KERN COUNTY
ASSESSMENT PRACTICES SURVEY

SEPTEMBER 2015

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September 30, 2015

No. 2015/046

TO COUNTY ASSESSORS:

KERN COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Honorable Jon Lifquist, Kern County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The 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 Kern County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2013. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The former Assessor-Recorder Mr. James Fitch and his staff gave their complete cooperation during the survey fieldwork. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Kern County Assessor-Recorder's Office.[1]

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

[1] This report covers only the assessment functions of this office.

OBJECTIVE

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

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

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code[3] section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey examined the assessment practices of the Kern County Assessor's Office for the 2013-14 assessment roll. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.

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

[2] Government Code section 15642.
[3] Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

We conducted reviews of the following areas:

- Administration

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

- Assessment of Real Property

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

- Assessment of Personal Property and Fixtures

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

EXECUTIVE SUMMARY

We examined the assessment practices of the Kern County Assessor's Office for the 2013 – 14 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit – the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

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

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

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

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

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

OVERVIEW OF KERN COUNTY

Kern County is located in southern end of central California. The county encompasses a total area of 8,163 square miles, consisting of 8,132 square miles of land area and 31 square miles of water area. Created in 1866, Kern County is California's top oil producing county. In 2013, about 141,590,000 barrels of oil and 140,374,000,000 cubic feet of natural gas were produced. Kern County is bordered by Kings, Tulare, and Inyo Counties to the north, San Bernardino County to the east, Los Angeles and Ventura Counties to the south, and San Luis Obispo and Santa Barbara Counties to the west.

As of 2013, Kern County had a population of 864,124. Kern County has 11 incorporated communities. The county seat is Bakersfield.

In Kern County the top five agricultural commodities in 2013 were grapes, almonds, milk, citrus, and cattle. The total gross production value of agricultural, livestock, and timber commodities in 2013 was over $6.7 billion.

FINDINGS AND RECOMMENDATIONS

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

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

RECOMMENDATION 1: Improve the disaster relief program by requesting the board of supervisors to revise the disaster relief ordinance to conform to section 170. 7

RECOMMENDATION 2: Apply section 482(a) penalties for failure to file completed *Change in Ownership Statements* (COS) timely. 8

RECOMMENDATION 3: Improve the LEOP program by: (1) reassessing all properties owned by the legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b). 9

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RECOMMENDATION 9: Improve the manufactured homes program by: (1) excluding site value when determining the current market value to be enrolled, and (2) documenting that manufactured homes enrolled as improvements meet the requirements of Health and Safety Code section 18551.....16

ADMINISTRATION

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 relief is available to any assessee whose property suffers damage exceeding $10,000.[4]

The Kern County Board of Supervisors has adopted a continuous disaster relief ordinance pursuant to section 170. The ordinance grants the assessor the authority to initiate reassessment without an application where he determines taxable property has been damaged or destroyed.

We reviewed the assessor's procedures and policies involving disaster relief, and we reviewed several property record files where a calamity occurred. We found an area in the disaster relief program in need of improvement.

RECOMMENDATION 1: Improve the disaster relief program by requesting the board of supervisors to revise the disaster relief ordinance to conform to section 170.

In our previous survey, we recommended the assessor request the board of supervisors to revise the disaster relief ordinance to conform to section 170. Additionally, we recommended revising the assessor's form *Application for Reassessment: Property Damaged or Destroyed by Misfortune or Calamity* to conform with section 170(b). We found that the assessor has partially implemented the recommendations by revising the form to be consistent with the provisions of section 170(b). However, the county's current disaster relief ordinance remains outdated and does not conform to current provisions of section 170.

Section 170 was amended as of January 1, 2002 and includes several significant changes that are not reflected in the county's disaster relief ordinance including. These include: (1) an extension of the filing period for an application for reassessment, from 6 months to 12 months; (2) an increase in the minimum damage requirement, from $5,000 to $10,000; (3) an increase in time given to the owner to appeal the notice of reassessment, from 14 days to 6 months; and (4) an increase in the amount of time the assessor has to provide the owner with an application for reassessment if no application has been made, from 6 months to 12 months.

By not revising the disaster relief ordinance, the assessor's current administration of the disaster relief program will continue to be in conflict with the outdated provisions authorized by the board of supervisors.

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

ASSESSMENT OF REAL PROPERTY

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.[5]

We examined several recorded documents and found that the assessor has an effective program for the discovery and determination of reappraisable events. In addition, we reviewed several property records having recently experienced a change in ownership and found that the assessor is following proper valuation procedures and has an efficient valuation program in place for reappraising properties having undergone a change in ownership. However, we found areas in need of improvement.

Penalties

We reviewed the assessor's application of the penalty process and found areas in need of improvement.

RECOMMENDATION 2: Apply section 482(a) penalties for failure to file completed *Change in Ownership Statements* (COS) timely.

We found instances where the assessor has failed to assess the mandatory section 482(a) penalty when a COS is not timely returned within the specified 90 days of written request mailed by the assessor.

Section 480 provides that transferees shall file a change in ownership statement with the recorder or assessor in the county where the subject property is located. Section 482(a) further provides that if a required party fails to file the completed COS within 90 days from the date of the assessor's written request, a penalty of either: (1) one hundred dollars ($100), or (2) 10 percent of the taxes applicable to the new base year value reflecting the change in ownership of the real property or manufactured home, whichever is greater, but not to exceed five thousand dollars ($5,000) in most cases, or twenty thousand dollars ($20,000) under certain instances. The penalty shall be added to the assessment made on the roll, and shall apply for failure to file a complete change in ownership statement whether or not the facts indicate that a change in ownership has occurred. The filing of this form is not optional once the assessor makes a request, and the

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

assessor can only allow 90 days for return of a completed COS before the penalty applies. The information contained in a properly completed COS assists the assessor in making an accurate assessment. By not assessing penalties timely, the assessor is not in compliance with section 482 as prescribed.

Legal Entity Ownership Program (LEOP)

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

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

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

We reviewed records involving legal entities having experienced a change in control or a change in ownership and found areas in need of improvement.

RECOMMENDATION 3: Improve the LEOP program by: (1) reassessing all properties owned by the legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b).

Reassess all properties owned by the legal entity undergoing a change in control or ownership.

We found that the assessor does not reassess all properties determined to have undergone a change in control as notified by the BOE through the LEOP program.

Section 64(c)(1) provides that when a corporation, partnership, limited liability company, other legal entity, or any other person obtains control through direct or indirect ownership or control of more than 50 percent of the voting stock of any corporation, or obtains a majority ownership interest in any partnership, limited liability company, or other legal entity through the purchase or transfer of corporate stock, partnership, or limited liability company interest, the purchase or transfer of that stock or interest shall be a change of ownership of the real property owned by the corporation, partnership, limited liability company, or other legal entity in which the controlling interest was obtained. LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reassessed.

By not reassessing properties identified as having gone through a change in control or ownership, the assessor is incorrectly assessing those properties.

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

We found instances where the assessor did not apply penalties when a legal entity failed to timely file BOE-100-B due to a change in control or ownership in accordance with section 482(b).

Section 482(b) states that if a legal entity required to file a statement described in section 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership of the legal entity, or (2) the date of a written request by the BOE, a specific penalty shall be applied.

The assessor's current practice of not applying penalties to all properties owned by legal entities who fail to file a COS or fail to file a COS by the deadline is contrary to statute and results in an unequal treatment of taxpayers.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.[6]

We reviewed several property record files involving recent new construction and found the assessor's program for discovering and assessing new construction to be generally well administered. The assessor's property records were well documented and showed construction in

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

progress (CIP) assessed as of the lien date, completed new construction assessed as of the date of completion, and supplemental assessments issued as of the date of completion, when appropriate. However, we found an area in need of improvement.

RECOMMENDATION 4: Improve the new construction program by valuing CIP at its fair market value.

We found several instances in which the assessor's office valued CIP using the permit value instead of using one of the three accepted approaches to value when determining the fair market value to be enrolled.

As stated previously, section 71 requires that new CIP be appraised at its full cash value as of the lien date and each lien date thereafter until the date of completion. At such time of completion, the appraiser shall reappraise the entire portion of property which is newly constructed at full value. The value reported on permits is typically based on published cost factors derived from a building journal and only reflects average costs throughout various regions in California; the values are not necessarily representative of construction costs in Kern County. Moreover, these estimates cannot account for variations in construction costs resulting from differences in square footage, construction quality, complexity of proposed projects, or revisions to project plans. Thus, the values reported on the permits are not likely to represent fair market value. In order to develop an accurate indicator of value for CIP, as for completed new construction, the appraiser must determine its fair market value using the cost, comparative sales, and/or income approaches.

The current practice in the assessor's office is not in compliance with section 71 and results in inequitable treatment of taxpayers, as well as inaccurate assessments.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.[7]

Kern County has 846 taxable possessory interests with a total assessed value of $174,462,372. The assessor contacts 156 public agencies annually by letter to request current information on new or changed tenancies and rents. The types of taxable possessory interests that we reviewed in Kern County included aircraft hangars at publicly owned airports, employee housing on publicly owned land, water district leases, grazing permits, rafting rights, and agricultural and community college district leases.

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

We reviewed the property record files of several taxable possessory interests. Overall, we found the assessor's taxable possessory interests program to be effective. However, we found an area in need of improvement.

RECOMMENDATION 5: Improve the taxable possessory interest program by assessing all taxable possessory interests.

In December 2005, the Kern County Board of Supervisors adopted an ordinance implementing a portion of section 155.20. The ordinance authorizes the exemption of any taxable possessory interest located within a publicly owned fairground facility or publicly owned convention center with a full value of $40,000 or less. According to the assessor, the low-value property exemption eliminates the need to monitor these facilities for potential taxable possessory interests.

We obtained a list of concessionaires from 2011 through 2012 from the Kern County Fairgrounds and an events schedule from the Rabobank Arena Theatre and Convention Center. We found concessionaires and events that could potentially be valued above the $40,000 exemption threshold based on their income contribution to the fairgrounds or convention center. Because the assessor is not monitoring these potential taxable possessory interests, he is unable to determine whether they fall within the parameters of the low-value property exemption ordinance.

The assessor's practice of not monitoring potential possessory interests at the Kern County Fairgrounds and at the Rabobank Arena Theater and Convention Center may mean that taxable possessory interests are escaping assessment.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.[8]

In Kern County, the natural resource section of the assessor's office appraises the mineral properties. There are no high temperature geothermal properties located in Kern County. We reviewed the assessor's methods for deriving petroleum reserve estimates and found them to be generally consistent and accurate.

Petroleum Property

After reviewing the assessor's petroleum property program, we have the following recommendation:

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

RECOMMENDATION 6: Improve the petroleum assessment program by allocating a base year value to each property item and removing value for property items no longer located on the appraisal unit.

We found that the assessor is not consistently removing the adjusted base year value of improvements no longer located on the appraisal unit. According to the assessor, this is in large part due to the difficulty of identifying the assets removed and the factored base year value of those assets.

Rule 468(c)(1) indicates there are three dates that are of concern to the assessor when establishing the value of improvements: lien date 1975, the appraisal unit acquisition date, and the date new construction was completed. Any installation that occurred prior to 1975 should have had a 1975 base year established when Article XIII A of the California Constitution was implemented and it is this base year value that is adjusted every year unless there has been a change in ownership or new construction added to the unit.

Each individual improvement item within the appraisal unit should have an allocation of the total base year value assigned to it. It is the assessor's responsibility to determine the value placed on the roll for these improvements when these assessable events occur. Not properly allocating and tracking base year values for the individual improvements makes it difficult to determine how much value to remove when an improvement is no longer part of the appraisal unit. The assessor's current practice is not in compliance with statute and results in inaccurate assessments.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.[9]

Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors (LTA) 2009/049, the statute requires the assessor to conduct a minimum of 139 significant audits per year, of which 69 (70) audits are to be from the pool of taxpayers with the largest assessments and 70 (69) audits are to be from the pool of all other taxpayers. The assessor only completed 62 audits for the 2009-10 fiscal year, 77 audits for the 2010-11 fiscal year, and 80 audits for the 2011-12 fiscal year. The assessor did complete 153 audits during the 2012-13 fiscal year. However, most of these audits were originally assigned in prior years and were at various stages of completion at the beginning of the 2012-13 fiscal year. Given recent audit production levels, the assessor has failed to meet the minimum number of significant audits required, as defined by section 469, three out of the past four years.

RECOMMENDATION 7: Improve the audit program by performing the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found that the assessor did not conduct the minimum number of audits required under the provisions of section 469 for three out of the past four years.

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

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

By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment. We noted that, although the assessor was unable to complete the required minimum of 139 audits in each of the fiscal years 2009-10, 2010-11, and 2011-12, with the addition of three new auditor-appraisers in 2012-13, the office surpassed the required number, completing 153 audits. We are hopeful the assessor will continue to adequately staff the audit section to meet the requirements of section 469.

Business Equipment Valuation

Assessors value most machinery and equipment via the cost approach, using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.[10]

We reviewed the written procedures and standardized valuation policies related to business equipment valuation and found them to be adequately compiled and sufficiently detailed. We also reviewed a number of valuation calculations and found no problems with either fixture allocations or classification determinations between fixtures and personal property upon enrollment. In addition, we reviewed the assessor's valuation tables and a number of processed business property statements. Observed valuation calculations enrolled by the assessor indicated the appropriate application of BOE-recommended valuation tables. We did, however, find areas in need of improvement.

RECOMMENDATION 8: Improve the business equipment valuation program by exempting personal property owned and held by banks and financial corporations.

During our review of business property accounts we found instances where the assessor has not excluded the personal property of banks from assessment.

Section 23182 provides for the exemption of the personal property of banks and financial corporations. Only the real property of banks, which includes fixtures, is assessable. Not exempting the personal property of these businesses has resulted in overassessments.

Manufactured Homes

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

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

taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.[11]

In Kern County, there are a total of 16,448 manufactured homes enrolled for the 2013-14 roll year, with a total assessed value of $834,016,082. The assessor properly classifies manufactured homes not affixed to permanent foundations as personal property and enrolls them on the secured roll. All manufactured homes in the county are valued by real property appraisers and assigned by geographical area.

We reviewed several manufactured home assessments, including transfers, supplemental assessments, accessories, new construction, and new installations. We found areas in need of improvement.

RECOMMENDATION 9: Improve the manufactured homes program by: (1) excluding site value when determining the current market value to be enrolled, and (2) documenting that manufactured homes enrolled as improvements meet the requirements of Health and Safety Code section 18551.

Exclude site value when determining the current market value to be enrolled.

We found that the assessor typically values a recently purchased manufactured home on rented or leased land by enrolling the Department of Housing and Community Development (HCD) reported purchase price, supported by comparable sales, without making an adjustment to the subject property to exclude any site value that may be included in the purchase price. In addition, no adjustment is made to the comparable sales for site value. The assessor also used these comparable sales when valuing manufactured homes for declines in value.

Section 5803(b) provides that since owners of manufactured homes on rented or leased land do not own the land on which the manufactured home is located and are subject to having the manufactured home removed upon termination of tenancy, "full cash value" does not include any value attributable to the particular site where the manufactured home is located on rented or leased land, which would make the sale price of the manufactured home at that location different from its sale price at another location on rented or leased land.

In Assessors' Handbook Section 531, *Residential Building Costs*, chapter AH 531.35 *Manufactured Housing* recommends that using the replacement cost approach, which uses an indicator of value from a recognized value guide, plus the value of all manufactured home accessories, buildings, and structures, provides the best indication of value excluding site influence. AH 531.35 goes on to state that when using the comparative sales approach, the sale price of comparable manufactured homes located on rented or leased land will frequently include an increment attributable to site value. In order to comply with section 5803(b), the site value must be extracted from each sale before the sale can be used as a comparable, which is why the

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

comparative sales approach is more difficult to apply to manufactured homes located on rented or leased land.

Failure to exclude the value attributable to the site from the HCD reported purchase price of a manufactured home on rented or leased land before enrolling that value as the current assessed value, or using it as a comparable sale, may cause the assessor to overassess certain manufactured homes.

Document that manufactured homes enrolled as improvements meet the requirements of Health and Safety Code section 18551.

For manufactured homes on permanent foundations classified and enrolled as improvements, we found that some property records reviewed did not include a copy of a recorded HCD form 433(A).

Health and Safety Code section 18551 provides for a process whereby a manufactured home may be legally secured to an approved foundation, and thereby become a fixture and real property improvement to the land for property tax purposes. This procedure has many steps, the last of which is that the enforcement agency must record a document (typically, HCD form 433(A)) showing that the manufactured home has been affixed to real property by the installation of a permanent foundation system pursuant to Health and Safety Code section 18551(a). When recorded, the document is to be indexed by the county recorder to the named owner and shall be deemed to give constructive notice as to its contents to all people thereafter dealing with the real property. In addition, sections 5801(b)(1) and 5801(b)(2) provide that a manufactured home shall not be classified as real property for property taxation purposes unless it has become real property pursuant to Health and Safety Code section 18551.

When documentation of a permanent foundation is not included in the building records, there may be confusion as to the status of a manufactured home. If special assessments are levied, improper classification of manufactured homes can affect the amount of taxes due. Special assessments are levies upon real property in a district for the purpose of paying for improvements. The amount of the levy is based on the benefits accruing to the property as a result of the improvements. Special assessments are not typically imposed on items of personal property; therefore, misclassification may result in an inaccurate tax bill.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2013-14 assessment roll:[12]

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	$20,648,978,708
	Mineral Rights	$16,372,851,116
	Improvements	$37,265,750,295
	Fixtures	$8,866,522,516
	Personal Property	$1,111,817,000
	Total Secured	$84,265,919,635
Unsecured Roll	Land	$97,638,964
	Improvements	$325,680,632
	Fixtures	$5,108,527,462
	Personal Property	$2,122,556,911
	Total Unsecured	$7,654,403,969
Exemptions[13]		($2,176,817,310)
	Total Assessment Roll	$89,743,506,294

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:[14]

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2013-14	$89,743,506,000	2.5%	4.3%
2012-13	$87,571,694,000	7.8%	1.4%
2011-12	$81,268,005,000	2.4%	0.1%
2010-11	$79,325,838,000	4.9%	-1.9%
2009-10	$75,653,514,000	-6.6%	-2.4%

[12] Statistics provided by BOE-822, *Report of Assessed Values By City*, 15 Kern County for year 2013.
[13] The value of the Homeowners' Exemption is excluded from the exemptions total.
[14] State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has increased from $11,602,011 in 2009-10 to $12,040,188 in 2013-14.

As of the date of our survey, the assessor had 107 budgeted permanent staff. This included the assessor, assistant assessor, 4 managers, 39 appraisers, 11 auditor appraisers, 4 mapping technicians, 3 computer analysts, 1 other technician, and 43 support staff.[15]

The following table identifies the assessor's budget and staffing over recent years:[16]

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2013-14	$12,040,188	13.6%	107
2012-13	$10,603,055	-12.0%	102
2011-12	$12,046,596	13.2%	103
2010-11	$10,644,670	-8.3%	101
2009-10	$11,602,011	1.1%	104

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:[17]

YEAR	ASSESSMENT APPEALS FILED
2013-14	2,676
2012-13	2,771
2011-12	2,985
2010-11	3,292
2009-10	4,161

[15] Information provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for year 2013-14. Also see Kern County Assessor's Organizational Chart as provided by the assessor in the pre-survey material.
[16] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.
[17] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:[18]

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2013-14	1,667	$1,531,084,976
2012-13	1,541	$1,382,606,172
2011-12	1,527	$1,289,049,895
2010-11	1,522	$1,255,117,110
2009-10	1,479	$1,258,522,587

Table 6: Change in Ownership

The following table shows the total number of reappraisable transfers due to changes in ownership processed in recent years:[19]

YEAR	REAPPRAISABLE TRANSFERS
2013-14	35,656
2012-13	42,212
2011-12	39,693
2010-11	41,076
2009-10	40,645

[18] Statistics provided by BOE-802, *Report on Exemptions*, for years 2009 through 2013.
[19] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

Table 7: New Construction

The following table shows the total number of new construction assessments processed in recent years:[20]

YEAR	NEW CONSTRUCTION ASSESSMENTS
2013-14	2,049
2012-13	1,990
2011-12	2,219
2010-11	2,376
2009-10	847

Table 8: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:[21]

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2013-14	75,674
2012-13	111,430
2011-12	126,119
2010-11	131,025
2009-10	115,385

[20] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.
[21] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

Table 9: Business Property Statements

The following table displays the assessor's workload of secured and unsecured business property statements (BPS) and assessments for the 2013-14 roll year:[22]

TYPE OF PROPERTY STATEMENTS	TOTAL	SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
General Business	12,600	$3,556,822,184	$2,313,464,382	$5,870,286,566
Agricultural	896	$276,798,266	$225,080,598	$501,878,864
Apartments	111	$5,033,906	$0	$5,033,906
Financial	157	$3,733,694	$34,684,391	$38,418,085
Leased Equipment	322	$0	$166,662,555	$166,662,555
Service Stations	410	$38,509,682	$24,358,485	$62,868,167
Other	4,243	$1,412,316,661	$4,530,974,398	$5,943,291,059
Totals	18,739	$5,293,214,393	$7,295,224,809	$12,588,439,202

[22] Statistics provided by Todd Reeves, Supervising Auditor Appraiser, Kern County Assessor's Office.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Kern County

Chief

Benjamin Tang

Survey Team Supervisor:

David Dodson	Supervisor, Property Tax

Survey Team Leader:

David Dodson	Supervisor, Property Tax

Survey Team:

James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Isaac Cruz	Senior Specialist Property Auditor-Appraiser
Michael Ash	Associate Property Appraiser
Jennifer Prince	Associate Property Appraiser

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

Kern County Assessor-Recorder

Jon Lifquist

Assistant Assessor
Lee Smith
Assistant Recorder
Brian Pace

September 4, 2015

Mr. Benjamin Tang, Chief
County Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 95279

RE: Kern County Assessment Practices Survey

Dear Mr. Tang:

Please find attached a copy of our response to recommendations, which we wish to see included in the final report of the Assessment Practices Survey.

We view the survey as an excellent opportunity to measure our performance, exchange ideas and gain constructive input from your staff, whose experience throughout the state helps broaden our knowledge and perspective. On behalf of the office, I would like to thank the SBE survey team for their insight, professionalism and courtesy.

I'd also like to express my gratitude to the staff of the Kern County Assessor's Office, whose competence and efficiency, in the annual production of one of the most complex assessment rolls in the state, is unsurpassed.

Sincerely,

Jon Lifquist
Kern County Assessor-Recorder

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ASSESSOR'S OFFICE /1115 Truxtun Avenue / Bakersfield, CA 93301-4639 / Telephone (661) 868-3485
RECORDER'S OFFICE / 1530 Truxtun Avenue
HALL OF RECORDS / 1655 Chester Avenue /Bakersfield, CA 93301-5232/ Telephone (661) 868-6400

RECOMMENDATION 1: *Improve the disaster relief program by requesting the board of supervisors to revise the disaster relief ordinance to conform to section 170.*

The Assessor concurs with the recommendation. The revision to Kern County's disaster relief ordinance has been under review for about six months and should be completed shortly.

RECOMMENDATION 2: *Apply section 482(a) penalties for failure to file completed Change in Ownership Statements (COS) timely.*

The Assessor concurs with the recommendation. Revisions have been made to the Assessor's systems, KIPS, to track the COS processing and properly apply the penalty.

RECOMMENDATION 3: *Improve the LEOP program by: (1) reassessing all properties owned by the legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b).*

The Assessor concurs with the recommendation. Revisions have been made to the Assessor's systems, KIPS, to track the LEOP processing and properly apply the penalty.

RECOMMENDATION 4: *Improve the new construction program by valuing CIP at its fair market value.*

We agree with this recommendation and have updated our practice in the valuation of construction in progress. In the past, the office often used permit value as an informal estimate of construction cost in the valuation of lien date CIP. We have eliminated this expedient, and now base CIP estimates on one or more of the three recognized approaches to value.

RECOMMENDATION 5: *Improve the taxable possessory interest program by assessing all taxable possessory interests.*

The Assessor concurs with the recommendation. Our office has taken several steps in an attempt to assess all possessory interests. We have gathered information on properties not previously valued and added those possessory interests to the assessment roll. We have continued to send letters annually to all of the agencies with possessory interests and are working to improve that process to more effectively obtain information. We will be training additional staff so that more time can be dedicated to the valuation of possessory interests. We are also working on improving the organization of all survey and lease information so they may be easily reviewed.

RECOMMENDATION 6: *Improve the petroleum assessment program by allocating a base year value to each property item and removing value for property items no longer located on the appraisal unit.*

We agree with this recommendation. We have worked with the property owners and the Petroleum Standards Advisory Committee to resolve this issue. We have endeavored to develop consistent methodologies in properly assessing the removed equipment.

- We will increase our efforts in attempting to receive data from the taxpayer to identify removed items from our equipment lists.

- The equipment lists will be improved to better describe new and existing equipment.

RECOMMENDATION 7: *Improve the audit program by performing the minimum number of audits of professions, trades, and businesses pursuant to section 469.*

We concur with the recommendation. Over the last few years the Kern County Assessor's Office has been able to steadily increase the number of staff assigned to the Audit Section. This measure will insure that the minimum number of mandatory audits will be completed.

RECOMMENDATION 8: *Improve the business equipment valuation program by exempting personal property owned and held by banks and financial corporations.*

The Kern County Assessor's Office respectively disagrees with the findings and recommendations regarding bank owned personal property. The three examples of bank owned property cited by the BOE were misreported by the property owner on their form 571. The Kern County Assessor's Office makes every effort to comply with Section 23182 by exempting personal property owned and held by banks and financial corporations from our assessments.

RECOMMENDATION 9: *Improve the manufactured homes program by: (1) excluding site value when determining the current market value to be enrolled, and (2) documenting that manufactured homes enrolled as improvements meet the requirements of Health and Safety Code section 18551.*

1) While the assessor recognizes the need to remove site value from sales price, following the method of valuation prescribed in AH 531 leaves cost as the sole method for valuing manufactured homes when the sales price exceeds cost – even if the difference is marginal or inconsistent. Cost is an imperfect and often poor method for valuing aging improvements, and reliance on cost alone could lead to numerous unwarranted reductions in Kern County, where prized or premium locations are unusual, rent restrictions are non-existent, and sale price to cost comparison reveals no overvaluation on average.

We will continue to compare reported sales price to cost, adjusting for site value only upon the discovery of consistent evidence of sales price exceeding cost in any given park or location.

2) We concur. Compliance with Health and Safety Code section 18551 has not been universally understood by our appraisal staff. Entry level training now includes instruction that form 433(A) must be included with a manufactured home record before transferring the manufactured home from license to local property tax or changing the use code to indicate the existence of a permanent foundation.