, or officer charged with the enforcement of laws or ordinances regulating the erection, construction, or alteration of buildings.

Plans need not be filed for:

- (a) Single or multiple dwellings not more than two stories and basement in height.
- (b) Garages and other structures appurtenant to buildings described under subdivision (a).
- (c) Farm or ranch buildings.
- (d) Any one-story building where the span between bearing walls does not exceed 25 feet. The exemption in this subdivision does not, however, apply to a steel frame of concrete building.

(Added by Stats. 1971, c. 616, p. 1218, § 1.)

Library references.

Records — 3.
C.J.S. Records § 3.

§ 19851. Inspection of records. The official copy of the plans maintained by the building department of the city or county provided for under Section 19850 shall be open for inspection only on the premises of the building department as a public record. Such copy may not be duplicated in whole or in part except with the written permission of the certified, licensed or registered professional or his successor, if any, who signed the original documents and the written permission of the owner of such building, or by order of a proper court.

(Added by Stats. 1971, c. 616, p. 1218, § 1.)

Library references.

Records — 14, 15.
C.J.S. Records § 35 et seq.

§ 19852. Fees. The governing body of a city or county may prescribe such fees as will pay the expenses incurred by the building department of such city or county in maintaining the official copy of the plans of buildings for which it has issued a building permit.

(Added by Stats. 1971, c. 616, p. 1218, § 1.)

Library references.

Records — 14.

C.J.S. Records § 35 et seq.

§ 19853. Exclusion of banks, financial institutions or public utilities. This chapter shall not apply to any building containing a bank, other financial institution, or public utility.

(Added by Stats. 1971, c. 616, p. 1218, § 1.)

Rule 461. REAL PROPERTY VALUE CHANGES.

Reference: Article XIII A, Sections 1 and 2, California Constitution

(a) Section 2 of Article XIII A of the California Constitution provides that real property shall be reappraised if purchased, newly constructed (Section 463) or a change in ownership occurs (Section 462) after the original base year. A purchase is any transfer of title or right to the use, occupancy, possession or profit a prendre of real property, or portion thereof, for a consideration.

(b) Unless otherwise provided for in this chapter or by statute, real property which was not subject to valuation in a prior base year as required by law shall be appraised at full value for each year it should have been so valued and an escape assessment shall be added to the roll for the current fiscal year or to the roll being prepared at the time of discovery in accordance with the provisions of Section 531.2 of the Revenue and Taxation Code.

(c) The prior year taxable value of real property, or portion thereof, physically removed from the site shall be deducted from the property's prior year taxable value, provided that such net value shall not be less than zero. The net value shall be appropriately adjusted to reflect the percentage change in the cost of living and then compared to the current lien date full value to determine taxable value which shall be the lesser of the two values.

(d) For the tax year 1979-80 and tax years thereafter the assessor shall prepare an assessment roll containing the base year value appropriately indexed or the current lien date full value, whichever is less. Increases and decreases in full cash value since the previous lien date shall be reflected on the roll except that taxable value shall never exceed base year value appropriately indexed. Property restored following damage caused by a misfortune or calamity is to be valued pursuant to subsection (e) and not this subsection. In preparing such rolls the assessor is not required to make an annual reappraisal of all assessable property.

Declines in value will be determined by comparing the current lien date full value of the appraisal unit to the indexed base year full value of the same unit for the current lien date. Land and improvements constitute an appraisal unit except when measuring declines in value caused by disaster, in which case land shall constitute a separate unit. For purposes of this subsection fixtures and other machinery and equipment classified as improvements constitute a separate appraisal unit.

When the current full value of property is less than its base year full value indexed to the current lien date, the full value shall be enrolled as the current taxable value.

(e) The taxable value of real property damaged or destroyed by a misfortune or calamity is to be adjusted in accordance with the Revenue and Taxation Code. If the property is restored, the assessor shall on the lien date following restoration enroll it at its former value plus the appropriate inflation adjustment, unless:

1. The full value of the restored property as of the lien date is less than the indexed base year full value in which case the lower value shall be enrolled as the new base year value, or
2. It is determined that new construction has occurred in which case the property's value shall be enrolled as provided in Section 463.

History: Adopted June 29, 1978, effective July 3, 1978.

Amended September 26, 1978, effective October 2, 1978.

Amended January 25, 1979, effective March 1, 1979. Applicable to assessments for 1979 and years thereafter.

Amended August 16, 1979, effective August 22, 1979, Amended (a), (b), (c), (d), and (e) (1).

Amended November 13, 1979, effective December 6, 1979. Amended (b).

Rule 463. NEWLY CONSTRUCTED PROPERTY.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

(a) When real property, or a portion thereof, is newly constructed after the 1975 lien date, the assessor shall ascertain the full value of such "newly constructed property" as of the date of completion. This will establish a new base year value for only that portion of the property which is newly constructed, whether it is an addition or alteration. The taxable value on the total property shall be determined by adding the full value of new construction to the taxable value of preexisting property reduced to account for the taxable value of property removed during construction. The full value of new construction is only that value resulting from the new construction and does not include value increases not associated with the new construction.

(b) "Newly constructed" or "new construction" means and includes:

(1) Any substantial addition to land or improvements, including fixtures, such as adding land fill, retaining walls, curbs, gutters or sewers to land or constructing a new building or swimming pool or changing an existing improvement so as to add horizontally or vertically to its square footage or to incorporate an additional fixture, as that term is defined in this section.

(2) Any substantial physical alteration of land which constitutes a major rehabilitation of the land or results in a change in the way the property is used.

Examples of alterations to land to be considered new construction are:

Site development of rural land for the purpose of establishing a residential subdivision.

Altering rolling, dry grazing land to level irrigated crop land.

Preparing a vacant lot for use as a parking facility.

In any instance in which an alteration is substantial enough to require reappraisal, only the value of the alteration shall be added to the base year value of the pre-existing land or improvements. Increases in land value caused by appreciation or a zoning change rather than new construction shall not be enrolled, for example:

1. Land value 1975	=	\$10,000
2. Land value 1978	=	\$20,000
3. Value of alteration 1978	=	\$ 5,000
4. Value of structure added 1978	=	\$75,000
1979 roll value (1+3+4)	=	\$90,000 (must be adjusted to reflect appropriate indexing)

Alterations to land which do not constitute a major rehabilitation or which do not result in a change in the way the property is used shall not result in reappraisal.

(3) Any physical alteration of any improvement which converts the improvement or any portion thereof to the substantial equivalent of a new structure or portion thereof or changes the way in which the portion of the structure that had been altered is used, e.g., physical alterations to an old structure to make it the substantial equivalent of a new building without any change in the way it is used or alterations to a warehouse that makes it usable as a retail store or a restaurant. Only, the value, not necessarily the cost, of the alteration shall be added to the appropriately indexed base year value of the pre-existing structure.

(4) Excluded from alterations that qualify as "newly constructed" is construction or reconstruction performed for the purpose of normal maintenance and repair, e.g., routine annual preparation of agricultural land or interior or exterior painting, replacement of roof coverings or the addition of aluminum siding to improvements of the replacement of worn machine parts.

(5) Any substantial physical rehabilitation, renovation or modernization of any fixture which converts it to the substantial equivalent of a new fixture or any substitution of a new fixture.

Rule 463. NEWLY CONSTRUCTED PROPERTY (Continued 2)

Substantial equivalency shall be ascertained by comparing the productive capacity, normally expressed in units per hour, of the rehabilitated fixture to its original productive capacity.

(c) For purposes of this section, "fixture" is defined as an improvement whose use or purpose directly applies to or augments the process or function of a trade, industry, or profession.

(d) New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value.

(e) For purposes of this section, the date of completion is the date the property or portion thereof is available for use. In determining whether the real property or a portion thereof is available for use, consideration shall be given to the date of the final inspection by the appropriate governmental official, or, in the absence of such inspection, the date the prime contractor fulfilled all of his contract obligations, or in the case of fixtures, the date of the completion of testing of machinery and equipment.

(f) Newly constructed property does not include real property which is timely reconstructed after a disaster where the full value of such real property, as reconstructed, is substantially equivalent to its full value prior to the disaster. If the values are not substantially equivalent, the assessor shall on lien date following restoration:

(1) Enroll the restored property at its former taxable value plus or minus the appropriate inflation adjustment, or

(2) Enroll the current market value of the restored property if the current market value is less than the value found in Item 1 above, or

(3) Enroll the value found in Item 1 above plus the market value of any newly constructed property if it is determined that new construction has occurred.

For purposes of this subsection only, newly constructed property does not include any land, improvement or fixture that is restored, reconstructed or repaired in a timely manner following a disaster and which is substantially equivalent in size, use and quality to that which existed prior to the disaster.

(g) For property under reconstruction or restoration as a result of disaster which changes ownership prior to the completion of reconstruction or restoration, the value of the land and existing improvements shall be determined as of the date of the change in ownership but the value of any reconstruction or restoration which occurs following the transfer shall be determined as of the date of completion in accordance with the provisions applicable to new construction but without regard to the "substantially equivalent" test normally applicable to property reconstructed following a disaster.

History: Adopted June 29, 1978, effective July 3, 1978.

Amended September 26, 1978, effective October 2, 1978.

Amended January 25, 1979, effective March 1, 1979. Applicable to assessments for 1979 and years thereafter.

Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.

Rule 465. NONPROFIT GOLF COURSES.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

When appraising real property used exclusively for nonprofit golf course purposes in accordance with the provisions of Section 10 of Article XIII of the California Constitution, the assessor shall for the 1979 lien date and thereafter ascertain the value of such property on the basis of such use, plus the full value attributable to any mineral rights without regard to any of the provisions of Section 2 of Article XIII A of the California Constitution or its implementing legislation.

History: Adopted June 29, 1978, effective July 3, 1978.

Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.

Rule 466. VALUATION AND ENROLLMENT OF TREES AND VINES.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

All fruit and nut trees and vines when planted respectively in orchard or vineyard form shall be exempt as provided by law. Upon becoming subject to tax, previously exempt trees and vines shall be valued for the 1979 date and thereafter as follows:

(a) Those planted in land enforceably restricted shall be annually valued pursuant to the provisions of Section 470 herein without regard to the provisions of Section 2 of Article XIII A of the California Constitution.

(b) Those planted in land not enforceably restricted shall be enrolled at their base year value appropriately adjusted to reflect annual increases in the consumer price index not to exceed two percent or at their full value for the current lien date, whichever is less.

(1) The base year for trees and vines planted in land not enforceably restricted shall be the year they became subject to taxation unless that year was prior to 1975 in which case the base year is 1975.

(c) Perennials, other than trees and vines, planted for their commercial production on enforceably restricted land shall be valued annually as provided in Section 470. If they are planted on land not enforceable restricted, they shall be valued and have the same base year as the land unless planted after lien date 1975 in which case their value as of the date of planting shall be their original base year value.

History: Adopted June 29, 1978, effective July 3, 1978.

Amended September 26, 1978, effective October 2, 1978.

Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.

Rule 467. TAXABLE POSSESSORY INTEREST.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

For the 1979 lien date and thereafter the assessor shall ascertain the value of all taxable possessory interests as defined in Section 21 of this code and created prior to March 1, 1975, as of that date. Possessory interests newly created subsequent to March 1, 1975, shall be appraised at their full value as of the date of creation.

Possessory interests renewed, extended, subleased or assigned for any term shall be appraised at their full value as of the date of the renewal, extension, or as of the date the sub-lessee or assignee obtains the right to occupancy or use of the property.

New improvements erected for the purpose of exercising the rights granted by the possessory interest held in land shall be valued as of the date of the completion of construction. When improvements owned by the holder of the possessory interests are in the course of construction for a period that covers more than one lien date, they shall be appraised in accordance with Section 463.

If the current full value of any possessory interest changes for any reason to a value that is less than its base year value appropriately indexed to the lien date for which the roll is being prepared that lower value shall be enrolled.

History: Adopted June 29, 1978, effective July 3, 1978.

Amended September 26, 1978, effective October 2, 1978.

Amended January 25, 1979, effective March 1, 1979. Applicable to assessments for 1979 and years thereafter.

Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.

Rule 468. OIL AND GAS PRODUCING PROPERTIES.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

(a) The right to remove petroleum and natural gas from the earth is a taxable real property interest. Increases in recoverable amounts of such minerals caused by changed physical or economic conditions constitute additions to such a property interest. Reduction in recoverable amounts of minerals caused by production or changes in the expectation of future production capabilities constitute a reduction in the interest. Whether or not physical changes to the system employed in recovering such minerals qualify as new construction shall be determined by reference to Section 463(a).

(b) The market value of an oil and gas mineral property interest is determined by estimating the value of the volumes of proved reserves. Proved reserves are those reserves which geological and engineering information indicate with reasonable certainty to be recoverable in the future, taking into account reasonably projected physical and economic operating conditions. Present and projected economic conditions shall be determined by reference to all economic factors considered by knowledgeable and informed persons engaged in the operation and buying or selling of such properties, e.g., capitalization rates, product prices and operation expenses.

(c) The unique nature of oil and gas property interests requires the application of specialized appraisal techniques designed to satisfy the requirements of Article XIII, Section 1, and Article XIII A, Section 2, of the California Constitution. To this end, the valuation of such properties and other real property associated therewith shall be pursuant to the following principles and procedures:

(1) A base year value (market value) of the property shall be estimated as of lien date 1975 in accordance with Section 460.1 or as of the date a change in ownership occurs subsequent to lien date 1975. Newly constructed improvements and additions in reserves shall be valued as of the lien date of the year for which the roll is being prepared. Improvements removed from the site shall be deducted from taxable value. Base year values shall be determined using factual market data such as prices and expenses ordinarily considered by knowledgeable and informed persons engaged in the operation, buying and selling of oil, gas and other mineral-producing properties and the production therefrom. Once determined, a base year value may be increased no more than two percent per year.

(2) Base year reserve values must be adjusted annually for the value of depleted reserves caused by production or changes in the expectation of future production.

(3) Additions to reserves established in a given year by discovery, construction of improvements, or changes in economic conditions shall be quantified and appraised at market value.

(4) The current year's lien date taxable value of mineral reserves shall be calculated as follows:

(A) The total unit market value and the volume of reserves using current market data shall be estimated.

(B) The current value of taxable reserves is determined by segregating the value of wells, casings, and parts thereof, land (other than mineral rights) and improvements from the property unit value by an allocation based on the value of such properties.

(C) The volume of new reserves shall be determined by subtracting the prior year's reserves, less depletions, from the estimated current total reserves.

(D) The value of removed reserves shall be calculated by multiplying the volume of the reserves removed in the prior year by the weighted average value, for reserves only, per unit of minerals for all prior base years. The prior year's taxable value of the reserves remaining from prior years shall be found by subtracting the value of removed reserves from the prior year's taxable value.

(E) The new reserves are valued by multiplying the new volume by the current market value per unit of the total reserves.

(F) The current taxable value for reserves only is the sum of the value of the prior year's reserves, net of depletions as calculated in (D) above, factored by the appropriate percentage change in the Consumer Price Index (CPI) added to the value of the new reserves, as calculated in (E) above.

Rule 468. OIL AND GAS PRODUCING PROPERTIES. (Continued)

(5) Valuation of land (other than mineral reserves) and improvements.

(A) A base year value (market value) of land (including wells, casings and parts thereof) and improvements shall be estimated as of lien date 1975 in accordance with Section 460.1, the date of new construction after 1975, or the date a change of ownership occurs subsequent to lien date 1975.

(B) The value of land (wells, casings and parts thereof) and improvements shall remain at their factored base year value except as provided in (6) below.

(6) Value declines shall be recognized when the market value of the appraisal unit, i.e., land, improvements and reserves, is less than the current taxable value of the same unit.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended effective April 2, 1979.
Amended June 28, 1979, effective July 2, 1979.

Rule 469. MINES AND QUARRIES.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

Organic and inorganic minerals and rocks are natural substances of the earth, and are classified as land. The volume of minerals or rocks of acceptable quality that may be removed from the land under existing economic and operating conditions are classified as reserves. The creation of reserves by exploration or by development constitutes an addition to real property and the production of the minerals or rocks from a reserve constitutes a removal of real property.

(a) The full value of a mine or quarry is its base year full value adjusted for the depletion of reserves. The value of the depleted reserves shall be determined annually employing the economic data that applied to the establishment of the reserves in the base year.

(b) The base year of new reserves shall be the year in which either development or mining occurs.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.

Rule 470. ENFORCEABLY RESTRICTED PROPERTY

Reference: Article XIII A, Sections 1 and 2, California Constitution.

Commencing with the 1979 lien date, all property enforceably restricted pursuant to Section 8 of Article XIII of the California Constitution shall be valued for property tax purposes pursuant to Article 1.5, Open Space Land (commencing with Section 421) and Article 1.9, Historical Property (commencing with Section 439) of Chapter 3 of Part 2 of the Revenue and Taxation Code.

When enforceable restrictions are cancelled or terminated by nonrenewal as provided by the Government Code or the Revenue and Taxation Code, the full cash value referred to therein shall be the base year value as modified annually by the inflation rate.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.
Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
Amended November 13, 1979, effective December 6, 1979.

Rule 471. TIMBERLAND.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

Consistent with the intent of the provisions of Section 3 (j) of Article XIII of the California Constitution and the legislative interpretation thereof, the value for land which has been zoned as timberland pursuant to Section 51110 or 51113 of the Government Code shall be ascertained for the 1979 lien date from the schedule contained in Section 434.5 of the Revenue and Taxation Code and thereafter from the most recent board-adopted timberland site class value schedule.

History: Adopted June 29, 1978, effective July 3, 1978.

Amended September 26, 1978, effective October 2, 1978.

Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.

COUNTY _____
Person to Contact _____

QUESTIONNAIRE FOR SPCEIAL SURVEY REGARDING
NEWLY CONSTRUCTED PROPERTIES AND CONSTRUCTION IN PROGRESS

NUMBER 1: Since the enactment of the Jarvis-Gann initiative, have you created any employee positions to assist in the discovery and valuation of new construction?

Yes (x) _____ No (x) _____

How many? _____

NUMBER 2: How many appraiser-hours does your staff spend per appraisal processing new construction? Include travel time in total or show it separately if available. Also comment on difficulty of appraisals.

<u>Property Type</u>	<u>Appraiser Man-Hours/Appraisal</u>	<u>Clerical Man-Hours/Appraisal</u>
Residential	_____	_____
Rural	_____	_____
Commercial	_____	_____
Industrial	_____	_____

COMMENTS: _____

NUMBER 3: Can your present staff handle the new construction workload?

Yes (x) _____ No (x) _____

NUMBER 4: If your staff for handling new construction is inadequate, what is your estimate of the appraiser - day deficiency? Base your estimate on a typical tax year.

Deficiency _____ man-days

NUMBER 5: Estimate the number of appraiser-days required to process new construction. Base your estimate on a typical tax year.

Number of man-days _____

NUMBER 6: Estimate the number of clerical-days required to process new construction. Base your estimate on a typical tax year.

Number of man-days _____

NUMBER 7: Has the time required to process new construction increased in your county because of the Jarvis-Gann initiative?

Yes (x)_____ No (x)_____

If yes, how many appraiser days per year?
_____ days

COMMENTS: _____

NUMBER 8: Property Tax Rule 463 (b) (2) states:

New construction means: "Any substantial physical alteration of land which constitutes a major rehabilitation of the land, or results in a change in the way the property is used."

(a) Have you adopted a list of land alterations that distinguish between what is new construction and what is not?

Yes (x)_____ No (x)_____

If yes, what are they? _____

NUMBER 9: Property Tax Rule 463 (b) (3) states:

New construction means: "Any physical alteration of any improvement which converts the improvement or any portion thereof to the substantial equivalent of a new structure or portion thereof."

(a) Have you adopted any numerical parameters that distinguish what alterations are substantially equivalent of a new structure and what are not?

Yes (x)_____ No (x)_____

If yes, what are they? _____

(b) Have you adopted a list of improvement alterations that distinguish between what is new construction and what is not?

Yes (x)_____ No (x)_____

If yes, what are they? _____

NUMBER 10: Since the enactment of the Jarvis-Gann initiative have you initiated or requested any changes (standardization, additional information) to the building permits in your county to facilitate the processing of new construction?

Yes (x)_____ No (x)_____

What changes were made? _____

NUMBER 11: Rank in order of importance your sources for discovering new construction by the four major property types.

	<u>Residential</u>	<u>Rural</u>	<u>Commercial</u>	<u>Industrial</u>
Business Audits	_____	_____	_____	_____
Building Permits	_____	_____	_____	_____
Field Inspection	_____	_____	_____	_____
Property Statements	_____	_____	_____	_____
Publications	_____	_____	_____	_____
Other (Briefly Describe)	_____	_____	_____	_____

NUMBER 12: List the top three problem areas you have in discovering new construction. For Example: Newly installed equipment being expensed into a maintenance account.

1. _____
2. _____
3. _____

NUMBER 13: What types of new construction have you found most often erected without a building permit? Start with columns (1) as most often.

	(1)	(2)	(3)	(4)
Residential	_____	_____	_____	_____
Rural	_____	_____	_____	_____
Commercial	_____	_____	_____	_____
Industrial	_____	_____	_____	_____

NUMBER 14: The value entered on a building permit is frequently not equal to the construction costs. In your county which one of the following usually applies?

- (a) Building permit amounts are normally higher than actual construction costs. (x)_____

-OR-

- (b) Building permit amounts are normally lower than actual construction costs. (x)_____

Why are they different? _____

NUMBER 15: When assessing an improvement that will be under construction longer than one year and which must be totally completed before any part of it can be used, which of the following procedures do you follow?

- (a) Enroll as of the current lien date the cost reported by the developer. (x)_____

-OR-

- (b) Use the cost approach and enroll the estimated percent good of the finished improvement as of the current lien date. (x)_____

-OR-

- (c) Both methods depending upon which is estimated to more accurately reflect market value on the lien date. (x)_____

- (d) Other (comments)_____
- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____

NUMBER 16: In assessing a property that will be under construction longer than one year and which will be constructed in stages so that each stage can be used as finished even though the entire property will not be completed as that time, which of the following procedures do you follow?

- (a) Enroll as BASE YEAR value on the current lien date the cost reported up to that date by the developer. (x)_____

-OR-

- (b) Enroll as BASE YEAR value on the current lien date the value of the completed stages as of the date they were complete and enroll the additional value of the portions still under construction. (x)_____

-OR-

- (c) Other _____

NUMBER 17: Would you assign a final base year value to the completed and occupied lower floor(s) of a multi-story commercial office building even though additional upper floors(s) included in the original building design are still under construction?

Yes (x)_____ No (x)_____

NUMBER 18: Do you consider cost effectiveness when making time consuming appraisals of low-cost projects such as fences, decks, etc?

- (a) Yes (x)_____ No (x)_____

What amount do you consider as a low-cost project \$_____

-AND-

- (b) If low-cost new construction is not enrolled, is it noted on the building sheet?

Yes (x)_____ No (x)_____

-AND-

- (c) Do you field check permits that appear to involve low-cost amounts?

Yes (x)_____ No (x)_____

(d) COMMENTS: _____

NUMBER 19: Assume a new twenty-lot subdivision map has been filed in your county. As of the current lien date a new street has been constructed serving each one of the lots, but no improvements have been made to the lots and none have sold. The street has not yet been accepted as a dedicated street.

(a) How would your office handle the newly constructed street value?

-AND-

(b) Once dedicated and accepted, how would you treat the value of the street, land, and improvements? _____

NUMBER 20: Do you consider condominium conversions as new construction? Assume no transfer or physical change has occurred.

(a) Yes (x) _____ No (x) _____

NUMBER 21: If an assessee had to replace casing with one of an equal size in an old well, would you regard this as:

Maintenance (x) _____
New Construction (x) _____

NUMBER 22: If in June 1980 you discovered a structure which had been under construction from February 1976 through June 1979 but for which no value for construction in progress had ever been assessed, for which year or years would you enroll an escaped assessment?

3/1/76 (x) _____
 3/1/77 (x) _____
 3/1/78 (x) _____
 3/1/79 (x) _____

NUMBER 23: When appraising an addition via the replacement cost approach only, which cost factor do you apply?

- (a) The factor that pertains to the area of the addition only. (x) _____
- (b) The factor that pertains to the total area of the existing improvement and the addition. (x) _____
- (c) Other _____

NUMBER 24: Have you found assessments of new construction appealed more often than other properties that have appeared on the tax roll during the last three years? Give your best estimate.

	<u>More</u>	<u>Same</u>	<u>Less</u>
Entire New Construction	_____	_____	_____
Addition	_____	_____	_____
Alteration	_____	_____	_____

NUMBER 25: New construction taxability depends on whether the construction is considered to be "maintenance" or "reconditioned to equal new". How do you distinguish between these two alternatives? _____

NUMBER 26: Do you have a policy that sets the level of production that a renovated, rehabilitated or modernized fixture must achieve in order to be assessed as new construction? (see Rule 463 (b) (5).)

(a) Yes (x)_____ No (x)_____

If yes, what is that policy? _____

NUMBER 27: In valuing a new addition to an older structure, do you take into account obsolescence the older structure imposes upon the new addition?

(a) Yes (x)_____ No (x)_____

COMMENTS: _____

NUMBER 28: Do you always attempt the income approach when valuing newly constructed commercial properties? Such as: entire shopping centers, office buildings, etc.

(a) Yes (x)_____ No (x)_____

COMMENTS: _____

NUMBER 29 Please enter (or estimate) the number of alterations/additions and number of entire new structures assessed in your county during the last year (3/1/79 to 2/28/80).

<u>Property Type</u>	<u>Number of Structural Alterations/Additions</u>	<u>Number of Entire New Structures</u>
Single-Family	_____	_____
Multi-Family	_____	_____
Commercial	_____	_____
Industrial	_____	_____
Rural	_____	_____
Other	_____	_____

NUMBER 30 What is the total appraised value of new construction in your county for the last two tax years?

<u>Type</u>	<u>1978/79</u>	<u>1979/80</u>
Single-Family	_____	_____
Multi-Family	_____	_____
Commercial	_____	_____
Industrial	_____	_____
Rural	_____	_____
Other (Describe) _____	_____	_____
_____	_____	_____
Total	_____	_____

Note: If this question cannot be answered in specific dollar amounts, give an estimate as to the percent of the total tax roll for each type.

NUMBER 31: Assigning a proper date of completion to newly constructed improvements has become important with the Jarvis-Gann initiative. Indicate which of the following you would use as a method of determining a date of completion.

(a) The date that a notice of completion is filed by the owner/developer.

Yes (x)_____ No (x)_____

(b) The date that a permit of occupancy is issued.

Yes (x)_____ No (x)_____

(c) The date the newly constructed improvement (or portion thereof) is physically occupied for beneficial use.

Yes (x)_____ No (x)_____

(d) The date the newly constructed improvement (or portion thereof) begins to earn economic rent.

Yes (x)_____ No (x)_____

(e) The date it is ready for occupancy.

Yes (x)_____ No (x)_____

(f) Other (explain): _____

COMMENTS: _____

NUMBER 32: Property Tax Rule 463 states new construction is to be valued as of the date of completion and this date is determined by the date the property is available for use, with consideration given to (1) Date of final inspection, (2) Date the contractor fulfilled his obligation, and (3) Date of testing machinery and equipment. What method or event do you use to establish a completion date for the following types of property?

Residential: _____

Rural: _____

Commercial: _____

Industrial: _____

NUMBER 33: Can you recommend your "new construction" and "construction in progress—" appraisal program for use by other assessors?

Yes (x) _____ No (x) _____

Why? _____

ASSESSORS LETTERS ON NEW CONSTRUCTION

Number	Date	Subject
79/204	11/30/79	NEWLY CONSTRUCTED PROPERTY <ol style="list-style-type: none">1. What constitutes new construction?2. What is valued when new construction is present?3. What appraisal techniques are appropriate in the valuation of new construction?4. Questions and answers on the valuation of new construction.
80/26	2/22/80	VALUATION OF RELOCATED IMPROVEMENTS <ol style="list-style-type: none">1. Questions and answers on the valuation of relocated improvements.
80/77	5/8/80	CONSTRUCTION IN PROGRESS <ol style="list-style-type: none">1. Date of appraisal.2. Portion to be appraised.3. Unscheduled halt in construction.4. Examples.
80/82	12/9/80	NEW CONSTRUCTION/SOLAR EXEMPTION <ol style="list-style-type: none">1. Definition of a solar system that meets the exemption requirements.2. Value considerations.
81/10	1/20/81	SOLAR ENERGY SYSTEM <ol style="list-style-type: none">1. Restatement and confirmation of information contained in letter 80/182.
81/71	6/19/81	SOLAR ENERGY EXEMPTION AND WINDMILLS <ol style="list-style-type: none">1. Windmills excluded from exempt solar energy property.

Number	Date	Subject
81/94	8/13/81	ASSEMBLY BILL 375, ACTIVE SOLAR ENERGY SYSTEM 1. Restatement of letters 81/10 and 80/182 to emphasize that windmills are <u>not</u> included within the exemption provided to certain solar energy systems.
81/95	8/25/81	VALUATION OF WELLS UNDER CONSTRUCTION ON THE LIEN DATE 1. The drilling of oil, water, gas, and geothermal wells on the lien date should be valued the same as any other project under construction on the lien date... see continuation for restrictions regarding uneconomic projects).



STATE OF CALIFORNIA

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May 8, 1980

No. 80/77

TO COUNTY ASSESSORS:

CONSTRUCTION IN PROGRESS

Board Rule 463 states: "New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value." The rule further states that for purposes of this section, the date of completion is the date the property or portion thereof is available for use. Therefore, it is possible that when the construction project is completed in stages, with some portions available for occupancy prior to the completion of the total project, base years and base values can be separately established for the completed portions without regard to the incomplete status of the total project.

The assessor must use judgment in determining whether or not portions of a project can be considered complete for purposes of base year valuation. If the project is to be constructed in distinct stages, with portions being completed and available for use before the other portions are constructed, then it is proper to assign a base year and base value to the completed portions. If, however, the project is to be constructed as a single facility and the entire improvement will become available for occupancy within a reasonably short period of time, the total project will be handled as construction in progress until all of the improvement is available for occupancy. In other words, the incidental occupancy of a portion of such an improvement would not trigger the separate base year valuation of the occupied portion unless there will be a significant time delay before the balance of the improvement is complete. When a project is available for occupancy but is vacant simply for lack of tenants it should be considered complete and its base year value determined.

A special problem is created if a construction project comes to an unscheduled halt for an extended period. When there are no definite plans for continuation of construction within a reasonable period, the project no longer qualifies as construction in progress and the assessor should establish a base year value for the newly constructed improvements without regard to their incomplete status.

TO COUNTY ASSESSORS

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The following examples are intended to clarify the base year concept when construction is not complete on the lien date.

EXAMPLE 1: Assume that a shopping center project is being built in stages. One large anchor building and a wing of adjacent stores are complete and occupied on the lien date. The master plan calls for the construction of another anchor building and a group of peripheral buildings in the next year. The completed improvements can be viewed as an independent phase and a base year value assigned. On the other hand, if the initial stage (the anchor building and adjacent stores) is incomplete on the lien date, it should be valued as construction in progress.

EXAMPLE 2: Assume a high-rise structure has the first level complete and the upper levels completed except for interior finishing on the lien date. The plans call for the upper level to be finished as they are leased. In this case the entire structure, as it exists on the lien date, should be given a base year and base value. The interior finishing work will be picked up as new construction on the date or dates of completion.

EXAMPLE 3: Assume the first store in a commercial building that will contain six stores is complete and occupied, but the other units are under active major construction. Indications are that the work will progress continuously for another few months until completion. Should the assessor determine a separate base year value for the occupied portion? In this instance the entire project should be treated as construction in progress until the basic structure is essentially complete. Completion need not include interior finish as indicated in Example 2.

EXAMPLE 4: A residence presents a somewhat different type of problem, particularly recreational homes and owner-builder structures. As sometimes happens, assume an owner moves into his owner-builder structure before it is fully complete with the intention of finishing it while living there. Further assume that after a period of years the owner still has not finished the structure. The valuation procedure now becomes questionable. It is not proper to continue valuing this structure year after year as construction in progress. On the other hand, the structure is technically incomplete. The assessor should use his judgment and establish a base year and base year value when it appears that the structure is "substantially equivalent" to a completed home and is a livable unit. Finishing at a later date should be handled as new construction.

Sincerely,



Verne Walton, Chief
Assessment Standards Division

VW:dg