

IMPERIAL COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2008

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February 11, 2008

TO COUNTY ASSESSORS:

No. 2008/009

IMPERIAL COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Imperial County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (Board) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the Board shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Jose M. Rodriguez, Jr., Imperial County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Imperial County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from February through August 2006. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board's findings in its current survey of the Imperial County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, the Senate and Assembly; and to the Imperial County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Jose M. Rodriguez, Jr., Imperial County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the Board determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C

Our survey of the Imperial County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Imperial County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2005 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

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

First, we discuss the assessor's implementation of the recommendations made in our most recent prior survey, conducted in 2002. We made 19 recommendations in the 2002 survey. The assessor has fully implemented 11 of the recommended changes. Three other recommendations are no longer applicable. The remaining recommendations have not been implemented; thus, they are repeated in this report.

Many of our recommendations concern portions of programs that are currently effective but would benefit from additional improvement. In many instances the assessor is aware of the need for improvement and is implementing changes as time and resources permit.

The assessor is effectively managing many portions of the administration program, including budgeting and staffing, appraiser certification, assessment appeals, disaster relief, and the low-value property exemption. It should be noted that the total assessed value on the Imperial County assessment roll increased by 20 percent between fiscal years 2001-02 and 2005-06, while staffing levels for the appraisal and audit staff have remained relatively constant over the same period.

Over the past five years, the assessor has made increased use of computers and computer technology. Specifically, the assessor has:

- Purchased desktop computers and monitors for staff.
- Purchased a computer cadastral program for drawing building and other improvements on the property records.
- Developed and implemented a computer program for completing audits.
- Developed a computer program to make declines-in-value appraisals.
- Purchased a new file server to store scanned images of change of ownership statements, appraisal records and property statements. To date, 500,000 images have been scanned and stored.
- Converted maps into an electronic format.
- Established a countywide Geographical Information System (GIS).
- Coordinated with the auditor and tax collector the conversion to the Megabyte Property Tax Management Program.
- Purchased and installed four touch screen monitors for public use at the front counter, allowing the public to access assessment data, view assessor's and GIS maps, and search for property sales data.

In the area of real property assessment, the assessor has an effective program for discovering and assessing new construction. For example, the assessor has been proactive in discovering unpermitted new construction throughout the county. By canvassing neighborhoods for such unassessed property over the past four years, the assessor has added over \$26,000,000 in assessed value for new construction that had previously escaped assessment.

The assessor also has an effective program for the valuation of California Land Conservation Act properties. However, there is a need for improvement in the assessment of other types of properties. The area of most concern is the valuation of taxable possessory interests, where we found that the assessor: (1) incorrectly reappraises taxable possessory interests before the end of the reasonably anticipated terms of possession; (2) fails to obtain copies of all lease agreements that create taxable possessory interests; (3) does not account for lessor's expenses when valuing taxable possessory interests by the income approach; and (4) fails to periodically review for possible declines in value with respect to taxable possessory interests with stated terms of possession.

Overall, the personal property program is well managed. In particular, the assessor has an excellent program for the assessment of vessels.

Still, we make a number of recommendations to improve the assessor's personal property program. The most significant of these are that the assessor should: (1) timely audit the books and records of professions, trades, and businesses pursuant to section 469; and (2) use supportable minimum percent good factors in valuing business equipment.

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

The Imperial County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2005-06 assessment roll indicated an average assessment ratio of 99.62 percent, and the sum of the absolute differences from the required assessment level was 2.18 percent. Accordingly, the Board certifies that Imperial County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

- RECOMMENDATION 1:** Improve the assessment roll change program by: (1) citing the specific code section applicable to the escaped assessment, and (2) notifying taxpayers that an escaped assessment has been enrolled as required by section 534.....16
- RECOMMENDATION 2:** Send the annual notice in accordance with section 257.1.18
- RECOMMENDATION 3:** Revise welfare exemption procedures by: (1) granting the welfare exemption only to portions of the property used for exempt purposes, and (2) applying late-filing penalties in accordance with section 270.....19

RECOMMENDATION 4: Improve the change in ownership program by: (1) applying the penalty according to section 482 for failure to file the *Change of Ownership Statement* timely, and (2) ensuring that all changes in control of legal entities are reappraised timely.....25

RECOMMENDATION 5: Annually reappraise properties with taxable values that are less than their factored base year values, as required by section 51(e).....29

RECOMMENDATION 6: Apply the correct annual factor supplied by the Board when calculating the restricted value each year for taxable government-owned lands.....33

RECOMMENDATION 7: Improve the assessor's taxable possessory interest assessment program by: (1) reappraising month-to-month taxable possessory interests only at the expiration of the anticipated term of possession used to establish the base year value; (2) obtaining copies of all lease agreements that create taxable possessory interests; (3) periodically reviewing taxable possessory interests with stated terms of possession for declines in value; and (4) capitalizing net income to the lessor when valuing taxable possessory interests by the income approach.....34

RECOMMENDATION 8: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.41

RECOMMENDATION 9: Use minimum percent good factors that are supportable as provided in section 401.16(b).45

RECOMMENDATION 10: Assess manufactured homes at the lesser of the factored base year value or the current market value.47

RESULTS OF 2002 SURVEY

Disaster Relief

We recommended the assessor improve the disaster relief program by: (1) limiting disaster relief to no more than the value of the actual damage pursuant to section 170(b); (2) revising the disaster relief notice to include the information required by section 170(c); and (3) including the month of damage when calculating the new assessed value, as required by section 170(e). The assessor has implemented all three recommendations.

Change in Ownership

We recommended the assessor develop and implement a written policy for making cash equivalent adjustments. The assessor has implemented this recommendation.

Declines in Value

We recommended the assessor develop written procedures for the decline-in-value program. The assessor has implemented this recommendation. We also recommended the assessor annually review all parcels that have experienced a decline in value, as required by section 51. The assessor has not implemented this recommendation; it is repeated in this report.

Agricultural Properties

We recommended the assessor enroll and classify perennial crops as land. Additionally, we recommended that the assessor not extend the exemption period for trees and vines beyond the period provided by law. In our current survey, we found that the assessor is still not enrolling perennial crops as land. However, based on a report published by the Imperial County Agricultural Commissioner and a review of sales of agricultural properties, we could not find any evidence that perennial crops added any additional value to the land; therefore, we do not repeat the recommendation. The second recommendation, not to extend the exemption period for trees and vines beyond the period provided by law, has been implemented by the assessor.

Taxable Possessory Interests

We recommended the assessor not reappraise a taxable possessory interest based on a renewal or extension until the end of the reasonably anticipated term of possession used to value the taxable possessory interest as required by section 61. The assessor has not implemented this recommendation; it is repeated in this report. We also recommended the assessor develop written procedures for the taxable possessory interest assessment program. The assessor now has written procedures for the assessment of taxable possessory interests; therefore, we do not repeat the prior recommendation.

Mining Properties

We recommended the assessor revise the mining property assessment program by enrolling leach pads, tailing facilities, and settling ponds as separate appraisal units as required by law. The prior recommendation is no longer applicable since the property that was the subject of the recommendation is no longer an active mining operation and the leach pads are at capacity.

Business Property Statement Program

We recommended the assessor review accounts in the direct billing program and include only those accounts that have historically reported stable values. The assessor has implemented this recommendation.

Audit Program

We recommended the assessor: (1) bring the mandatory audit program to current status; (2) prioritize the audit of those mandatory audit accounts where the property owners refuse to sign waivers of the statute of limitations; and (3) expand the nonmandatory audit program to include chronic non-filers.

The assessor has not brought the mandatory audit program to current status; that recommendation is repeated in this report. For audits where the taxpayers decline to sign waivers of the statute of limitations, the assessor makes estimated assessments based on the information available. In our view, this brings the assessor into compliance with our second recommendation. Since there is no statutory requirement for the assessor to conduct audits of nonmandatory accounts, our third recommendation will not be repeated.

Business Equipment Valuation

We recommended the assessor use the appropriate percent good factors for new and used agricultural equipment. We also recommended the assessor improve the coordination of apartment personal property assessment between the real property and personal property staff. The assessor has implemented both of these recommendations.

Manufactured Homes

We recommended the assessor annually review manufactured home values to identify declines in value. The assessor is not reviewing these assessments; the recommendation is repeated in this report.

Aircraft

We recommended the assessor review the exemption status of historical aircraft. The assessor has implemented this recommendation, and as a result, has removed the exemption status from these aircraft.

OVERVIEW OF IMPERIAL COUNTY

Imperial County was formed in 1907 from the eastern half of San Diego County. The county seat is the City of El Centro. The county took its name from the Imperial Valley, itself named for the Imperial Land Company, a subsidiary of the California Development Company, which had reclaimed the southern portion of the Colorado Desert for agriculture. Imperial County has seven incorporated cities: Brawley, Calexico, Calipatria, El Centro, Holtville, Imperial, and Westmorland. As of January 1, 2004, Imperial County had a population of 152,448.²

Imperial County is bounded on the north by Riverside County, to the west by San Diego County, to the east by the state of Arizona, and by Mexico to the south. Two notable geographic features are the Salton Sea, the largest lake in California, which is about 220 feet below sea level, and the Imperial Sand Dunes, one of the largest dune fields in America.

The economy is heavily based on agriculture due to the availability of irrigation water, which is supplied wholly from the Colorado River. The Imperial Valley is a major source of winter fruits and vegetables, cotton, and grain for the United States and international markets.

² U.S. Census Bureau's web site on State and County Quick Facts.

The following table displays information pertinent to the 2005-06 assessment roll as provided by the assessor:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	56,320	\$3,663,377,170
	Commercial	3,957	\$918,720,437
	Industrial	899	\$1,191,622,937
	Agricultural	4,778	\$968,037,843
	Manufactured Homes	1,574	\$40,112,460
	Desert	6,590	\$232,127,551
	Total Secured	74,118	\$7,013,998,398
Unsecured Roll	Personal Property & Fixtures		\$681,454,704
	Total Assessment Roll		\$7,695,453,102

The next table illustrates the growth in assessed values for recent years as provided in the Board's annual reports:

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE INCREASE
2005-06	\$7,712,486,000	8.0%	11.1%
2004-05	\$7,141,881,000	2.2%	8.3%
2003-04	\$6,986,988,000	8.3%	7.3%
2002-03	\$6,451,238,000	0.3%	7.3%
2001-02	\$6,428,895,000	N/A	N/A

ADMINISTRATION

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

Budget and Staffing

As shown in the following table, the assessor's office has benefited from increased budget levels over the years from 2000-01 to 2005-06. The assessor accounts for the PTAP funds separately from the assessor's official budget.

BUDGET YEAR	GROSS BUDGET³	CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED
2005-06	\$1,710,681	4.7%	28	N/A
2004-05	\$1,633,264	11.9%	27	\$231,673
2003-04	\$1,460,014	-1.1%	27	\$231,673
2002-03	\$1,476,225	17.1%	25	\$231,673
2001-02	\$1,260,815		26	\$231,673

Staffing

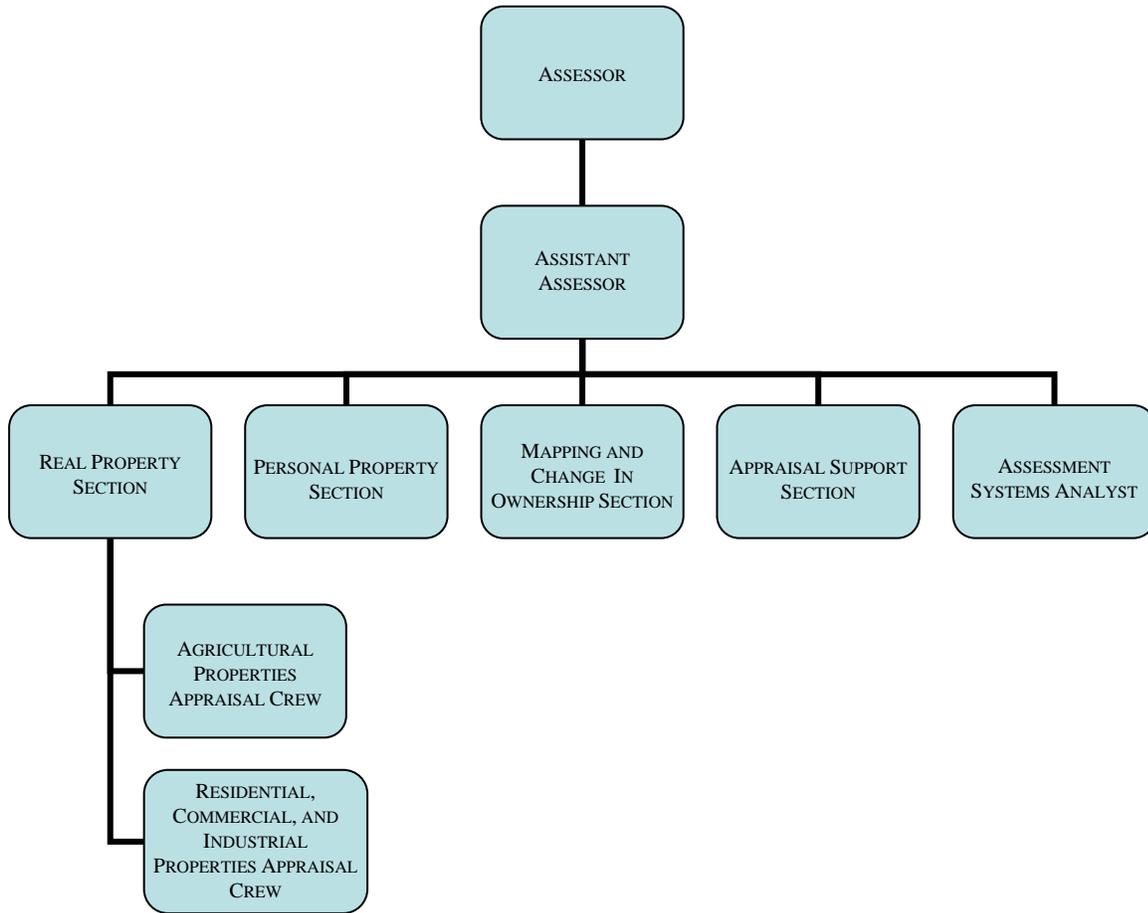
The assessor's staffing level has stayed fairly consistent for the past five years. For the 2005-06 budget year, the number of permanently budgeted staff was 28; this number was composed of: 12 real property appraisers (including the assessor), 1 assessment system analyst, 3 auditor-appraisers, 2 mapping staff, 1 office supervisor, 7 account clerks, and 2 title examiners.

Staff Property Procedures

The assessor does not have written procedures for the appraisal of property owned by employees in the office. However, the assessor does not allow employees to value their own properties. Appraisals of properties owned by staff, including the assessor and assistant assessor, are assigned by a supervising appraiser to an appraiser or auditor-appraiser. When the appraisal is completed the files are reviewed by the supervising appraiser before the values are enrolled. We reviewed a number of files of employee-owned properties and found no problems in their valuation.

³ Budget figures taken from annual *Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessor's Offices*.

Assessor's Organization Chart



State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁴ This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07.⁵ The grant program operates in essentially the same manner as the loan program except that if a county does not meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elects to participate, the county submits a resolution as described in section 95.35 to the State Department of Finance. The resolution provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding

⁴ AB 818, Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

⁵ State-County Property Tax Administration Program funding has been suspended for two years, beginning with the 2005-06 California State Budget.

and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

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

Imperial County first participated in the PTAP for the 2001-02 fiscal year. For contract year 2004-05, the assessor received a grant of \$231,673. The county's required base funding and staffing levels for the assessor's office are \$1,037,551 and 24 positions, respectively.

The assessor has effectively used PTAP funds for enrolling transfers, new construction, and new business accounts, and the timely completion of assessment appeals. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

The Imperial County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment for every year under the contract.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are a total of 12 certified appraisers on staff, including the assessor. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

Assessment Appeals

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

In Imperial County, the five-member county board of supervisors acts as the local board of equalization for property tax appeals. The local board of equalization hears appeals for reductions in value affecting properties on the unsecured and secured rolls. A taxpayer requesting a hearing before the board must file an application with the clerk of the board of supervisors between July 2 and November 30 for the assessment year in question.

All applications for reduced assessment are received by the clerk of the board of supervisors, who reviews the applications to ensure that they are properly completed. Subsequently, the clerk enters the appeals information into the tracking database and forwards a copy of the appeals application to the assessor's office.

Each appeals application, along with any supporting documentation provided by the taxpayer, is reviewed by the assistant assessor. The assistant assessor and the two supervising real property appraisers resolve all of the appeals. A review of the original appraisal is made to determine if there were any errors, either clerical or judgmental, made in the appraisal process.

After the review, the assistant assessor contacts the taxpayer by telephone and mail to discuss the application for reduced assessment. If the taxpayer decides to withdraw the appeal or stipulate to a lower value proposed by the assessor, a letter with the appropriate attachments is sent to the taxpayer for review and approval. When the signed letter is received by the clerk of the local board of equalization, the withdrawal or, in the case of a stipulated value, the stipulation, goes before the local board of equalization for approval.

If no agreement can be reached, the appeals process continues and a hearing is scheduled by the clerk of the board of equalization. The assistant assessor prepares the appeal for hearing and presents the assessor's case to the local board of equalization.

The following table illustrates the number of appeals filed, withdrawn, or stipulated, and the number of board decisions for recent years:

ASSESSMENT ROLL	2005-06	2004-05	2003-04	2002-03
Appeals Filed	46	47	87	106
Appeals carried over from prior years	23	40	77	0
Total Appeals Workload	69	87	164	106
Resolution:				
Withdrawn	0	52	65	10
Stipulation	1	7	45	17
Other		4	12	2
Appeals Reduced – board hearing	0	1	0	0
Appeals Upheld – board hearing	0	0	2	0
Appeals Increased – board hearing`	0	0	0	0
Total Resolved	1	64	124	29
To Be Carried Over*	68	23	40	77

Around the end of 2004, the assessor's office was undergoing a conversion of its computer system to the Megabyte Property Tax Management Program. During this period, the assessor's priority was the installation of the new computer system in order to timely complete the 2005-06

assessment roll. Other functions, such as the resolution of assessment appeals, were given a lower priority; therefore, only one assessment appeal was resolved for the 2005-06 roll year.

Both the assessor and the clerk of the board work together to ensure that all appeals are resolved within the two-year time limit. For those appeals that are not resolved within the two-year period, waivers signed by the applicant are obtained and are on file.

We reviewed a number of appeal cases prepared by the assessor's office and found them to be easily understood and well documented. The assessor's portion of the assessment appeals program is well administered.

Disaster Relief

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

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

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

The Imperial County Board of Supervisors first adopted a disaster relief ordinance in 1975. Subsequently, the ordinance has been updated twice, in 1977 and 2002. The 2002 ordinance conforms to all current statutory provisions.

The assessor discovers instances of properties damaged by disaster or calamity by reviewing newspaper articles and building permits, field canvassing, and taxpayer-initiated contacts. The assessor also requests monthly incident reports from the 12 fire protection agencies in the county. By reviewing these incident reports, the assessor becomes aware of any fires and other misfortunes or calamities that may have an adverse impact on a property's value.

The following table represents the number of disaster relief claims filed for recent years:

ROLL YEAR	CLAIMS FILED
2005-06	6
2004-05	14
2003-04	15
2002-03	16
2001-02	25

We found that the assessor promptly sent applications for disaster relief to property owners who requested them and that the applications were date stamped by the assessor upon receipt. We found that the assessor noted the disaster information on the property records, that all of the value calculations were done correctly, that the assessor properly lowered the assessed values, and, where applicable, the assessor processed mid-year tax relief for the property owners.

In our 2002 survey, we recommended the assessor: (1) limit disaster relief to no more than the value of the actual damage pursuant to section 170(b), (2) revise the disaster relief notice to include the information required by section 170(c), and (3) include the month of damage when calculating the new assessed value, as required by section 170(e).

In our current survey, we found the assessor has implemented all three recommendations.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, if a correction is made that will decrease the amount of the unpaid taxes, the consent of the board of supervisors is necessary. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

Roll changes are initiated by the real property appraisers for the real property section and auditor-appraisers for the personal property section. The appraiser then forwards the entire file to the supervising appraiser for review and approval. After the supervisor approves the roll changes, the supervisor forwards the file to the account clerks for entry into the computer system.

The computer system generates a *Notice of Proposed Escape Assessment*, which is mailed to taxpayers at least 10 days before changes are entered on the roll in accordance with

section 531.8. After the 10 days, the values are enrolled and the computer system generates a *Notice of Enrollment of Escape Assessment*, which is mailed to the taxpayer.

We found two areas in the assessor's assessment roll change procedures that need improvement.

RECOMMENDATION 1: Improve the assessment roll change program by: (1) citing the specific code section applicable to the escaped assessment, and (2) notifying taxpayers that an escaped assessment has been enrolled as required by section 534.

Cite the specific code section applicable to the escaped assessment.

On the unsecured roll, we reviewed a number of roll corrections and escaped assessments made as a result of either audit findings or correction of inaccurate information furnished by assessees on property statements. On some of the files, we found that the assessor cited section 531 as the basis for processing an escaped assessment due to assessee reporting errors. For instance, after completion of an audit, the assessor cites section 531 to assess personal property that has escaped assessment due to the taxpayer's failure to report such property.

Section 531 gives the assessor general authority to make corrections to the assessment roll for property that has escaped assessment. Code sections subsequent to section 531 are more specific in their application and in authorizing specific interest and penalties. For failure to report personal property subject to assessment, the assessor should have cited section 531.3. Section 531.3 specifically addresses the issue of escaped personal property due to the taxpayer's failure to report costs accurately and allows the assessor to add a penalty of 25 percent of the additional assessment, as well as the interest provided in section 506, under certain circumstances.

By failing to cite the appropriate Revenue and Taxation Code sections when making roll corrections, the assessor may not be adding the penalty assessment to the assessed value where applicable and may not be instructing the auditor to apply interest when applicable.

Notify taxpayers that an escape assessment has been enrolled as required by section 534.

We found that when the personal property section enrolls an escaped assessment, the assessor does not notify the taxpayer that an escape assessment has been enrolled as required by section 534. The taxpayer is only notified of an escaped assessment when he or she receives the tax bill from the tax collector. This notice does not satisfy the requirements of section 534, which generally allows the tax bill to suffice as notice only in counties whose boards of supervisors have adopted a resolution in accordance with section 1605(c).

By failing to notify taxpayers of the enrollment of escaped assessments on the unsecured roll, the assessor is not complying with the requirements of section 534.

Low-Value Property Exemption

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

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

Imperial County has two resolutions exempting low-value property. Resolution No. 98-111, adopted December 8, 1998, exempts taxable possessory interests for temporary and transitory uses at the California Mid-Winter Fairgrounds with a total base year value or full value of \$50,000 or less. Resolution No. 2003-106, adopted November 17, 2003, exempts all vessels with a full value of \$3,000 or less. We found no problems with how the assessor treats low-valued taxable possessory interests and vessels.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional provision in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, this

exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

In Imperial County, religious, church, and welfare exemption claims are processed by the office supervisor. The assessor does not have formal written procedures for processing exemptions. He refers to Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*, advisory Letters To Assessors issued by the Board that deal with exemption issues, and a special handbook prepared for a Board welfare exemption workshop attended in 2004. Field inspections of properties for which the welfare, church, or religious exemption is claimed are conducted by the real property appraisers.

For the 2005-06 assessment roll, the assessor processed 8 church exemption claims and 154 religious exemption claims. The following table illustrates religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS	EXEMPTED VALUE	CHURCH	EXEMPTED VALUE
2005-06	154	\$57,425,154	8	\$674,089
2004-05	151	\$45,888,013	7	\$821,249
2003-04	147	\$42,398,756	10	\$1,215,765
2002-03	147	\$41,781,219	7	\$1,124,115
2001-02	148	\$48,110,562	10	\$493,032

We found that the assessor is careful to allow the church exemption only for worship and related uses. However, we do have one recommendation for the improvement of his religious exemption program.

RECOMMENDATION 2: Send the annual notice in accordance with section 257.1.

For the 2005-06 fiscal year, the assessor failed to send the annual notice to every person who received the religious exemption for the previous fiscal year.

Section 257.1 provides that the assessor shall annually, prior to the lien date, mail a notice to every person who received the religious exemption for the previous fiscal year. The prescribed form for the notice is Form BOE-267-SNT, *Religious Exemption Change in Eligibility Termination Notice*, which sets forth the circumstances under which the property may no longer be eligible for exemption. The notice must include a card, which is to be returned to the assessor by any person who desires to maintain eligibility for the religious exemption.

Section 257.1 requires that the assessor mail the annual notice and its accompanying card every fiscal year. By failing to do so, the assessor may not become aware of changes that may affect the status of the claimant's religious exemption. The result is that the assessor may improperly allow the religious exemption to continue on property that may no longer be eligible for exemption.

Welfare Exemption

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

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

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's OCC issued by the Board.

The following table shows welfare exemption data for recent years:

ROLL YEAR	WELFARE	EXEMPED VALUE
2005-06	70	\$111,406,636
2004-05	56	\$95,327,307
2003-04	42	\$28,308,613
2002-03	53	\$41,127,326
2001-02	47	\$27,181,633

We reviewed a variety of welfare exemption claims on file at the assessor's office. The claims covered such uses as youth organizations, a medical clinic, a church with a parsonage, and senior and low-income housing developments. We found that the assessor requires evidence of an OCC from each claimant, and he properly notifies claimants if their property is eligible or ineligible for the exemption.

We did find two areas in the assessor's welfare exemption program that need improvement.

RECOMMENDATION 3: Revise welfare exemption procedures by: (1) granting the welfare exemption only to portions of the property used for exempt purposes, and (2) applying late-filing penalties in accordance with section 270.

Grant the welfare exemption only to portions of the property used for exempt purposes.

A qualifying organization's property may be exempt fully or partially, depending on how much of the property is used for qualifying purposes and activities. For the 2005-06 fiscal year, the assessor granted full welfare exemptions to a number of properties where the claimants reported disqualifying uses or non-exempt uses of their property on the annual claim forms, Form BOE-267-A, *Claim For Welfare Exemption (Annual Filing)*, and attached supplemental affidavits.

Some of the uses cited on the affidavits disqualified a portion of the land and buildings for the welfare exemption because the properties were not used exclusively for religious, scientific, or charitable purposes by qualifying organizations. Other uses may qualify the properties for the welfare exemption, but the exemption should not be granted unless the owners provide the assessor with documentation that these uses are necessary for the actual operation of the exempt activity, or, are exempt uses being performed by another qualifying group.

Qualifying operators need to file proper claims for the welfare exemption and must meet all the requirements of section 214. Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*, stresses that both qualifying ownership and qualifying use, both by the owner and by any other users of the property, are essential elements of the welfare exemption.

The assessor should carefully review all annual filings for the welfare exemption to ascertain any non-qualifying uses of the property. Failing to do so could lead to granting the exemption to non-qualifying uses of the property.

Apply late-filing penalties in accordance with section 270.

We found that the assessor inappropriately granted the full welfare exemption for properties owned by a number of organizations that had filed claims for the exemption after the annual February 15 deadline.

Section 255 provides that claims for exemptions, except the homeowners' exemption, shall be filed with the assessor between the lien date and 5 p.m. on February 15. Section 270(a) provides that late-filed claims for the welfare exemption may be allowed 90 percent of the full exemption if the claim is filed after February 15 but before the following January 1 lien date, and 85 percent if the claim is filed after January 1. Section 270(b) limits the total tax or penalty and interest for late filing to a maximum of \$250 for each year in question.

The assessor's practice of not applying the late-filing penalty in accordance with section 270 is contrary to statute.

Assessment Forms

Government Code section 15606 requires the Board to prescribe and enforce the use of all forms for the assessment of property for taxation. For the 2005 lien date, the Board prescribed 79 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor may not change, add to, or delete the specific wording in a Board-prescribed form. The assessor may, however, rearrange information on a form provided

that the assessor submits such a form to the Board for review and approval. Assessors may also use locally-developed forms to assist them in their assessment duties.

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

We reviewed the forms used by the Imperial County Assessor's Office for the 2005 assessment year and found the following:

- Of the 79 Board-prescribed forms for the 2005 lien date, the assessor used 63.
- The assessor did not rearrange any of the 63 forms.
- The assessor has 15 Board-prescribed forms available on his website.

We have no recommendations for this area.

ASSESSMENT OF REAL PROPERTY

In Imperial County, the assessor and his staff process all real property assessments. The assessor's program for assessing real property includes the following principal elements:

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

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

Change in Ownership

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

Document Processing

In Imperial County, the assessor's primary method of discovering properties that have experienced a change in ownership is by reviewing deeds and other documents recorded at the county recorder's office. Each day, the recorder scans into a computer database the deeds and other recorded documents that transfer ownership. The recorder transmits electronically all recorded documents to the assessor. Ordinance No. 858, adopted by the board of supervisors on February 7, 1984, requires that the assessor's parcel number be on all documents evidencing a change in ownership.

When a deed is recorded, the recorder's office requires that Form BOE-502-AH, *Preliminary Change of Ownership Report* (PCOR), be filed at the same time, or a fee of \$20 is levied. Approximately 80 percent of all recorded deeds are accompanied by PCORs. The recorder forwards all returned PCORs to the assessor's office, which scans them onto their computer system.

The following table shows the total number of recorded documents and reappraisable transfer documents processed by the assessor's office for recent years:

ROLL YEAR	RECORDED DOCUMENTS	REAPPRAISABLE TRANSFER DOCUMENTS
2005-06	13,190	12,176
2004-05	10,153	8,640
2003-04	6,458	4,803
2002-03	6,610	5,377

Two title examiners in the assessor's mapping and change in ownership section analyze the recorded documents to determine if there is an appraisable change in ownership and, if so, what percentage of ownership is being transferred. The examiners enter the change in ownership data into the computer system, which allows the two supervising real property appraisers to track the progress of the work assignments. The supervising real property appraiser sends an appraisal worksheet for each appraisable event, along with the property record, to the appraiser responsible for that particular geographical area.

The appraiser makes an appraisal and enters the new assessed value on the appraisal worksheet. The completed appraisal worksheets are then returned to the supervisor for review and approval. Once reviewed and approved, the new values are entered into the computer system by the appraisal support staff.

We reviewed several properties valued by the assessor for a change in ownership and found that the assessor established the correct base year value, correctly valued partial interest transfers, applied the annual inflation adjustments, and properly enrolled supplemental assessments.

Legal Entity Ownership Program (LEOP)

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

To help assessors, the Board's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by

many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

When the LEOP listing is received from the Board, the title examiners in the assessor's office review the listing, identify the parcels, input transfer information into the computer system, and note the LEOP change in control information on the property record. The property records are then sent to the supervising real property appraisers, who assign them to the individual appraisers for valuation.

In our review of the assessor's program for the valuation of changes in control of legal entities, we noted one area that needs improvement. This issue is discussed later in our recommendations for improving the change in ownership program.

Section 408.1 Transfer Lists

Section 408.1 requires the assessor to maintain a transfer list, available to the public, showing property transfers that have occurred within the preceding two years. The list must be divided into geographical areas and must include the name of the transferor and transferee, if available, the assessor's parcel number, address of the transferred property, date of transfer, date of recording, the recording reference number, and the consideration paid if it is known by the assessor.

The assessor makes available for public inspection an electronic list of real property transfers that have occurred in the preceding two-year period. The assessor charges \$10 to view the list. The assessor's two-year transfer list is in full compliance with the provisions of section 408.1.

Parent-Child Exclusion and Base Year Value Transfer

Section 63.1 excludes from the definition of change in ownership the purchase or transfer of any principal residence and the first \$1 million of other real property between parents and children.

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner is at least 55 years of age or severely and permanently disabled, the owner files a claim timely, and the properties are within the same county. A county board of supervisors may, by ordinance, allow transfers of base year value from properties located in other counties. Imperial County does not have such an ordinance.

The following table represents recent filings for section 63.1 and 69.5 properties:

ROLL YEAR	SECTION 63.1	SECTION 69.5
2005-06	1,517	10
2004-05	1,940	18
2003-04	608	6
2002-03	1,265	30
2001-02	960	36

We found no problems with the assessor's parent-child exclusion or base year value transfer programs.

Improvement Bonds

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

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

In Imperial County, the assessor does not add the outstanding improvement bond balance to the sales price of a property in accordance with section 110(b). The assessor will add the outstanding improvement bond balance to the sales price if he has market evidence that the outstanding bond balance was not reflected in the purchase price.

Cash Equivalent Adjustments

In our 2002 survey, we recommended the assessor develop and implement a written policy for making cash equivalent adjustments. The assessor has implemented this recommendation.

Recommendation

In our current survey, we noted two areas in the assessor's change in ownership program that need improvement.

RECOMMENDATION 4: Improve the change in ownership program by: (1) applying the penalty according to section 482 for failure to file the *Change of Ownership Statement* timely, and (2) ensuring that all changes in control of legal entities are reappraised timely.

Apply the penalty according to section 482 for failure to file the *Change of Ownership Statement* timely.

We found that the assessor is not applying the section 482 penalty within the time frame specified in section 482. We also found that, when the penalty is applied, it is being applied selectively. When a transfer document is received without a PCOR, the account clerk in the mapping and change in ownership section sends Form BOE-502-AH, *Change of Ownership Statement* (COS), to the transferee. A COS is also sent to the transferee when there is insufficient or incomplete information on the PCOR.

If the COS is not returned within the required 45-day filing period, a second COS is sent by certified mail. If the second COS is not returned within 45 days, the penalty as provided in section 482 is applied. However, the penalty is only applied to non-filers of a COS where the assessor has a returned receipt signed by the assessee certifying that they received the second COS. If a signed receipt certifying delivery and acceptance of the COS is not returned, the assessor's policy is not to apply the section 482 penalty.

Section 480 provides that transferees shall file a COS with the recorder or assessor in the county where the subject property is located. Section 482(a) further provides that, if upon written request from the assessor a transferee fails to file the statement within 45 days, a specific penalty shall be applied.

The information contained in a properly completed COS assists the assessor in making an accurate assessment. By not processing penalties in a timely fashion, the assessor is not enforcing section 482 as prescribed.

Ensure that all changes in control of legal entities are reappraised timely.

We found a number of parcels that were not reassessed despite changes in control of the legal entities that owned them. In one instance, two separate corporate changes in control occurred approximately one year apart. One of the two parcels owned by the corporation was correctly revalued for both changes in control, but the assessor failed to revalue the other parcel upon the second change in control.

If a change in ownership is missed and a reappraisal is not made as required by law, the property's assessed value may not reflect its current market value as of the date of the change in ownership; such an omission could result in an over- or under-assessment.

New Construction

Section 70 defines newly constructed property, or new construction, as: (1) any addition to real property since the last lien date; or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Section 70 further establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and

on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

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

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

Discovery

Building permits are the assessor's primary means of discovering assessable new construction. In Imperial County, there are nine permit-issuing agencies: the cities of Brawley, Calexico, Calipatria, El Centro, Holtville, Imperial, and Westmorland; the building department for the County of Imperial; and the County Department of Environmental Health, which issues permits for wells and septic systems. In addition, the assessor uses newspaper articles, business property statements, and field inspections to discover un-permitted new construction.

Over the past several years, the assessor has been proactive in the discovery of unpermitted new construction. The following table shows the number of escaped assessments made by the assessor for un-permitted new construction and the value added for recent years:

ROLL YEAR	ESCAPES	VALUE ADDED
2004-05	2,151	\$4,035,440
2003-04	2,225	\$12,933,514
2002-03	623	\$6,297,491
2001-02	1,623	\$3,630,342

All building permits received are forwarded to the appraiser by the appropriate supervisor for review and valuation. The assessor performs field checks for all permits issued for new construction; he does not have a self-reporting program.

Permit Processing

Once a week, the assessor receives copies of permits from all of the issuing agencies. An account clerk groups the permits by assessor's parcel number and property type. The account clerk also culls those permits that may not cause a reassessment, e.g., permits for gas line repairs, replacement of fences, re-roofing, re-stuccoing, and repair or replacement of central heat and cooling units.

The permits are then distributed by property type to the supervising real property appraisers. The supervisors verify that the permits culled by the account clerk are for repairs and replacements; then they set these permits aside so that the permit information can be noted on the building

records. All other permits are entered into the computer system for tracking and assignment to the appraisers.

The computer system creates a valuation worksheet, which, along with the building record and permits, is distributed to the appraisers for valuation. After the appraiser values the property for the new construction, the file is returned to the supervisor for review and approval. If approved, the value is then entered in the computer system and a notice of supplemental assessment is generated.

Each month, the assessor receives a computer disk with notices of completion from the county building department. The city building departments also provide the assessor with hard copy lists of notices of completion on a monthly basis. Information on the notices of completion is entered into the computer system, which generates a hard copy of the notice of completion to be distributed to the appraisers.

The assessor follows specific procedures to ensure proper processing of all permits. The processing procedures are thorough and provide for effective retrieval of information upon which an appraiser may make informed decisions.

The following table shows the number of permits received and the number of permits that generated a change in value for recent years:

ROLL YEAR	PERMITS RECEIVED	PERMITS GENERATING VALUE
2005-06	6,500	5,805
2004-05	2,600	2,582
2003-04	3,363	3,026
2002-03	2,873	2,513
2001-02	2,513	2,115

Valuation

The assessor values new construction at its full market value as of the date of completion. In valuing the new construction, the assessor attempts to use all three approaches to value if there is adequate data to do so. Cost guides used by the assessor are Assessors' Handbook Section 531, *Residential Building Costs*, and the *Marshall Valuation Guide*. In all instances, the assessor attempts to obtain the property owners' historical costs to compare them with the costs derived from the cost guides.

We reviewed the records of a number of properties that had completed new construction. The records were well documented, showing that the assessor appraised construction-in-progress as of the lien date, appraised completed new construction as of the date of completion, and applied the appropriate supplemental assessments based on the completion date. The assessor's program for assessing new construction complies with all statutory requirements.

Declines in Value

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

The assessor's primary methods of discovering declines in value are through taxpayers' requests for value reviews and appraisers' familiarity with their assigned geographic areas. If the assessor becomes aware of a decline in the market value below the FBYV for properties in a homogeneous residential subdivision, he will reduce the values of all the affected properties. Once a decline-in-value assessment is enrolled for a property, it is coded in the computer system to prevent application of the annual inflation factor.

The following table shows the number of decline-in-value assessments by type for the most recent years:

ROLL YEAR	SINGLE AND MULTI-FAMILY RESIDENCES	COMMERCIAL/ INDUSTRIAL/RURAL	OTHER
2005-06	3,538	230	1,470
2004-05	18,661	241	2,857
2003-04	19,911	257	1,323
2002-03	21,202	264	1,225
2001-02	21,924	238	657

In our 2002 survey, we made two recommendations to improve the assessor's program for recognizing declines in value. The first recommendation was for the assessor to develop written procedures. The assessor has implemented this recommendation. The second recommendation was for the assessor to annually review all parcels that have experienced a decline in value, as required by section 51(e). The assessor has not implemented this recommendation; it is repeated below.

RECOMMENDATION 5: Annually reappraise properties with taxable values that are less than their factored base year values, as required by section 51(e).

We found the assessor does not annually review all parcels with decline-in-value assessments. We reviewed 14 properties with decline-in-value assessments for the 2005-06 roll and found no evidence that the assessor had performed a comparison between the FBYV and the current market value to determine the lower of the two values.

Section 51 requires the assessor to annually enroll properties at the lesser of their market value or factored base year value. In addition, section 51(e) requires that properties with taxable values less than their factored base year values be reappraised annually until their full cash value exceeds their factored base year value.

The consequence of the assessor's practice of not annually reappraising properties with taxable value that is less than their FBV is that some properties may be incorrectly assessed at an amount that is neither the current market value nor the factored base year value.

We recommend that the assessor annually reappraise properties with taxable value that is less than their FBV, as required by section 51(e).

Supplemental Assessments

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

The assessor issues supplemental assessments whenever there is a change in ownership or upon the completion of new construction. Supplemental assessments are forwarded electronically to the auditor-controller, who calculates the taxes due. The entire supplemental assessment process, from reappraisal event date to supplemental billing, takes approximately seven months.

The assessor's policy is to enroll all supplemental assessments regardless of dollar amount. The computer system automatically generates a *Notice of Supplemental Assessment* for mailing to the taxpayer. Supplemental assessments generated may be either positive, which will generate a bill, or negative, which will generate a refund.

The following table shows the number of supplemental assessment notices issued for recent years:

ROLL YEAR	SUPPLEMENTAL NOTICES MAILED
2005-06	8,090
2004-05	4,947
2003-04	3,993
2002-03	3,051
2001-02	5,553

We examined several change in ownership and completed new construction events and found the assessor's supplemental assessment program to be current and accurate.

California Land Conservation Act Properties

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

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

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

On September 12, 2000, the Imperial County Board of Supervisors adopted Resolution No. 2000-082, allowing landowners to establish an agricultural preserve in accordance with the CLCA.

For the 2005-06 assessment roll, Imperial County had approximately 130,675 acres of farmland encumbered by CLCA contracts. Also, for the 2005-06 assessment roll, the total value of land and living improvements under CLCA contract was \$222,399,188. In Imperial County, there are currently 11 properties under CLCA contract in nonrenewal status.

The valuation of CLCA properties in Imperial County is the responsibility of one supervising real property appraiser. The assessor annually calculates the restricted, factored base year and

market values of CLCA properties and enrolls the lowest of these three values, as required by law. The assessor has developed a computerized system that performs the calculations for all three of the required value indicators.

The assessor recognizes appropriate expenses, including charges for management and returns on and of the investment in irrigation systems. Rents are updated based on information reported on CLCA questionnaires, which are mailed out every three years.

The assessor utilizes appropriate capitalization rates, including a component for risk, when determining the restricted values of CLCA properties. As recommended by AH 521, the assessor uses a basic risk component of 1 percent as a standard guideline for the purpose of developing the capitalization rate used in the valuation of CLCA properties. Additionally, AH 521 notes that the size of the risk component will vary according to what risks have already been considered in the development of the income to be capitalized. The assessor uses economic cash rents in the valuation process and has considered any additional risk in the development of the income stream.

By annually revaluing CLCA lands using the current yield rate and current economic income, the assessor has properly assessed these lands. Overall, we found that the assessor has an effective CLCA program and is in compliance with all applicable statutes.

In our 2002 survey, we recommended the assessor enroll and classify perennial crops as land and not to extend the exemption period for trees and vines beyond the period provided by law. The assessor has not implemented the first recommendation. However, according to the Imperial County Agricultural Crop and Livestock Reports, asparagus acreage declined from 5,575 acres in 2000 to 1,812 acres in 2004. In our current review, we did not discover any data that supported any additional value to the land for the perennial asparagus crop in Imperial County; therefore, we do not repeat the recommendation.

We found that the assessor is now in compliance with our second recommendation. He adheres to the proper statutory exemption period for trees and vines planted in orchard and vineyard form.

Taxable Government-Owned Properties

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

There are 30 taxable government-owned properties in Imperial County. The Los Angeles County Sanitation District No. 2 owns 24 of the taxable properties; while the remainder of the properties is owned by four local governments. We found that the assessor properly enrolled the lowest of the restricted value, current market value, or factored base year value.

We did find, however, one area of concern in the assessor's program for the assessment of taxable government-owned properties.

RECOMMENDATION 6: Apply the correct annual factor supplied by the Board when calculating the restricted value each year for taxable government-owned lands.

We found that the assessor is using the incorrect factor supplied annually by the Board in calculating the restricted value of taxable government-owned properties each year. The assessor is taking the 1967 assessed value of the land and multiplying it by the 1966 Board-supplied factor applicable to taxable government-owned properties located in Inyo County.

Section 11 provides that, for taxable government-owned properties located outside of Inyo and Mono Counties, the restricted value is calculated by taking the 1967 assessed value multiplied by the appropriate factor that is supplied yearly by the Board. In this case, the appropriate factor is the 1967 factor.

The assessor's use of the incorrect factor results in overstated restricted values for taxable government-owned properties.

Taxable Possessory Interests

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

The assessor annually contacts 11 public agencies by letter or in person to request current information on all uses of their properties. For the 2005-06 assessment roll, the assessor enrolled 462 taxable possessory interests with a total value of \$46,118,528.

In our 2002 survey, we made two recommendations concerning taxable possessory interests. First, we recommended that the assessor develop written procedures for the taxable possessory interest assessment program. Second, we recommended that the assessor not appraise a taxable possessory interest based on a renewal or extension until the end of the reasonably anticipated term of possession used to value that interest, as required by section 61.

In our current survey, we found the assessor has implemented the first recommendation; he has developed written procedures for the taxable possessory interest assessment program. However, the assessor has not implemented the second recommendation. In addition to repeating this prior recommendation, we found several other areas in the assessor's program that need improvement.

RECOMMENDATION 7: Improve the assessor's taxable possessory interest assessment program by: (1) reappraising month-to-month taxable possessory interests only at the expiration of the anticipated term of possession used to establish the base year value; (2) obtaining copies of all lease agreements that create taxable possessory interests; (3) periodically reviewing taxable possessory interests with stated terms of possession for declines in value; and (4) capitalizing net income to the lessor when valuing taxable possessory interests by the income approach.

Reappraise month-to-month taxable possessory interests only at the expiration of the anticipated term of possession used to establish the base year value.

In our 2002 survey, we found the assessor annually reappraised taxable possessory interests with month-to-month terms during the reasonably anticipated term of possession used to value that interest.

Section 61(b)(2) provides that a renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest by the assessor does not result in a change in ownership until the end of that anticipated term of possession. For example, if a taxable possessory interest is originally valued using a reasonably anticipated term of possession of five years, that interest, even though renewed monthly under a month-to-month tenancy, should only be reappraised as a change in ownership at the expiration of the five-year term originally used to value the interest, unless the interest transfers to a new tenant. The assessor should not annually reappraise these taxable possessory interests.

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

Obtain copies of all lease agreements that create taxable possessory interests.

We found that, in several cases, the taxable possessory interest appraisal files did not contain copies of the leases for the interests being assessed.

Rule 21 describes the various approaches to value and other factors relevant to the assessment of taxable possessory interests. For example, subdivision (d) explains that the stated term of possession is deemed the reasonably anticipated term of possession except in certain situations, and subdivision (e)(3)(C) explains how to determine the income for capitalization purposes.

If the contract that created the taxable possessory interest is not reviewed, the appraiser may not have the information needed to properly value the interest. For example, the assessor may have some information relating to the initial lease term, but may not be aware of any renewal options contained in the lease. The usage reports, submitted annually to the assessor by government agencies that lease property to others, provide some information; however, they are not adequate substitutes for the actual leases.

Unconfirmed data may be inaccurate or incomplete and lead to incorrect assessments.

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

We found that, for lien dates subsequent to the establishment of the base year value, the assessor does not determine the market value of a taxable possessory interest with a stated term of possession. Instead, the factored base year value is enrolled until the contract term expires or there is a change in ownership.

Section 51 requires the assessor to assess real property, including taxable possessory interests, at the lesser of the factored base year value or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term of possession, Rule 21 provides that the stated term of possession must be used as the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term. Generally, as the remaining term of the contract declines, the market value of the taxable possessory interest declines.

Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of taxable possessory interests with stated terms of possession. Such a program will ensure that declines in values of taxable possessory interests are consistently recognized.

Capitalize net income to the lessor when valuing taxable possessory interests by the income approach.

We found that the assessor does not deduct the lessor's operating expenses from the gross income before capitalizing the income stream into a present value indicator. Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that when using the direct method of the income approach, it is appropriate for the appraiser to estimate the value of the taxable possessory interest by discounting either: (1) the estimated economic rent less allowed expenses paid by the public owner, or (2) that portion of the estimated future net operating income attributable to the taxable possessory interest.

A public owner will incur some management expense with each taxable possessory interest. Moreover, some lease agreements require the lessor to pay for such items as building maintenance, utilities, or janitorial service. By estimating the fair market value using gross income rather than net income to the lessor, the assessor is overstating the value of these interests.

Leasehold Improvements

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

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and

remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

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

The most common methods of discovery for leasehold improvements are through examination of the BPS and building permits. Schedule B of the BPS is specifically for reporting real property installed by the tenant. Taxpayers are annually required to list additions or deletions of real property.

In Imperial County, the personal property section receives and reviews all BPSs. If there are any new costs reported on schedule B of the BPS, the personal property staff will make a copy of the statement and forward it to the real property staff. The real property staff will compare the costs reported on the BPS with the real property records to see if there have been any permits issued for replacement, repairs, or new structural items.

If there are no comments or value added on the property record, the appraisers will investigate the costs reported on the BPS to determine if there is any assessable new construction or whether the reported costs are for fixtures. Items determined to be fixtures are assessed by the personal property staff.

We reviewed a number of leasehold improvement records and found that the assessor has an effective system of communication and coordination between the real and personal property staff in the assessment of leasehold improvements.

Water Company Properties

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

Municipal Water Systems

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments located within city limits, and property owned by water districts located within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California Constitution provides that publicly-owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district.

Imperial County has six municipal water systems. All six municipal water systems are located within city limits or district boundaries. The assessor has properly exempted all parcels owned by these water systems from taxation.

Private Water Companies Regulated by the California Public Utilities Commission (CPUC)

Private, for-profit water companies are subject to rate of return regulation by the CPUC. In brief, this form of regulation limits the rates that a company may charge to amounts needed to cover the company's cost of service plus a fair return on invested capital. Imperial County has one private for-profit water company regulated by the CPUC. Because this company also has electrical generating capacity, it is assessed by the Board.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to the land, improvements, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels. However, if the ownership in a mutual water company is not appurtenant to the land, its land, improvements, and personal property must be assessed separately from the served parcels.

There are two mutual water companies operating in Imperial County. We found that the value of the mutual water company properties was correctly reflected in the assessments of the lots served by the water system. The assessor applies the proper procedures when assessing properties owned by the mutual water companies located within the county.

Mineral Properties

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

Petroleum, mining, and geothermal properties comprise the three main categories of mineral properties. There are no assessable petroleum properties in Imperial County.

In Imperial County, mineral values represent 7.5 percent of the total value on the assessment roll. The primary source of this value is geothermal properties, which are appraised by the assistant assessor. Mining properties are appraised by a supervising appraiser, with some of the workload being transferred to a senior appraiser for 2006.

Geothermal Properties

Imperial County has several geothermal properties located near the Salton Sea area. The properties produce hot water, which is converted into electricity through the use of turbines. These properties require a significant amount of capital investment, both initially and over time. Electricity is sold to the grid through the California Independent System Operator.

Geothermal properties are classified as Qualifying Facilities because geothermal resources are considered renewable. As such, they are locally assessed regardless of the size of the plant.⁶

All aspects of the assessor's geothermal assessment program appear to comply with Board guidelines.

Mining Properties

While there has been a past history of gold mining in the county, there are currently no active gold mines. Imperial County has approximately 20 sand and gravel properties.

The assessor appraises most of its mineral properties using the royalty method. In this method, the appraiser capitalizes the royalty payments into a determination of the leased fee mineral value. Value estimates for fixtures and improvements are made using the cost approach or other appropriate methods. The assessor makes the proper adjustments for depletion and new reserve adjustments to the base year values.

The county also hosts a large gypsum mining operation. The assessor uses the income approach to value this property. Equipment and personal property values are determined by an auditor-appraiser in the personal property section; the values are combined to determine the total appraisal unit value. The reserves for the property are quite extensive, and, to facilitate their appraisal, the assessor prepares a 30-year cash flow analysis. As the base year value is adjusted to reflect the prior year's production, new reserves are added in the 30th year. This is an acceptable appraisal practice.

In our 2002 survey, we recommended the assessor establish separate appraisal units for the leach pads, tailing facilities, and settling ponds as required by section 53.5. The concept of establishing a separate appraisal unit for the leach pads is now moot, since the gold mine has ceased operations. Since the property is no longer active and the leach pads are at capacity, the recommendation will not be repeated.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the Board from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the Board's constitutional authority.⁷ The court ruled that while the pipelines themselves are properly assessed by the Board, the rights-of-way through which the pipelines run must be locally

⁶ Section 721.5.

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

assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, governing the valuation of intercounty pipeline lands and rights-of-way.

When valuing the pipeline rights-of-way prior to the appellate court decision, the Board developed "density classifications" for appraisal purposes. Assessors are generally using the Board classifications. Should an assessor use different classifications or associated values, the assessor loses the benefit of a statutory presumption of correctness.

Imperial County uses the density classifications found in section 401.10(a)(1)(A). High density is valued at \$20,000 per mile, transitional density is valued at \$12,000 per mile, and low density is valued at \$9,000 per mile. In Imperial County, pipeline rights-of-way are classified as low density.

In Imperial County, the assessor is assessing one utility company with pipeline rights-of-way. The utility company has 169.86 right-of-way miles covering 15 different parcels in the county. The assessor maintains a separate base year value for each parcel, but assesses the rights-of-way to a single countywide parcel as required by section 401.8(a). For the 2005-06 assessment roll, the total assessed value of the single countywide parcel was \$2,688,839. We found that the assessor values pipeline rights-of-way in accordance with the provisions of sections 401.8 through 401.13.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

The assessor's staff assigned to the personal property program consists of one supervising auditor-appraiser, two auditor-appraisers, and one account clerk.

In this section of the survey report, we review the assessor's audit, business property statement processing, business property valuation, leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

Audit Program

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

The following table shows the total number of audits completed for recent years:

ASSESSMENT ROLL	2005-06	2004-05	2003-04	2002-03	2001-02
Audits Workload:					
Mandatory	41	39	43	25	51
Audits carried-over from prior year:	21	31	20	36	15
Total Audit Workload:	62	70	63	61	66
Total Audits Completed:	30	49	32	41	30
Audits Carried Forward:	32	21	31	20	36

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more. In our 2002 survey, we recommended the assessor bring the mandatory audit program to current status. In our current survey, we found

that the assessor is still behind in the timely completion of his mandatory audits; therefore, we repeat the recommendation in this report.

RECOMMENDATION 8: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

The assessor has a total workload of approximately 160 mandatory audit accounts. This is an average of 40 audits to be completed per year. We found that the assessor is completing an average of only 35 audits per year. For fiscal year 2005-06, a total of 62 mandatory audits were assigned, but only 30 were completed.

Section 469 and Rule 192 require the assessor to audit at least once every four years those taxpayers engaged in a profession, trade, or business that has a full value of \$400,000 or more. The mandatory audit verifies the reporting of the largest business property accounts. The further removed the audit is from the year being audited, the more difficult it may be to obtain the necessary records.

By failing to complete these audits in a timely manner, the assessor is not complying with the provisions of section 469.

We recommend that the assessor timely audit the books and records of professions, trades, and businesses pursuant to section 469.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

In our 2002 survey, we recommended the assessor prioritize those mandatory audit accounts when the property owners decline to sign waivers of the statute of limitations. In our current survey, we found that the assessor has developed a system to track the progress of mandatory audits to determine if they will be completed within the four-year time frame. For audits approaching expiration under the statute of limitations, the assessor makes estimated assessments, based on available information, for the expiring periods if the taxpayer declines to sign a waiver. We do not repeat our prior recommendation.

Audit Quality

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

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

We reviewed a number of completed mandatory audits. Our review of these files confirms that the assessor reviews changes in control of legal entities, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment. We found the assessor's audit quality to be adequate.

Business Property Statement Program

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

The personal property section processes all business property statements. All business property statement processing is done by auditor-appraisers under the guidance of a supervising auditor-appraiser.

Workload

The following table displays the assessor's workload of secured and unsecured business property statements and assessments for the 2005-06 assessment roll:

TYPE OF PROPERTY STATEMENTS	TOTAL	SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
Agriculture	384	\$24,523,478	\$83,706,859	\$108,230,337
Apartments	112	\$170,387	\$1,062,980	\$1,233,367
Financial	26	\$271,947	\$1,575,474	\$1,847,421
General Business (Active Accounts)	2,715	\$87,318,407	\$239,276,766	\$326,595,173
General Business (Direct Billing)	256	\$688,379	\$1,472,723	\$2,161,102
Leased Equipment	618	0	\$40,051,135	\$40,051,135
Service Stations	21	\$1,900,145	\$1,574,012	\$3,474,157
Boats, Aircraft & Other	3,049	0	\$217,966,988	\$217,966,988
Totals	7,181	\$114,872,743	\$586,686,937	\$701,559,680

Discovery

Taxpayer self-reporting and annual canvassing are the principal means of discovering assessable business property. Other means of discovery include reviewing fictitious business name filings, newspaper articles and advertisements, city and county business licenses, referrals from other counties, and Board notifications.

Filing Procedures

Under section 441.5, in lieu of completing the property statement, information required of the taxpayer may be furnished to the assessor as attachments to the property statement provided that certain conditions are met. Specifically, the attachments must be in a format specified by the assessor, and a copy of the actual property statement must be signed by the taxpayer and carry appropriate reference to the data attached.

In Imperial County, the assessor allows taxpayers to submit attachments in lieu of completing the business property statement as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits the signed original of the statement. We reviewed several business property statements and found that they were properly signed by the taxpayer or an authorized agent.

Our review included verifying the procedures for assessing the property of late-filers and non-filers. We found that the assessor applied the penalty as required by section 463 properly

and, if an assessee failed to file a business property statement for two consecutive years, the assessor would schedule the business account for review or audit.

Apartment Personal Property

In our 2002 survey, we recommended the assessor improve the coordination of apartment personal property assessments between the real property and personal property staff. In our current survey, we found the assessor has improved communications and coordination between the staff; therefore, we do not repeat this recommendation.

Each year the assessor sends out Form BOE-571-R, *Apartment House Property Statement*, to all owners of apartment houses in the county. To avoid any double assessments, the personal property staff informs the real property staff of the amount of apartment personal property that is being assessed on the unsecured roll.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain lower-value business accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues it for several years. Property statement filing or field reviews are required periodically. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both the taxpayer and the assessor. For taxpayers it results in a reduction of paperwork; the assessor, meanwhile, processes fewer business property statements, thereby increasing the amount of time available for the audit staff to perform more audits.

In our 2002 survey, we recommended the assessor review accounts in the current direct billing program and include only those that have historically been reporting a stable value. We found that the assessor is now monitoring the accounts in the direct billing program more closely. There is a written procedure for the accounts in direct billing, and accounts are reviewed every two years to determine if they are still eligible for inclusion in the program. The assessor has corrected the deficiencies in the direct billing program and is now in compliance with our prior recommendation.

Business Equipment Valuation

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

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

In Imperial County, the assessor uses the business valuation factors tables published by the California Assessors' Association (CAA). To verify the value of agricultural mobile equipment, the assessor uses the *Marshall Valuation Service*.

In our 2002 survey, we recommended the assessor use the appropriate percent good factors for new and used agricultural equipment found in AH 581. In our current survey, we found that the assessor is now using the percent good factors found in AH 581 for equivalent equipment. Therefore, the assessor is now in compliance with our prior recommendation. Notwithstanding, we did find one area of concern.

RECOMMENDATION 9: Use minimum percent good factors that are supportable as provided in section 401.16(b).

Our review of a number of business property accounts indicated that the assessor is using a minimum percent good of 15 percent for non-agricultural equipment.

Section 401.16(b) requires that a minimum percent good factor shall be determined in a manner that is supportable. The CAA's position paper 05-001 recommends the use of minimum percent good factors to recognize property that has a minimum fair market value. The CAA's recommended minimum factors are based on the salvage value study conducted by the *Marshall Valuation Service*. That study indicated an average 9 percent minimum percent good factor for all industrial property and an average 10 percent minimum percent good factor for all commercial property.

We found that the assessor is not using the AH 581 or the CAA recommended minimum percent good factors, and that his minimum percent good factors for non-agricultural equipment are not supported by any evidence or study.

The use of unsupported minimum percent good factors is contrary to the provisions of section 401.16(b) and may result in overassessments in the later stages of the equipment's economic life.

Leased Equipment

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

When property is leased, both the lessor and the lessee should report such property on their annual property statements. At the end of a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross-check of information reported by lessors and lessees verifies that the equipment is reported, as well as the accuracy of the reported information.

We found that the assessor’s staff understands the differences between leases and conditional sales contracts and follows the correct appraisal and assessment procedures in the valuation process. Additionally, we reviewed several files of lessors and lessees for valuation methods, completeness of reporting, tracking of equipment, correct assessee designation, leased equipment reported by state assessee(s), and expired lease disposition, as well as processing procedures. We found the assessor's leased equipment program to be well managed.

Manufactured Homes

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

For the 2005-06 assessment roll, there were 2,678 manufactured homes located in 86 mobilehome parks in Imperial County with a total roll value of \$72,313,008. Each appraiser in the assessor's office is responsible for the appraisal of manufactured homes that are located within their assigned geographical areas.

The following table shows the number and assessed values for manufactured homes in Imperial County for recent years:

ROLL YEAR	MANUFACTURED HOMES	ASSESSED VALUE
2005-06	2,678	\$72,313,008
2004-05	2,649	\$79,185,506
2003-04	2,644	\$69,399,766
2002-03	2,621	\$70,075,406
2001-02	2,599	\$67,126,000

Manufactured homes are designated by account numbers that begin with "910." These account numbers are assigned sequentially and are not associated with a manufactured home's situs. The assessor enrolls manufactured homes as personal property on the secured roll. The assessor's

office becomes aware of manufactured home sales by reviewing State Department of Housing and Community Development reports, building permits, and dealer reports of sale, and by conducting annual park surveys.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value guides. In Imperial County, the assessor uses the *N.A.D.A. Manufactured Housing Appraisal Guide* (NADA) in the valuation of manufactured homes.

In our 2002 survey, we recommended the assessor annually review manufactured home values to identify declines in value. The assessor still does not review manufactured home values annually.

RECOMMENDATION 10: Assess manufactured homes at the lesser of the factored base year value or the current market value.

We reviewed several manufactured home property records and found that once a base year value had been established, the assessor annually indexed the value on the prior assessment roll by the annual inflation factor. The assessor reviewed the assessment of manufactured homes for declines in value only if requested by a taxpayer.

Section 5813 provides that for each lien date after the lien date for which the base year value is determined, the taxable value of a manufactured home shall be the lesser of the factored base year value or its current market value as of the lien date. A review of cost manuals and value guides indicate that it is not unusual for manufactured homes to decline in value. We found instances where the current market values of manufactured homes, as indicated by the NADA value guide, were less than the factored base year values.

Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of manufactured homes. Such a program will ensure that declines in value of manufactured homes are recognized accurately and consistently.

Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the Board. Section 5364 requires the Board to establish such standards. On January 10, 1997, the Board approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2005-06 assessment roll, the assessor enrolled 134 general aircraft with a total assessed value of \$10,021,701. Sources of aircraft discovery include *Airport Operator Reports* from the local airports, Form BOE-577-B, *List of Aircrafts*, and information from individual aircraft owners. The assessor also receives aircraft referrals from assessors of other counties.

The assessor uses the *Bluebook* as the primary guide for valuing general aircraft. We reviewed a number of general aircraft files and found that they were being properly assessed.

The following table summarizes the number and the assessed value of general aircraft in Imperial County for recent years:

ROLL YEAR	AIRCRAFT	ASSESSED VALUE
2005-06	134	\$10,021,701
2004-05	109	\$7,371,244
2003-04	113	\$7,538,083
2002-03	112	\$7,798,311
2001-02	129	\$9,285,437

Vessels

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

Assessors are required to annually appraise all vessels at market value except as provided in section 228, which provides that vessels with a market value of \$400 or less shall be free from taxation so long as the vessel is not used or held for commercial purposes. This section does not apply to more than one vessel owned, claimed, possessed, or controlled by an assessee on the lien date. Vessels may also qualify for exemption under a county’s low-value property exemption resolution. Imperial County adopted Resolution No. 2003-106 on November 17, 2003, exempting vessels valued at less than \$3,000.

The following table illustrates the number of vessel assessments in Imperial County for recent years:

ROLL YEAR	VESSELS	ASSESSED VALUE
2005-06	1,871	\$7,063,817
2004-05	1,793	\$6,560,330
2003-04	1,692	\$5,638,684
2002-03	1,690	\$5,638,684
2001-02	1,680	\$5,470,669

The assessor continues to have an effective discovery program for vessels. The vessels are discovered through reports from the DMV and referrals from other counties. Auditor-appraisers in the personal property section are responsible for the appraisal and assessment of all vessels.

The assessor uses the *ABOS New Boat & Motor Price Guide Blue Book* (ABOS) to value new vessels entering the county. Adjustments are made for sales tax, vessel condition, motor and motor condition, and accessories, with deductions for trailers when appropriate. We reviewed 11 files of newly assessed vessels in the county and found that they were properly appraised at market value.

For existing vessels, each year the assessor conducts a vessel depreciation study based on factors found in ABOS. These depreciation factors are then used in determining the assessed values of vessels for that year.

Animals

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

Taxable animals include those that are held or used in connection with the owner's business, trade, or profession; those used to produce offspring for sale at a net profit; and those with proficiency that have gained substantial monetary or other awards.

Imperial County is a rural agricultural county with few assessable animals. The assessor's primary source for the discovery of taxable animals is Form BOE 571-F, *Agricultural Property Statement*. Other discovery methods include inter-county communications of transfers, newspaper articles and advertisements, telephone yellow pages, business directories, and audits of agricultural property.

We reviewed a number of agricultural statements and audits, and found that the assessor properly discovers, identifies, and appraises assessable animals.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Imperial County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Bob Reinhard

Supervising Property Appraiser

Survey Team Leader:

Ronald Louie

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Pam Bowens

Senior Specialist Auditor-Appraiser

Robert Curry

Associate Property Appraiser

Charles Matura

Associate Property Appraiser

Robert Rossi

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Ancil Aydelott

Associate Property Auditor-Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Bianca Petteway

Tax Technician II

Kristina Valdez

Tax Technician I

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁸ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The Board's County-Assessed Properties Division conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁹

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

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

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

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

⁸ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

Rule 371. Significant assessment problems.

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

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

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

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

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

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

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS

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

The Imperial County Assessor's response begins on the next page. The Board has no comments on the response.

RECEIVED

NOV 16 2007

JOSE M. RODRIGUEZ, JR
ASSESSOR

ROY D. BUCKNER
ASSISTANT ASSESSOR



County-Assessed Properties Division
State Board of Equalization
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November 8, 2007

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

RE: October 2007 Assessment Practice Survey

Dear Mr. Kinnee:

Pursuant to section 15645 of the Government Code, please find enclosed our written response to the findings and recommendations in the October 2007 Imperial County Assessment Practices Survey.

We wish to express our appreciation to the entire Board of Equalization survey team for their professional and courteous manner in which they performed the survey.

We are proud of our accomplishments and your recognition of the enhancements our office has achieved since our last May 2002 Assessment Practices Survey. I would like to express my sincere gratitude to my employees for their hard and dedicated work. **"Delivering excellence in public service – it's our job"**

Sincerely,

Jose M. Rodriguez, Jr
Imperial County Assessor

Encl. (2)

RECOMMENDATION 1: Improve the assessment roll change program by: (1) citing the specific code section applicable to the escaped assessment and (2) notifying taxpayers that an escaped assessment has been enrolled as required by section 534.

We agree. Our appraiser personnel have been instructed as recommended.

RECOMMENDATION 2: Send the annual notice in accordance with section 257.1.

We agree. Our past practice has been in compliance with section 257.1, unfortunately in 2005-06 we failed to do so. We will assure that this recommendation takes place.

RECOMMENDATION 3: Revise welfare exemption procedures by (1) granting the welfare exemption only to portions of the property used for exempt purposes, and (2) applying late-filing penalties in accordance with section 270.

We agree. We will advise our new personnel assigned to the task of the procedures that need to be follow in accordance with this recommendation and coordinate field inspections with our appraisal staff. And apply those applicable penalties pursuant to section 270.

RECOMMENDATION 4: Improve the change in ownership program by: (1) applying the penalty according to section 482 for failure to file the *Change of Ownership Statement* timely and (2) ensuring that all changes in control of legal entities are reappraised timely.

We agree. We did not apply the penalty as specified by section 482. (1) This was not an oversight on are behave, but rather by choice in utilizing our staffs time more efficiently in attempting to keep up with our tremendous increase in our workload. We believe our practice is within the scope of the Revenue and Taxation Code. It is also, our practice in trying to better service the public in sending a second COS via certified mail allowing them an additional 45 days to respond without applying the penalty at that time. By doing this, we may avoid unnecessary assessment roll corrections to abate the penalty when the COS is returned. If the second notice is not returned timely we will then apply the penalty. (2) We agree and will make every attempt to keep current.

RECOMMENDATION 5: Annually reappraise properties with taxable values that are less than their factored base year values, as required by section 51(e)

We agree. Unfortunately during this survey period our office workload increased tremendously by all of the commercial and residential development and our priorities were to get this work out to avoid undo complications i.e. escape assessments, supplemental assessment and tax bill going to wrong addresses or property owners etc.. Our system is setup to track Prop. 8 assessments and we are currently tracking property sales for possible Prop. 8.

RECOMMENDATION 6: Apply the correct annual factor supplied by the Board when calculating the restricted value each year for taxable government owned lands.

We agree and will instruct staff to use the correct Board factor.

RECOMMENDATION 7: Improve the assessor's taxable possessory interest assessment program by: (1) reappraising month-to-month taxable possessory interests only at the expiration of the anticipated term of possession used to establish the base year value; (2) obtaining copies of all lease agreements that create taxable possessory interests; (3) periodically reviewing taxable possessory interests with stated terms of possession for declines in value; and (4) capitalizing net income to the lessor when valuing taxable possessory interests by the income approach.

We agree with the recommendation and will so instruct staff.

RECOMMENDATION 8: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

We agree with this recommendation and will try our utmost to comply. We have and are currently experiencing a high turn over of Auditor Appraisers that has made it very difficult for us to maintain our mandatory audits current.

RECOMMENDATION 9: Use minimum percent good factors that are supportable as provided in section 401.16(b).

We agree and will comply by have supporting data to when we deviate from the CAA or the Boards minimum percent good factors.

RECOMMENDATION 10: Assess manufactured homes at the lesser of the factored base year value or the current market value.

WE agree and will comply with this recommendation