

KERN COUNTY ASSESSMENT PRACTICES SURVEY

NOVEMBER 2000

CALIFORNIA STATE BOARD OF EQUALIZATION

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November 30, 2000

TO COUNTY ASSESSORS:

No. 2000/077

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 Kern County Assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, the county assessor's response, and the BOE's comments to the assessor's response constitute the final survey report. This report, pursuant to Government Code section 15646, is distributed to the Governor, the Attorney General, the State Legislature, the Kern County Board of Supervisors, the Kern County Grand Jury, and the Kern County Assessment Appeals Boards.

The BOE's County Property Tax Division performed the fieldwork for this survey of the Kern County Assessor's Office during July 1999 and August 1999. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank the Honorable James W. Maples, Kern County Assessor/Recorder/Clerk, and his staff for their cooperation and patience during this assessment practices survey. These survey reports give the government officers 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 your questions, comments, and/or suggestions for improvement with us.

Sincerely,

Richard C. Johnson

Deputy Director

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RCJ:jm

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 enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial impact comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding. The assessment practices survey program is one of the State's major efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office and publishes a report of its findings. This report reflects the BOE's findings in its periodic survey of the Kern County Assessor's Office.

We have reformatted our Assessment Practices Survey Report so that no multi-part recommendations are included. This has the effect of increasing the number of recommendations in the reports. In addition, we have eliminated all formal suggestions. Some of these suggestions will be included in the new format as recommendations while others will be either dropped or simply stated within the text of the report. This too has the effect of increasing the number of recommendations within any given report. An increase in the number of recommendations from one report to the next should not lead the reader to conclude that the effectiveness of the assessor's operation has decreased.

The assessor is required by law to file with the board of supervisors a response that indicates 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 State Board of Equalization, the Senate and Assembly, the Kern County Grand Jury, and the Kern County 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 James W. Maples, Kern County Assessor-Recorder,¹ elected to file his initial response prior to the publication of our survey; that response is included in this report following the Appendices.

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. However, assessment practices survey reports 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.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor. In addition, Revenue and Taxation Code² section 75.60 requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Kern County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Kern County with information relevant to the property tax assessment program. 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 in Property Tax Rule 371.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or over-assessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls, nor the internal management of the assessor's office outside those areas related to assessment.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

- In our 1995 Assessment Practices Survey of Kern County, we made 17 recommendations to address problems we found in the assessor's policies and procedures. Of those recommendations, the assessor fully implemented eight of the changes that we recommended, implemented three in part, and did not implement five. Due to a change in law, one of our previous recommendations no longer applies. Most of the recommendations that were not implemented—or that were implemented in part—are repeated in this report.
- We found no problems in the assessor's administration of assessment roll changes, the administration of assessment appeals, the administration of the disaster relief program, and the assessment of properties under California Land Conservation Act contracts.
- With few exceptions the assessor's staff appraisers are current in their mandatory training requirements. Where there are deficiencies, the assessor has created a plan to eliminate them. We urge the assessor to follow through on those plans.
- With three exceptions, the assessor has an effective program for discovering, appraising, and enrolling changes in ownership of real property. The exceptions concern enrolling mandatory penalties, discovering corporate changes in ownership, and making consistent cash equivalent adjustments.
- Although the assessor has an effective program for reappraising properties that have experienced declines in value, the assessor's discovery of those properties is inconsistent. We recommend that the assessor develop and implement a mass appraisal program to aid in the discovery of properties that have experienced a decline in value.
- We recommend the assessment of taxable possessory interests in fairgrounds and improving documentation on records. In addition, certain possessory interests show only improvement values on the roll; it appears that the land values have escaped assessment.
- In our previous survey, we found several deficiencies in the assessment of taxable government-owned properties. Although the assessor corrected those deficiencies, we believe that the assessor should develop a program to aid in the discovery of these properties.
- We found a lack of coordination between the business and the real property divisions.
- We found two deficiencies in the appraisal of water companies and recommend: (1) the assessor consider the income approach when appraising private water companies, and (2) the assessor develop written procedures for the valuation of water companies.
- With regard to petroleum-producing properties, we repeat the recommendations from our last survey: (1) that the assessor revise his policy of using minimum assessed values, and (2) that the assessor account for abandonment costs upon reaching the economic limit of a property.
- We uncovered a potential equalization problem in the selection of discount rates applied in the appraisal of cogeneration facilities.

- An area of concern is the mandatory audit program, which is in arrears. The mandatory audits need to be brought to current status. We also recommend that the assessor expand the nonmandatory audit program.
- The business property division continues to use incorrect price index factors for appraising business personal property and equipment.
- For the assessment of tenant improvements, there is a need for better coordination between the real and business property divisions.
- We make minor recommendations regarding the assessment of boats and aircraft.
- When assessing manufactured housing, we recommend that the assessor use approved valuation guides, apply the CCPI inflation factor for all manufactured homes, and develop a program to review manufactured home assessments annually for declines in value.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- As defined in Property Tax Rule 371, we found no significant assessment problems. Accordingly, pursuant to section 75.60, Kern County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

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OVERVIEW OF KERN COUNTY

Kern County lies at the extreme southern end of the San Joaquin Valley. It shares common borders with the counties of Los Angeles, Santa Barbara, and Ventura to the south, Kings, Tulare, and Inyo counties to the north, San Luis Obispo County to the west, and San Bernardino County to the east. It was chartered as a county in April 1866 from portions of Los Angeles and Tulare Counties. Kern County's population is approximately 640,000, of which approximately 230,000 persons reside in Bakersfield, the largest incorporated city in the county.³

In both its assessed value and total number of assessments, Kern County has one of the fifteen largest county assessment rolls in California. Kern County is rich in both agriculture and mineral resources.

The following chart displays pertinent information from the 1997-98 assessment roll. This information is taken from the BOE publication *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*, June 1999.

<u>Property Type</u>	<u>Number of Assessments in County</u>	<u>Enrolled Values</u>
Residential	289,080	
Oil, Gas, & Mineral	2,791	
Rural	38,207	
Commercial/Industrial	<u>18,327</u>	
Total Secured Roll	348,405	\$37,204,536,000
Total Unsecured Roll (personal property except manufactured homes)	<u>24,970</u>	<u>1,741,889,000</u>
Total Roll	<u>373,375</u>	<u>\$38,946,425,000</u>

³ *California Statistical Abstract*, <http://www.dof.ca.gov>

RESULTS OF THE 1995 SURVEY

We made 17 recommendations to address problems we found in the assessor's assessment policies and procedures. Of those recommendations, the assessor fully implemented eight of the recommended changes and partially implemented three. Due to a change in law, one of our previous recommendations no longer applies. The balance of them were not implemented. The assessor's response to those recommendations is discussed below:

Change in Ownership

We recommended that the assessor add the net present value of improvement bonds to the reported sales prices of properties so encumbered. Although the assessor addressed our prior survey's recommendation, section 110 has since been amended to create the rebuttable presumption that the reported sales prices of properties—encumbered by improvement bonds—is the total consideration paid for such properties. Thus, that recommendation no longer applies.

We also recommended that the assessor review assessed value calculations for parcels experiencing multiple fractional interest transfers. Since that survey, the assessor's office has implemented a new computer system: the *Kern Integrated Property System (KIPS)*. One of KIPS' features is an application that tracks and calculates the values of fractional interest transfers. This computer application resolved our concerns regarding multiple fractional interest transfers.

New Construction

In the assessment of new construction, the cost of interest during construction is a proper component of the cost approach to value. We recommended that the assessor include an imputed interest component when applying the cost approach for commercial and industrial new construction. However, the assessor's staff continues to omit consideration of construction loan interest as a component of the cost approach unless reported by the property owner. We again recommend that the assessor adopt procedures to properly account for interest costs during construction.

Declines in Value

We recommended that the assessor revise the assessment of real property experiencing a decline in value by conforming to statutory requirements when recognizing declines in value. This recommendation was the result of the assessor's policy to use roll corrections when making decline in value reassessments of real property. Recent legislation has amended section 4831 to permit roll corrections for up to one year after the delivery of the roll. The assessor has, nonetheless, discontinued this practice.

We also recommended that the assessor properly apply the CCPI inflation factor to real property assessments. The assessor had suspended the inflation factor for the 1988-89 roll because of a lack of resources necessary to handle a large volume of decline in value reassessment requests. This one-time event has not been repeated.

Taxable Possessory Interests

We made several recommendations directed toward the county's assessment of possessory interests (PI). While some of these recommendations have been implemented, others, including assessment of PI's in county fairgrounds, and formal reviews of possessory interest leases, remain unaddressed.

The assessor did adopt our recommendation to add to the selling price the present worth of the remaining contract rents to determine the full cash value of a possessory interest. However, we were unable to determine how the assessor derived the discount rate applied to those rents to reach an estimate of value. This is now a documentation issue.

We do, however, agree with the assessor's reasons for his continued use of contract fees in the appraisal of grazing rights. Most grazing lands are owned by only two public agencies, creating their own market. Since PI grazing rights comprise only 49 properties, with a tax base of only \$594,500, we believe that the use of contract fees developed from the local market is reasonable.

Taxable Government-Owned Property

We recommended that the assessor's office assess all taxable government-owned lands in accordance with article XIII, section 11 of the California Constitution. We found that the assessor had valued many section 11 properties incorrectly. Since then, the assessor has implemented new valuation procedures for section 11 parcels. Those procedures corrected the problems we found in our last survey.

California Land Conservation Act Properties

We recommended that the assessor solicit information concerning oil exploration leases. The assessor has since included a question on the *Rural Property Income and Production Questionnaire* pertaining to non-producing oil and gas leases. This inquiry addresses the acres leased, date of negotiations, length of term, and income per acre.

We also recommended that the assessor request guidance from the county counsel as to the proper treatment of homesites for lands under CLCA contracts. When a change in ownership had occurred, the assessor was not issuing supplemental assessments for nonrestricted homesites located on otherwise restricted CLCA properties. This policy has changed and supplemental assessments are now issued for nonrestricted homesites.

Petroleum Properties

In the past, the assessor had established a minimum assessed value for mineral rights measured on a per-well basis. Although our prior survey of Kern County recommended that the assessor discontinue the practice, the assessor has continued to use minimum assessed values. In response, the assessor indicated that minimum values are a reasonable alternative to the valuation of marginal properties and stated an intention to continue their use. The assessor contends that the minimum value assessments take into consideration oil lease equipment, its condition, as well as

surface facilities. We again recommend that the assessor discontinue the use of minimum assessed values for mineral rights measured on a per-well basis.

Previously, we recommended that the assessor include abandonment costs of wells when using the income approach to value petroleum properties. If an operator provided abandonment costs in response to the assessor's request for information, the assessor included them in the cash flow. If the operator did not include the information, the assessor did not make an estimate. The assessor now includes abandonment costs in cash flow analysis, but not until one to five years after the end of the economic life of the property. We recommend that the assessor properly account for abandonment costs in the cash flow analysis when the property has reached the end of its economic life, not after.

Valuation of Business Personal Property

We recommended that the assessor's staff use the BOE's equipment index factors properly. However the assessor's staff continues to average the entire commercial equipment index factors from the Assessors' Handbook Section 581, *Equipment Index Factors*, to develop one full value factor for all classes of commercial equipment. Using an average of the various equipment indices sacrifices accuracy for convenience. This practice can lead to inaccurate valuations of certain classes of commercial equipment and inequitable treatment of taxpayers. Again, we repeat the recommendation that the assessor use the appropriate equipment index factors for the assessment of each type of business property.

Audit Program

We discovered that there are 59 unfinished audits from previous years. Although they anticipate a zero backlog by the end of this fiscal year, the assessor's staff still has an accumulation of incomplete audits. As in our previous survey, we recommend that the mandatory audit program be brought to current status.

The business property staff requests waivers of the statute of limitations only when an audit is in process. They do not routinely request waivers from taxpayers whose audits have not been performed timely. By failing to request a waiver, potential escape assessments are permanently lost. Again, we recommend that the assessor's staff seek waivers of the statute of limitations in all situations where audits will not be completed on time. Any taxpayer or entity refusing to sign a waiver should receive priority when scheduling audits.

We also recommended the assessor follow statutory requirements when enrolling escape or overassessments after a mandatory audit. Implementation of the KIPS computer system has resolved our concerns in this area.

Boats

We recommended that the assessor discontinue the appraisal of any boat using only a boat's age and length as the determining factors of value. Although the assessor has implemented this recommendation for boats with an assessed value over \$10,000, the procedure continues to be

applied for boats with an assessed value under \$10,000. We recommend that the assessor's staff consider make, model, and engine differences when appraising all boats.

Aircraft

We recommended that the assessor's staff make annual engine hour adjustments when appraising private aircraft. In response to that recommendation, the assessor's staff now appraises aircraft using a computer program created by the publisher of the *Aircraft Blue Book Price Digest*. This program allows the user to make appropriate adjustments for variances in engines, engine hours, aircraft navigational equipment, avionics, and overall condition.

Manufactured Homes

We recommended that the assessor's staff discount the purchase prices of manufactured homes only when justified by market data. The assessor's staff now enrolls the full selling price of a manufactured home as the base year value.

We also recommended that the assessor request that the county board of supervisors expand the ordinance exempting low-value property to include manufactured home accessories having a full cash value below \$5,000. We reviewed the current low-value ordinance adopted in February 1996; it now includes manufactured home accessories.

ADMINISTRATION

Training

Revenue and Taxation Code section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours of annual training if an appraiser holds an advanced certificate.

Although all of the assessor's personnel in Kern County who perform appraisals have the required BOE certificate, some of his staff have not remained current in their annual training requirements. For those appraisers who are delinquent in their annual training hours, the assessor has created a three-year plan to bring those appraisers' training requirements back to current status. We believe that the assessor should closely monitor their progress so that these appraisers follow through on their planned schedules.

State-County Property Tax Administration Program

Section 95.31 established the State-County Property Tax Administration Program (PTAP); this program provides state-funded loans to eligible counties for the improvement of property tax administration.⁴

If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria stipulated in the contract. As a provision of the contract, a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's office's existing funding.

Presently, the BOE's only connection with the program is that a county's performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31. The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment. In most counties, as a provision of the contract, verification of performance is provided to the State Department of Finance by the county auditor-controller. In the paragraphs below, we briefly describe Kern County's participation in the State-County Property Tax Administration Program.

Kern County participated in the PTAP during years 1995-96, 1996-97, 1997-98, and 1998-99. During calendar year 1999, the county borrowed \$1,211,318. The county's required base funding and staffing levels for the assessor's office are \$5,471,000 and 94 positions, respectively. The Kern County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment.

⁴ AB 818, Chapter 914, Statutes of 1995.

Kern County has used PTAP funds to reduce backlogs of mandatory audits, nonmandatory audits, escape assessments, assessment appeals, and decline in value reductions through increased staffing. Funds have also been used to purchase new information technology hardware, software, and related staff training, all designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change an assessment unless authorized by statute, or the board of supervisors and the county counsel.

Escape assessments are assessments made after the assessor has certified that the local assessment roll was prepared pursuant to section 601. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penal assessment to the roll. Additionally, the assessor must also cite the Revenue and Taxation Code section that mandates the escape assessment. This action notifies the auditor-controller and treasurer tax collector whether additional interest is required on the unpaid tax.

The assessor processes roll changes through the *Kern Integrated Property System (KIPS)* which uses a mini-computer to link its assessment information to the auditor-controller and treasurer-tax collector's office. Between March and July 1999, the assessor's staff processed 6,971 secured roll changes and 4,572 unsecured roll changes.

We reviewed the assessor's procedures and a number of roll changes. The assessor appears to properly process assessment roll changes.

Assessment Appeals

In Kern County, the board of supervisors has established one assessment appeals board to hear assessment appeals. During fiscal year 1998-1999, the Kern County Assessment Appeals Board (AAB) received approximately 1,400 applications. By July 19, 1999, the AAB had either resolved or obtained a waiver of the statute of limitations for every application.

Appraisers prepare and present responses to appeals of less complex properties, while supervising appraisers and the assessor's deputy county counsel prepare and present the appeals of more complex properties. As a result of our interviews with the assessor's staff and our review of appraisal records, we found no problems with the assessor's procedures. The assessor and his staff appear to handle assessment appeals effectively.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to both. Kern County has adopted such an ordinance that conforms to the requirements of section 170.

Although we noted several missed calamities on individual properties, most misfortune and calamity reassessments are handled in accordance with section 170.

In response to large-scale disasters, Kern County's disaster relief program is well administered. After the December 1998 freeze, the assessor's staff published newspaper advertisements and canvassed the county to discover damaged properties. Additionally, the staff has developed a worksheet to aid in the calculation of calamity values.

Our 1995 assessment practices survey suggested the assessor revise his calamity application form to better reflect the provisions of section 170. The assessor has implemented this suggestion.

ASSESSMENT OF REAL PROPERTY

Change in Ownership

Section 50 requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. In Kern County, the assessor's staff reviews each recorded deed to discover changes in ownership that trigger the establishment of new base year values.

Change in Ownership Statements

Section 480 requires all transferees of real property to submit a Change in Ownership Statement (COS) upon a change in ownership of either real property or a manufactured home subject to local property taxation. Should a transferee fail to file a COS pursuant to section 480, section 482 requires the assessor to add a penalty to the new assessment. Under section 482, failing to respond to a COS notice requires the assessor to apply a penalty of either (1) one hundred dollars (\$100), or (2) 10 percent of the tax applicable to the new base year—whichever is greater—but not to exceed two thousand five hundred dollars (\$2,500).

RECOMMENDATION 1: Apply the penalty for a failure to file a change in ownership statement as prescribed in section 482.

The Kern County Assessor does not apply a penalty when a property owner fails to file a COS. Although the assessor's staff sends a COS—including the appropriate penalty clause—to property owners, penalties for noncompliance have not been enforced for the last five years. We recommend that the assessor direct his staff to apply penalties in accordance with section 482.

Legal Entity Ownership Program (LEOP)

Section 64(c) provides that a change in control of any legal entity results in a change in ownership of all real property owned by that legal entity, as of the date of change in control. Discovery of a change in control can be difficult because ordinarily there are no recorded deeds. While notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records. However, the BOE's Policy, Planning, and Standards Division (PPSD) discovers unrecorded changes in ownership that occur using corporate and partnership tax returns filed with the State Franchise Tax Board. Through the LEOP, the BOE passes information related to those transfers to county assessors' offices.

The LEOP section transmits to each assessor reports containing property schedules of legal entities that have reported a change in control. Those reports include the names of acquiring entities, the date that the stock or partnership interests transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

We checked 19 properties reported on the Kern County LEOP list and found that 10 of the 19 properties were not valued for a change in ownership.

RECOMMENDATION 2: Ensure the reappraisal of all real property owned by legal entities that have experienced a change in control.

Although LEOP is intended to help the assessor identify changes in control of legal entities that qualify for reappraisal, the assessor's procedures lack the monitoring necessary to ensure that legal entity changes in ownership receive a satisfactory review. While the appraisal staff is informed of all LEOP notices of changes in control, there is no follow-up to ensure that the reappraisals have taken place. This lack of review may have led to the failure to reappraise 10 of the 19 LEOP records reviewed. For the year 2000, the assessor plans to enhance his processing of LEOP changes in ownership through an update to the *Appraisal Management System*. This computer system would include LEOP assignments in the appraisers' work queues to ensure reappraisal tracking and subsequent review.

Until this new program is implemented, we recommend that the assessor set up a monitoring system to ensure that the appraisal staff performs change in control reappraisals.

RECOMMENDATION 3: Review business property statements to discover legal entities that have experienced changes in control.

We also examined the processing of business property statements (Form AH 571-L). That form includes questions related to changes in control. We discovered that the assessor's staff does not review those forms for the purposes of discovering changes in control.

We recommend that the assessor's staff review the business property statements to discover changes in control and refer these to the transfer section for review and potential reappraisal.

Cash Equivalent Adjustment

Section 110 defines fair market value in terms of "cash or its equivalent." In using sale prices of the subject or comparable properties for the purpose of valuation, Property Tax Rule 4 provides that the appraiser shall adjust sales prices to reflect amounts equivalent to cash. A cash equivalent adjustment may be required for sales involving (1) assumed loans or new loans (i.e., promissory notes) that reflect non-market or atypical financing terms, (2) seller-paid loan points paid to a third party (e.g., an institutional lender) as part of the buyer's financing; or; (3) any other tangible property other than cash that the seller accepted as full or partial consideration for the property.

RECOMMENDATION 4: Implement a written policy for making cash equivalent adjustments.

The assessor's office does not have a formal written policy or procedure for making cash equivalent adjustments. They are made at the discretion of the appraiser. In order to ensure uniformity in assessment and consistency in cash equivalent adjustments, the assessor should develop and implement a policy for staff to use when determining whether a cash equivalent adjustment is required. This policy should include periodic review procedures to ensure that

proper adjustments are being made in compliance with applicable statutes regarding cash equivalency.

New Construction

Revenue and Taxation Code section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from building permits. Other discovery methods include business property statements, aerial photographs, news reports, and field inspections.

In Kern County, the county, 12 incorporated cities, and the State’s Department of Environmental Health issue building permits. The following list shows the level of new construction activity over the assessment year 1998-1999:

Total Permits Received	20,000 ±
Discarded Building Permits	39% ±
Building Permits Worked	12,200 ±
Building Permits Resulting in Reappraisal	10,740 ±

We found no problems with the new construction assessment program in Kern County.

Declines in Value

When preparing the assessment roll, section 51 requires the assessor to enroll the lesser of either (1) a property’s factored base year value (FBYV), or (2) its current market value as defined in section 110. When a property’s current market value falls below its FBYV on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property’s market value rises above the FBYV, then the assessor must re-enroll the FBYV.

In Kern County, taxpayer requests and the appraisal staff initiate decline in value reviews. The assessor's staff has developed a computerized system for analyzing existing and potential declines in value on individual properties. An online form generates a list of comparable sales at the touch of a button. The program prints information on the subject property and comparable sales; appraisers attach that information to the parcel record. Afterward, the KIPS parcel record is noted with the code *P8 ACTIVE*. For the 1999 lien date, the assessor’s staff processed over 3,900 decline in value reviews. This system is well-designed and easy to use for individual parcels.

RECOMMENDATION 5: Develop a comprehensive appraisal program for review of properties that experience a decline in value.

The 1995 survey recommended applying reductions in value uniformly because the assessor inconsistently reduced assessments. Because decline in value reviews are initiated on an individual basis either by property owner request or by an appraiser, it is likely that properties deserving of

review will be missed. Interviews with assessor's staff indicate that they do occasional "neighborhood sweeps" in an attempt to discover all the properties that warrant a decline of market value or return to FBV. The staff realizes that this occasional sweep results in "spotty" compliance. We recommend the development of a comprehensive program to review larger areas of properties.

Taxable Possessory Interests

A taxable possessory interest (PI) is a private property interest in publicly owned real property. For property tax purposes, the term possessory interest includes either the possession or the right to possession of real property when a tax-exempt government agency holds the fee title of that property.

For 1998, the Kern County Assessor's Office enrolled 559 PI assessments with a total assessed value of \$116,812,594. For the 1999 roll year the number of PI's dropped to 550 with a total assessed value of \$108,855,457. This decline was partially a result of the depressed economy at the Mojave Airport, resulting in the termination of several leases.

RECOMMENDATION 6: Review all uses of the county fairgrounds to discover taxable possessory interests.

The State of California, Division of Fairs and Expositions, owns and operates county fairs throughout California. These fairgrounds are administered locally by several agricultural district associations. In Kern County, the 15th Agricultural District operates the annual Kern County Fair in Bakersfield.

The association rents space to groups and individuals—both public and private—for the 12 days of the county fair each year. Although the association issues annual permits, most concessionaires are invited to return each year. While county fair concessions have the continuity of possession necessary to establish a possessory interest as outlined in Property Tax Rule 22 (b)(2), no assessments have been made for fairground possessory interests.

As in our last survey, we once again recommend that the Kern County Assessor direct his staff to review and enroll these possessory interests—including off-track satellite wagering and events scheduled at the fairgrounds throughout the year.

RECOMMENDATION 7: Increase documentation on the possessory interest appraisal records.

A number of files we reviewed showed new PI assessments but contained no documentation indicating the capitalization rates or terms of possession considered in making those appraisals. Such data should be entered on the possessory interest record. This information is necessary when making reviews, preparing assessment appeals, and providing continuity of information when new personnel are assigned to appraise possessory interests.

We recommend that the assessor's staff increase documentation on possessory interest records by noting all data regarding rents, capitalization rates, anticipated terms of possession, and calculations of possessory interest values.

RECOMMENDATION 8: Review improvement-only possessory interests for escape assessments.

We reviewed the possessory interest assessment roll and found 19 properties with improvement-only assessments. Upon further review, we learned that only the leasehold improvements were being assessed. Those improvements consisted of hangars at the Kern Valley Airport having base year assessments dated 1985 and earlier. Their assessments were based on the cost of the hangars. Although the improvements were properly assessed, we believe that there should be an assessment for the land as well.

A taxable possessory interest is a private right to use publicly owned real property. The user of the hangar either obtained the right to build the hanger on publicly owned land or is leasing both the land and the hangar from the public entity. In either case, the land on which the hangar is located is also subject to possessory interest assessment.

We recommend that the assessor review all improvement-only PI assessments for escape assessments.

Taxable Government-Owned Property

Article XIII, section 11 of the California Constitution exempts from taxation those properties owned by local governments—except those properties located outside the local government's boundaries that were taxable when acquired. These lands are commonly referred to as Section 11 properties.

In 1995, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to Section 11 properties, *City and County of San Francisco v. County of San Mateo, et al* (1995) 10 Cal.4th 554. Prior to this decision, these lands were assessed at the lower of either their fair market value or the 1967 taxable value of the land multiplied by the factor described in Section 11. For Kern County, the Court's ruling means that such property must be assessed using the lowest of (1) the current fair market value, (2) the 1967 taxable value of land multiplied by the factor described in Section 11, or (3) the article XIII A factored base year value.

Kern County has a total of 226 Section 11 properties. All Section 11 properties are identified by use code 6200, and those files are segregated for filing and processing. One appraiser is responsible for all Section 11 properties. That appraiser is also responsible for discovering taxable government-owned properties.

RECOMMENDATION 9: Develop a program to discover all qualifying Section 11 properties.

Although we found that taxable government owned properties in Kern County are now being assessed in compliance with property tax laws, court cases and regulations, the assessor does not have a comprehensive discovery program to locate qualifying Section 11 properties.

One such program begins with a review of parcels with an assessed value of zero dollars. Parcels with zero values are usually tax-exempt and owned by government agencies. By comparing ownership and tax rate area codes we noted one parcel owned by a government agency that appeared to be located outside its boundaries but had not been assessed as a Section 11 property. We believe that the assessor should review the zero value assessment list and corresponding tax rate area codes as a means of discovering taxable government-owned property.

We recommend that the assessor develop a program to discover all Section 11 properties.

California Land Conservation Act Properties

An agricultural preserve is established under contract between a landowner and a county pursuant to the California Land Conservation Act of 1965 (CLCA). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting, communication facilities, etc.), and are assessed at the lesser of this restricted value, the current market value, or the FBVY pursuant to article XIII A of the California Constitution. Sections 422 through 430.5 deal explicitly with the valuation of lands subject to agricultural preserve contracts.

Kern County has more acreage subject to CLCA contracts than any other county. For the 1999-2000 roll year, there were 11,459 parcels in Kern County (1,676,079 acres) encumbered by CLCA contracts. Assessments of land and improvements under CLCA contracts for 1999-2000 totaled over \$867 million.

Our previous survey recommended that the assessor solicit information concerning oil exploration leases. The assessor has since revised the *Rural Property Income and Production Questionnaire* pertaining to non-producing oil and gas leases. This inquiry addresses the acres leased, date of negotiations, length of term, and income per acre.

CLCA properties in Kern County are assessed using a computer program. Drawing on data compiled by the appraisal staff, the program calculates the restricted value, market value, and base year value, making the required comparisons. Rents, risk rates, and market rates are derived by analysis of *Rural Property Income and Production Questionnaires*, interviews, *Preliminary Change of Ownership Reports*, and published material. The assessor is currently developing a computer program for the assessment of contracts in non-renewal.

We found Kern County's CLCA program to be well-administered and in compliance with the Revenue and Taxation Code.

Valuation of Income-Producing Properties

We reviewed 21 commercial and industrial property records consisting of shopping centers and industrial properties. For the majority of the properties that we reviewed—those with a change in ownership and a confirmed sales price—the assessor enrolled the sales price. Land comparables were used to allocate the reported sales price between land and improvements. We did find problems with coordination between the real and business property divisions.

RECOMMENDATION 10: Improve coordination between the real and business property divisions.

Schedule B of Form 571 (Business Property Statement) requires taxpayers to report land, land improvements, structures, and fixed improvement costs. Auditor-appraisers in the business property division review the costs to determine which fixed improvements are assessable by the business property division; they then forward the remaining improvements cost information to the real property division for assessment. When performing an audit, the auditor-appraiser will also forward information on fixed assets account analysis to the real property division.

While the business property division appears to process these situations thoroughly, we note no coordination with the real property division creating the possibility of over- and under-assessments. For example, the business property division may enroll new construction values that are already assessed by the real property division. Taxpayers may have reported real property items such as bathroom fixtures as fixture items. In other situations, the real property division may determine that certain items should be assessed as business personal property and assume that the business division will include those items in their assessment. Without good coordination, there is a risk of over- or under-assessment.

We recommend improved coordination between the business and real property divisions.

Water Companies

Water company property on the local assessment roll may be municipal district water systems, private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water companies. Each type presents different assessment problems.

Municipal Water Systems

We found the parcels owned by the municipal water systems located within city limits or district boundaries to be handled correctly. The parcels were exempt from taxation under article XIII, section 3(b) of the California Constitution.

Mutual Water Companies

A mutual water company is a private association of persons created for the purpose of providing water at cost to its members or stockholders. Kern County has 48 mutual water companies. We found them to be assessed correctly.

Private Water Companies Regulated by the California Public Utilities Commission

Private water companies are investor-owned, for-profit utilities in the business of selling water; they are subject to regulation by the California Public Utilities Commission (CPUC) and therefore, must submit annual financial reports to the CPUC.

RECOMMENDATION 11: Consider the income approach in valuing private water companies.

In the appraisal of regulated private water companies, the assessor uses two approaches to value: the sales comparison approach and the historical cost less depreciation approach. Comparable sales are tracked and analyzed, while the annual reports filed by private water companies are obtained and analyzed for use in the Historical Cost Less Depreciation (HCLD) method.

Because private water companies are income-producing properties, we believe that an estimate of value by the income approach may provide a very important indicator of value, especially for those properties where comparable sales are unavailable. We recommend that the assessor consider the income approach to value in addition to the sales and HCLD approaches. Income data can be obtained from the same CPUC financial report used to develop the HCLD estimate of value.

Procedures

RECOMMENDATION 12: Develop written procedures for assessing water companies.

While the appraisers who assess properties owned by water companies perform their task well using accepted appraisal and assessment practices, they lack formal procedures to guide their work.

Assessment of properties owned by water companies is complicated. Without written procedures, the staff members who perform this work lack an authoritative resource to direct their efforts. We believe that development of step-by-step written procedures would describe their duties and responsibilities and facilitate transition should a change in staff occur.

Petroleum Properties

Kern County produces the largest amount of petroleum in the state; petroleum properties represent about 31 percent of the county's property tax roll. The sale of the Elk Hills Petroleum Reserve by the federal government added substantially to this amount; a large part of that reserve was previously tax-exempt.

Price Forecasts

At the suggestion of some Kern County taxpayers, we investigated how the assessor's staff determines its price forecasts of the crude oil extracted from wells in that county.

Each year, the assessor requests information from various property owners in the county regarding their product price and inflation forecasts. Although the assessor's 1999 oil price forecast appeared extremely aggressive given the direction and nature of crude prices on the lien date, their projection accurately reflected the forecasts submitted by property owners in the annual survey. While this material is submitted prior to the lien date, the property owners are permitted to update the information, if necessary, after the lien date.

Discount Rate Selection

At the suggestion of some Kern County taxpayers, we also investigated how the assessor's staff selects the discount rates used to convert projected income streams into an opinion of value.

When selecting a discount rate, in addition to established appraisal practices, the assessor's staff also uses subjective analysis to determine the different levels of risk for petroleum-producing properties. Those properties that demonstrate steady production, a well-established decline rate, and limited future development plans are perceived to be good quality properties; thus they fall into the lower risk range of discount rates. Properties with erratic production, or extensive future development plans or little production history are perceived to be high risk. Marginal properties also fall into this category. Those properties that do not fit into either extreme are classified as average risk properties.

The assessor's decision this year to switch from nominal rates to real rates caused some concern to taxpayers. In that process, inflation was taken out of the cash flow analysis. Although the direct result appears to be lower discount rates, that did not occur. As long as the assessor makes proper adjustments to the cash flow analysis, values determined using real rates will be equivalent to those determined using nominal rates. Assuming an anticipated inflation of 3 percent, the rates used by the assessor are equivalent to nominal rates of 11 percent to 20 percent, excluding the property tax rate component. A quick review of the assessor's petroleum appraisals indicates that the majority of rates used for the appraisals are from 12 to 16 percent (real).

Except as specifically noted below, Kern County's overall procedures appear to comply with BOE-prescribed methods and rules.

Minimum Property Values

RECOMMENDATION 13: Revise the valuation method for non-producing petroleum-properties.

In the past, the assessor had established a minimum assessed value for mineral rights measured on a per-well basis. As documented in the assessor's procedures manual, the office has continued this practice. The assessor's response to the last survey indicated that minimum values are a reasonable alternative to the valuation of marginal properties and stated an intention to continue this practice. The assessor contends that the minimum value assessments take into consideration oil field equipment, its condition, and surface facilities. Our recommendation represents a continuing debate with the assessor over the use of arbitrary minimum assessments.

The assessor's staff bases its minimum mineral right assessment on a non-producing lease rent of \$10 per acre, on a ten-acre well site, capitalized at an arbitrary capitalization rate of 10 percent. As stated in the assessor's procedures manual, an idle well's value is added to this mineral right assessment and the total is allocated 70/30 between land and improvement. To that sum, the value of any additional surface equipment and personal property is then added, to arrive at the roll value.

Although the BOE staff recognizes the assessor's desire to account for non-productive wells that may still have value, we believe that the assessor should use a market derived capitalization rate rather than an arbitrary rate without documentation.

Beyond concerns regarding the use of an arbitrary capitalization rate, the assessor's procedure fails to address properties where there is more than one well for every ten acres, a common occurrence in heavy oil fields. The assessor's hypothetical idle property—on which the minimum value is based—is a shut in, one-well lease, on ten acres. Assuming two and one-half acre spacing (four wells per ten acres) the assessor's method would assess the mineral rights at \$4,000 for the same ten acres that it would assess at \$1,000 if it had only one well. On properties where the well spacing is greater than one well per ten acres, i.e., 40-acre spacing, the assessor's method may understate the value of the mineral rights. The assessor's assumption of a specific number of wells per acre makes for an arbitrary mineral right measurement.

The assessor's method also fails to address the issue of abandonment liability for the wells. Abandonment and cleanup liability is a major concern of petroleum producers in California. These costs are recognized as a liability on producing properties. The same should be true for idle property.

We recommend that the assessor develop a valuation procedure for non-producing petroleum properties that is based on acreage rather than well count, use market derived capitalization rates, and properly account for abandonment costs.

Abandonment Costs

RECOMMENDATION 14: Properly account for abandonment costs in cash flow analysis of petroleum producing properties.

In our prior survey, we recommended that the assessor include abandonment costs of wells when using the income approach to value petroleum properties. If an operator provided abandonment costs in response to the assessor's request for information, the assessor included them in the cash flow. If the operator did not include that information, the assessor did not make an estimate.

The assessor now includes abandonment costs in cash flow analysis. However, if the operator has not provided what the assessor feels is a reasonable abandonment plan, appraisers are directed to enter these costs in the cash flow one to five years after the economic life of the property has expired.

With regard to abandonment costs, the assessor's 1999-2000 *Oil & Gas Division Appraisal Parameters Report* shows that the assessor is not complying with Assessors' Handbook

Section 566, *Assessment of Petroleum Properties* (AH 566). The assessor has taken the position that if a property owner has not submitted a reasonable abandonment plan, then abandonment costs should be entered into the cash flow analysis from one to five years **after** the economic limit of a property has been reached. The BOE, through its publication of the AH 566, has directed that abandonment costs be accounted for when the property reaches its economic limit, not afterwards. (AH 566, Page 8.)

The Kern County Assessor continues to disregard the BOE's guidance regarding abandonment expenses. The assessor's method of postponing recognition of abandonment costs reduces the discounted value of those expenditures; in our opinion this practice results in overassessments. (See AH 566, Page 8-6, for a description of the proper procedure for recognizing abandonment expenses in a cash flow analysis.)

Cogeneration

In 1999, the California Energy Commission reported approximately 40 cogeneration facilities in Kern County. Some of these cogeneration facilities operate in conjunction with oil field operations, while others are usually connected to industrial facilities. Cogeneration facilities produce two products-steam and electricity. They are typically appraised using the income approach to value. In many cases, the primary reason for building the facility was the need for steam or heat as it relates to some other process. Electrical generation was typically a secondary consideration and not practical until the 1978 PURPA Act. After passage of this act, electric utility companies were required to buy excess electricity from these facilities. In some cases, all electricity generated is used by an associated operation, none of it going to the power grid. In other cases only the steam is used at the host facility, while all of the electricity is sold to the power grid.

RECOMMENDATION 15: Develop capitalization rates for cogeneration facilities independent of the primary use of the associated property.

The Kern County Assessor has established procedures for valuing cogeneration facilities. Although the assessor promotes the use of the three standard approaches to value, the income approach is recognized as the primary appraisal method. A review of the procedures manual for cogeneration facilities reveals an equalization problem. On page 310, Section C, the discount rates to be used in the cash flow analysis are discussed. The manual provides that the discount rate used for facilities assessed as part of an oil field, is the same as the one used for the field; however, for independently owned and operated facilities it states that the discount rate should range from 13% to 17%.

The risks associated with electrical production are unique and separate from those associated with the production of oil and gas. Differences in those risks should be reflected in the discount rates used in the discounted cash flow analysis of cogeneration properties. The assessor's procedures manual raises an equalization problem. In essence, all the facilities share the same risks of generating electricity and steam. However, for cogeneration facilities owned by petroleum companies, petroleum risk is substituted for cogenerating risk. Discounted cash flows should be

evaluated using rates similar to the returns that investors in the cogeneration industry would expect.

We recommend that the assessor develop capitalization rates for cogeneration facilities independent of those properties' primary uses.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The business property division of Kern County Assessor's Office has an annual workload of over 13,000 property statements, an average of 200 audits, and approximately 1000 aircraft and 4000 boat assessments. They complete this annual workload with a staff of one chief, two supervising auditor-appraisers, 12 auditor-appraisers, and nine clerical support staff. The office has added one business property position using PTAP funding.

Business Property Statement Program

Revenue and Taxation Code section 441 requires each person owning taxable personal property in excess of \$100,000 to file an annual property statement with the assessor. Annual property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including businesses, agriculture, boats, and aircraft.

It is difficult for the assessor's staff to estimate accurately the statement upon its receipt. Therefore, when we reviewed the property statement processing activity, we made no attempt to measure the level of taxpayer compliance.

We reviewed the assessor's property statement processing procedures and a sample of property statements. We found no problems in the assessor's processing of property statements. Property statements had the appropriate signatures, the calculations were accurate, and the statements were processed correctly.

Arbitrary Assessments

Section 501 provides the assessor with a remedy for taxpayers that fail to file an annual property statement:

If after written request by the assessor, any person fails to comply with any provision of law for furnishing information required by Sections 441, and 470, the assessor, based upon information in his possession, shall estimate the value of the property and based upon the estimate, promptly assess the property.

In addition to the arbitrary assessment described above, section 463 provides for enrollment of a 10 percent penalty on the value of the unreported taxable tangible property.

RECOMMENDATION 16: Inspect or audit the property of every arbitrary assessment within four years of non-filing.

After an arbitrary assessment, the assessor's staff should visit and inspect the premises of every non-filer within four years of non-filing. During our interview with assessor's staff, the staff stated that their recent reorganization would restore some of the manpower necessary to implement this procedure. We recommend that the assessor's staff follow up every arbitrary assessment with an inspection or audit within four years of non-filing.

Valuation of Business Personal Property

Assessors' offices use business property value factors that are produced by combining replacement cost equipment index factors (trend factors) with percent good factors. The BOE has developed annual equipment index factors and percent good factors; these are published in Assessors' Handbook Section 581 *Equipment Index Factors* (AH 581).

RECOMMENDATION 17: Use the BOE's equipment index factors as intended.

In our previous survey, we recommended that the assessor's staff use the BOE's equipment index factors properly. However the assessor's staff continues to average the commercial equipment index factors from AH 581, so as to develop one full value factor for all classes of commercial equipment. Using an average of the various equipment indices sacrifices accuracy for convenience. This practice can lead to inaccurate valuations of certain classes of commercial equipment and inequitable treatment of taxpayers.

Again, we recommend that the assessor's business property staff use the BOE equipment index factors as intended. Although the overall roll may reflect only minor differences, this practice sacrifices the accuracy of each individual account.

Audit Program

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more for four years. The business division has a total workload of approximately 730 mandatory audit accounts. For 1999-2000 alone, the audit load is approximately 190 audits, of which 59 are held over from previous years.

RECOMMENDATION 18: Bring the mandatory audit program to a current status.

The mandatory audit program is one of the main functions of the business property division. It verifies taxpayer reporting on the largest business property accounts and helps to prevent potentially large errors. The business property division has 59 unfinished audits from previous years. The assessor's staff reduced the backlog from 124 last year to 59 this year; they anticipated that there will be zero backlog by the end of the 1999-2000 fiscal year. Since the backlog still existed at the time of our fieldwork, we repeat our recommendation that the mandatory audit program be brought to current status.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

RECOMMENDATION 19: Expand the nonmandatory audit program.

The assessor needs to maintain proper reporting on the business property statements of nonmandatory audit accounts and habitual non-filers. One effective method is to expand the nonmandatory audit program. The assessor's staff has implemented a nonmandatory program only to the extent that a subject entity is related to a mandatory audit account. Accordingly, we recommend that the assessor expand the nonmandatory audit program to include a random sampling of accounts, special problem accounts and repeat non-filers.

Statute of Limitations

Section 532 requires that an escape assessment discovered during an audit must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. As authorized by section 532, if the assessor cannot complete an audit within the prescribed time, the assessor may request a waiver of the statute of limitations from the taxpayer to avoid possible loss of revenue.

RECOMMENDATION 20: Obtain a signed waiver of the statute of limitations when an audit will not be performed timely.

The business property staff requests waivers of the statute of limitations only when an audit is in process. They do not request waivers from taxpayers whose audits have not been performed timely. By failing to request a waiver, the assessor's staff may allow taxable property to escape assessment. We recommend that the assessor's staff seek waivers of the statute of limitations in all situations where audits will not be completed on time. Any taxpayer or entity refusing to sign a waiver should receive priority when scheduling audits.

Valuation of Other Taxable Personal Property

Boats and General Aircraft

Prior to the 1997 lien date, the BOE had published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook section. On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. As stated in Letter To Assessors 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

To appraise aircraft, the assessor's staff uses two methods. Most aircraft are appraised using a computer program created by the same company that publishes the *Aircraft Blue Book Price Digest*. This program allows the user to make appropriate adjustments for variances in engines, aircraft navigational equipment and avionics, and overall condition. When sales data are available—and the subject sales price is within the value range indicated in the *Aircraft Blue Book Price Digest*—aircraft are also appraised using sales data. The assessor's staff implemented this

procedure after our previous recommendation to make annual engine hour adjustments when appraising private aircraft.

RECOMMENDATION 21: Apply the 10 percent penalty to all non-filers of aircraft statements.

To request the information necessary for aircraft assessments, the assessor's staff mails a bi-annual *Aircraft Report* to aircraft owners. When a taxpayer fails to return the statement within the time specified, the assessor's staff does not apply the 10 percent penalty as required by section 5367. We recommend that the 10 percent penalty for all non-filers of aircraft statements be applied.

RECOMMENDATION 22: Field check aircraft when owners request a reduction in assessment.

The assessor's staff does not perform physical inspections of any aircraft. Upon a request by an aircraft owner for reduction in assessment, we recommend that one of the assessor's staff visually inspect the aircraft. An inspection will provide the staff with important information about the condition, engine hours, and other factors vital to an accurate assessment.

RECOMMENDATION 23: Consider make, model, and engine differences when appraising all boats.

The assessor's staff values older boats and boats with a value of less than \$10,000 using a table that considers only the age and length of the boat, while the other boat appraisals are based on make, model, and engine data.

In our last survey, we recommended that the assessor's staff discontinue the appraisal of *any* boat using only a boat's age and length as the determining factors of value. One way to implement this recommendation is to categorize all boats. These categories could include new or used, sailboat, inboard, outboard, and personal watercraft. Market data can then be analyzed to determine the applicable depreciation percentages for each category. These percentages can then be used to adjust the previous year's value. An original valuation upon change of ownership would be based on the purchase price or the market guides. Since our previous survey, the assessor's office has not fully implemented this recommendation. We recommend that the assessor's staff consider make, model, and engine differences when appraising all boats.

RECOMMENDATION 24: Use the BOE-prescribed pleasure boat property statement.

When a boat changes ownership or attains situs in Kern County, a *Boat Information Form* is mailed to the owner requesting the necessary assessment information. This form, while an effective assessment tool, is not a BOE-prescribed form. Penalty assessments cannot be applied for the failure to file a non-prescribed form. We recommend that the assessor's staff use the BOE-prescribed form for pleasure boats.

Manufactured Homes

There are approximately 16,300 manufactured homes on the assessment roll in Kern County. Although the assessor should classify most manufactured homes as personal property, their assessment—in most respects—falls under the same standards as real property subject to article XIII A. In the assessment of manufactured housing, the assessor relies on data provided by the Department of Housing and Community Development, building permits, and dealer sales reports.

RECOMMENDATION 25: Consider the values listed in recognized value guides in the assessment of manufactured homes.

The assessor's staff usually appraises manufactured homes at the homes' reported sales prices. They believe that the manufactured home parks in Kern County do not have any effect on the selling prices of the manufactured homes.

Sale prices of manufactured homes located on rented or leased land frequently include increments of value attributable to factors other than the manufactured home. Examples include site values, associated accessories, buildings, structures, or items of personal property. Site value is attributable primarily to location, such as the desirability of the park, space within the park, space size, etc. It is improper to include site value in the assessed value of a manufactured home that is located on rented or leased land.

Section 5803(b) provides that the assessor shall take into consideration manufactured home sales prices listed in recognized value guides. Letter To Assessors No. 93/35 recommends documentation on the appraisal record of the value guide relied upon and the value indicated by the guide. In order to recognize site value, we recommend that the assessor consider the values listed in recognized value guides.

RECOMMENDATION 26: Apply the CCPI inflation factor to the base year value of all manufactured homes, without regard to the ownership of the underlying land.

On the lien dates subsequent to a change in ownership, or the enrollment of a new manufactured home, the assessor's staff does not apply the annual inflation factor to those homes located on rented land, or in manufactured home parks. Under section 51, application of the CCPI inflation factor to base year values is mandatory. The assessor should apply the CCPI inflation factor to all manufactured homes without regard to the ownership of the land on which the manufactured home is located.

RECOMMENDATION 27: Annually assess all manufactured homes at the lesser of their factored base year value or current market value.

Even during periods of economic stability the values of manufactured homes typically depreciate. This depreciation may cause the current market value of a manufactured home to fall below its factored base year value. At present, the assessor's staff does not have a program for the annual review of manufactured home assessments and has no plans to develop one. Their procedure is to not apply the CCPI inflation factor for subsequent lien dates and treat the base year value as the

current market value. However, this does not accurately measures the current market value of the manufactured home. The assessor should develop a program to annually assess all manufactured homes at the lesser of their factored base year value or current market value.

APPENDIX

A: County Property Tax Division Survey Group

Kern County

Survey Program Director:

Charles Knudsen Chief

Survey Team Supervisor:

Arnold Fong Supervising Property Appraiser

Survey Team Leader:

Michael Lebeau Supervising Property Appraiser

Survey Team:

James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Robert Donay	Associate Property Appraiser
Les Morris	Associate Property Appraiser
Raymond Tsang	Associate Property Auditor-Appraiser
Denise Owens	Tax Technician II
Julius Trujillo	Tax Technician II

B: Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may 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 BOE'S FINDINGS

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

The Kern County Assessor's response begins on the next page.

RICHARD R. RUSSELL
Assistant Assessor-Valuation

PHILIP BURCH
Assistant Assessor-Systems Control

SHARON CLARK
Assistant Assessor-Recorder

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SEP 15 2000

September 11, 2000

State Board of Equalization
Property Taxes Department
450 N Street, MIC: 63
Sacramento, CA 94279-0001

Re: Assessment Practices Survey - County of Kern

Attn: Richard C. Johnson, Deputy Director

Dear Mr. Johnson:

In accordance with Sections 15645 of the California Government Code, I am including herewith the Assessor's Response to the State Board of Equalization's Assessment Practices Survey of Kern County.

Overall the Survey Report reflects the high quality of the assessment practices in Kern County and supports my goals in conducting an efficient operation which meets all statutory requirements and provides the best possible service to the citizens of Kern County. Though I am in agreement with most of the Board's recommendations, there are some which I feel are impractical or unfeasible. As you will note in my response, most of your recommendations are already being implemented and others will be as soon as feasible to the extent that time and personnel resources are available.

Thanks to AB 818 and AB 719 funding, we are now able to address most of the issues noted in this Report. Funding for mandatory audits, escaped assessments, litigation funding for petroleum-related properties are now available and the results have had a major influence on the Assessor's ability to provide the level of service which the citizens of Kern County are entitled to.

Mr. Richard C. Johnson
September 11, 2000
Page Two

I wish to acknowledge and thank the employees of the Assessor's Office for their dedication and hard work in providing outstanding services to our community. I would also like to thank Charles Knudsen, Arnold Fong and Mike LeBeau and the remainder of the State Board's Survey Team for the professional manner in which the Survey was conducted.

Sincerely,

A handwritten signature in cursive script that reads "James W. Maples". The signature is written in black ink and is positioned above the printed name and title.

JAMES W. MAPLES
Kern County Assessor-Recorder

JWM:kc
enclosure

Kern County Assessment Practices Survey Recommendations & Responses

Recommendation #1: Apply the penalty for a failure to file a Change in Ownership Statement as prescribed in Section 482.

Response: Our local ordinance requires that the buyer file a Preliminary Change in Ownership Statement for specific recorded documents. Compliance is quite good. If someone fails to file this Statement, we send a Change in Ownership Statement. We send a second one if the first one is not returned within a stated time period. Our overall rate of compliance is very good. We agree that penalties should be applied in an attempt to insure 100% compliance. However, this will require substantial programming costs for a relatively small number of instances of non-compliance. We will devote funds towards this project as they become available.

Recommendation #2: Ensure the reappraisal of all real property owned by legal entities that have experienced a change in control.

Response: We have developed an Excel spreadsheet to track all LEOP changes in ownership until the completion and implementation of our Commercial Appraisal Management System. The supervisor will monitor this to insure that all properties identified on the LEOP report are reviewed for reappraisal.

Recommendation #3: Review Business Property Statements to discover legal entities that have experienced changes in control.

Response: We concur with this recommendation. This recommendation will be implemented for the next processing season.

Recommendation #4: Implement a written policy for making cash equivalent adjustments.

Response: We will integrate the cash equivalency procedures defined in AH 503 into our Appraisers' Manuals.

Recommendation #5: Develop a comprehensive appraisal program for review of properties that experience a decline in value.

Response: Several years ago we developed a Proposition 8 computer program that allows us to be very aggressive in identifying potential Prop. 8 candidates. It also assists us in determining what areas under Prop. 8 status may need value adjustments upward. We attempt to review all properties in an area where declining values are identified. We have completed over 30,000 Prop. 8 reviews. We are in the process of raising Prop. 8 values due to an upturn in our local economy. Our existing Prop. 8 program has been proven to deal effectively with declines in value and subsequent increases.

Recommendation #6: Review all users of the county fairgrounds to discover taxable possessory interests.

Many of the longstanding tenants of the County fair are exempt organizations, i.e., Boy Scouts, Bakersfield Association of Retarded Citizens, church groups, etc. These groups would be entitled to exemptions that would offset the enrollment of these possessory interests. The Assessor will investigate the possible possessory interests that exist on the Kern County fair properties.

Recommendation #7: Increase documentation on the possessory interest appraisal records.

Response: We agree that we can improve our documentation and we will take steps to do so.

Recommendation #8: Review improvement-only possessory interests for escape assessments.

Response: We agree and we are currently addressing this problem.

Recommendation #9: Develop a program to discover all qualifying Section 11 properties.

Response: We do have a discovery program for Section 11 properties and we have created a use code for all Section 11 properties. We have incorporated the annual review of all zero value properties into our Section 11 discovery process per this recommendation. Our prior discovery program was fairly effective, as we missed only 1 property that should have been assessed under Section 11.

Recommendation #10: Improve coordination between the real and business property divisions.

Response: We have made property statements available on-line to the Commercial/Industrial staff in order to improve communication and coordination. The Business staff will have on-line access to our Commercial Appraisal Management System when it is implemented. We also have a Special Properties Division composed of both real property and auditor-appraisers to deal with the more complex property types. We have a transmittal form that is used between divisions and we will improve the follow-up of this form. Our goal has been to improve coordination and we have been proactive in that regard.

Recommendation #11: Consider the income approach in valuing private water companies.

Response: (#11 continued.....)

Response: We concur with this recommendation. This recommendation will be implemented when the revised AH 542 (Assessment of Water Co.) becomes available.

Recommendation #12: Develop written procedures for assessing water companies.

Response: We concur with this recommendation and will develop written procedures when the new AH 542 manual becomes available.

Recommendation #13: Revise the valuation method for non-producing petroleum properties.

Response: The mineral rights portion of the total value of a marginally producing or shut-in property is estimated at \$1000 per equipped well. This value is not allocated to land and improvements as indicated by the S.B.E. The estimated replacement cost of well and surface equipment is added to the mineral rights value on an allocated 70/30 land/improvement split to reach the total value for the property. Total acreage is not considered in the method of determining the mineral rights value. The base mineral rights value of \$1000 per equipped well has been characterized as based on a direct capitalization of a lease rent of \$10 per acre of a ten-acre site at 10%. While silent on the proper method for accurately measuring the value of the mineral rights portion of a marginal property, the SBE asserts that a higher discount rate should be used. Using a rate of 20% instead of ten from the SBE suggested range of 19 to 23 would produce a mineral rights only value of \$500 per well instead of \$1000. As a component of the total value, this change is not significant. The method for appraisal of marginal and shut-in properties does not address the issue of abandonment costs. We will review our cost database and consider adjustments to account for anticipated abandonment costs.

Recommendation #14: Properly account for abandonment costs in cash flow analysis of petroleum producing properties.

Response: We account for abandonment costs when they are anticipated to occur. This is consistent with the requirements of Board Rule 8 (c) and the decision in *Dominguez Energy, L.P. v. County of Los Angeles*. If the history of the operation of a petroleum producing property indicates that an ongoing abandonment program is reasonably anticipated, then that is incorporated into the calculation of the discounted cash flow. This is most typical in the larger properties with a large number of idle wells. In the cases of medium to smaller size properties, evidence from sales and operator forecasts suggest that the abandonment costs will be deferred as long as possible, including beyond the economic life of the income stream.

Recommendation #15: Develop capitalization rates for cogeneration facilities independent of the primary use of the associated property.

Response: We believe that this recommendation is based on faulty assumptions and is incorrect. Cogeneration plants in Kern County essentially fall into two groups, Oil Company Plants and Independent Plants. A summary of the characteristics of these two groups is outlined below:

Oil Company Plants	Independent Plants
Primary purpose is to produce steam for oil production.	Primary purpose is to sell electricity.
A large percentage of the plant's energy goes to steam.	A small percentage of the plant's energy goes to steam.
Owned and operated as part of the oilfield.	Owned and operated separately from the oilfield.
The oilfield usually uses a large percentage of the electricity produced.	All electricity is sold.
Operating expenses are intermingled with the oilfield.	Ownership is separate from the oil company. Operating expenses are booked separately.
When these properties sell, the cogen is included with the oilfield. The buyer's cashflow is a consolidated look at the entire property. There is no separate cashflow for the cogen.	These cogens are sold independent from the oilfields. The buyer's cashflows are for the cogen alone.
Very often the cogen will have a negative net income when separated from the oilfield due to the fact that electricity and/or steam is self-used by the oilfield.	These cogens always operate with a positive net income. Steam and electricity are sold at market rates.
The value of the cogen is usually a small percentage of the value of the entire field.	The value of the cogen is the entire value of the appraisal unit.

Clearly in the case of Oil Company Plants, the entire oilfield including the cogen is the appraisal unit that persons in the marketplace commonly buy and sell as a unit. Discount rates for these plants must be derived from sales of other oil fields.

On the other hand, Independent Plants are bought and sold independently from the oil field. Discount rates for these properties should be derived from sales of other independent power plants.

Response: (#15 continued.....)

The survey recommends that all cogeneration plants should be valued using discount rates derived from sales of cogeneration plants. Since Oil Company Plants typically have no separate cash flow projections, the rates must be derived from sales of Independent Plants. Unfortunately the survey is under the mistaken belief that the same discount rates and risks exist for both types of plants. This is stated on page 25 which states: "*all facilities share the same risks of generating electricity and steam.*" We do not agree with this statement. These two types of plants are designed and operated differently.

They do not share the same risks.

For an Oil Company Plant, changes in electricity prices don't significantly change the value of the appraisal unit. The revenue from oil sales is typically so much larger than the electrical expense that the effect on net income is negligible. The primary purpose of the plant is to generate steam to produce oil. These plants are generally operated without regard to market electricity prices. They are operated to maximize oil production not electrical income.

On the other hand, Independent Plants rely on income from electrical sales as their primary source of income. Any change in electrical prices can have a significant impact on the value of the plant. Most Independent Plants limit steam production to the minimum allowed levels under their contracts.

Just because a piece of equipment is located on an industrial property doesn't make that piece of equipment an appraisal unit (Stated in R & T 51(d)) as follows:

For the purposes of this section, "real property" means that appraisal unit that persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately.

Recommendation #16: Inspect or audit the property of every arbitrary assessment within four years of non-filing.

Response: We would like to implement this procedure and, in fact, have it in our processing manual. However, due to staffing limitations we are unable to initiate these inspections or audits at this time. As staff becomes available we intend to implement this procedure.

Recommendation #17: Use the BOE's equipment index factors as intended.

Response: We concur with this recommendation. This recommendation will be implemented next processing season. Through automation, last season, we made inroads individualizing the equipment index factors by separating out office, agricultural, and construction index factors from our average trend utilized in most business valuations. Next year through additional programming and automation, we plan to utilize the entire table of equipment index factors as intended.

Recommendation #18: Bring the mandatory audit program to a current status.

Response: We concur with this recommendation. We have already brought our mandatory audit program to current status last year with the signing of 20 waivers. We will complete our mandatory number this year including the waived accounts.

Recommendation #19: Expand the non-mandatory audit program.

Response: We concur with this recommendation. With the catch-up of the mandatory audits, this will afford us the opportunity to expand the non-mandatory program.

Recommendation #20: Obtain a signed waiver of the statute of limitations when an audit will not be performed timely.

Response: We concur with this recommendation. We have already implemented this procedure due to our catch up in the mandatory accounts.

Recommendation #21: Apply a 10 percent penalty to all non-filers of aircraft statements.

Response: We concur with this recommendation. This recommendation was already implemented during the last processing season.

Recommendation #22: Field check aircraft when owners request a reduction in assessment.

We concur partially with this recommendation. We feel an inspection is not warranted on all requested value reductions such as engine time or required annual inspections. However, we will physically inspect the aircraft for damage or condition that can not be documented.

Recommendation #23: Consider make, model, and engine differences when appraising all boats.

Response: We concur partially with this recommendation. Approximately two-thirds of our boats are valued using make, model, and engine differences. The other one-third are valued using a "table" based upon year and length. This table is mainly used for jet skis and non-blue booked boats. These boats are not of substantial value and we feel the values are in an acceptable range. However, we have plans to automate all boat assessments using make, model and engine differences.

Recommendation #24: Use the BOE-prescribed pleasure boat property statement.

Response: We concur with this recommendation. We will implement the boat property statement next processing season.

Recommendation #25: Consider the values listed in recognized value guides in the assessment of manufactured homes.

Response: We have value guides and other publications for use in valuing manufactured homes. These guides, along with published construction costs for associated accessories are considered when valuing manufactured homes. These tools are used along with local sales data to determine if the sales price is influenced by site, accessories, other structures or personal property. The appraiser then allocates the appropriate value to items that contribute to the total value. The manufactured home is usually the largest value contributor and often stands alone as the only contributor to value. As recommended, we will continue to consider recognized value guides and publications when valuing manufactured homes.

Recommendation #26: Apply the CPI inflation factor to the base year value of all manufactured homes, without regard to ownership of the underlying land.

Response: At this time we have no data that indicates that manufactured homes located on rented land or in parks appreciate in value. In fact, they depreciate. We essentially do a mass Prop. 8 on mobile homes by not adding the inflation factor. Staff limitations make this the most efficient method of dealing with the obvious decline in values of mobile homes. Accordingly, we will not apply CCPI factor to such property.

Recommendation #27: Annually assess all manufactured homes at the lesser of their factored base-year value or current market value.

Response: By not adding the CCPI to mobile homes, we essentially do a mass adjustment for declines in value. Our Prop. 8 program is also used to review the values of specific manufactured homes. Appraisers monitor their own assigned areas and attempt to review all properties in an area where declining values are identified.

BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Kern County Assessor elected to incorporate his response to the BOE's findings and recommendations in the published survey report. Section 15645 of the Government Code also allows the BOE to include, in the report, comments regarding the assessor's response.

Recommendation 26: Apply the CPI factor to the base year value of all manufactured homes, without regard to ownership of the underlying land.

The assessor states in his response to Recommendation 26 that "At this time we have no data that indicates that manufactured homes located on rented land or in parks appreciate in value. In fact, they depreciate. We essentially do a mass Prop. 8 on mobile homes by not adding the inflation factor. Staff limitations make this the most efficient method of dealing with the obvious decline in values of mobile homes. Accordingly, we will not apply CCPI factor to such Property."

Recommendation 27: Annually assess all manufactured home at the lesser of their factored base year value or current market value.

In his response to Recommendation 27, the assessor states that "By not adding the CCPI to mobile homes, we essentially do a mass adjustment for declines in value. Our Prop. 8 program is also used to review the values of specific manufactured homes. Appraisers monitor their own assigned areas and attempt to review all properties in an area where declining values are identified."

Revenue and Taxation Code section 5813 is very clear. It provides, as follows:

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:

- (a) Its base year value, compounded annually since the base year by an inflation factor, which shall be the percentage change in the cost of living, as defined in Section 2212, provided, that any percentage increase shall not exceed 2 percent of the prior year's value; or
- (b) Its full cash value, as defined in Section 5803, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value; ...

The assessor is not following the law. Section 5813 requires that after the base year value is determined, the value to be enrolled for any lien date is either the factored base year value or the current full cash value. In our survey, we found that the assessor's practice is to enroll these properties at their base year value and then continue to assess them at that value without applying the CCPI factor. This practice results in assessments that are at neither factored base year value nor current market value as required by statute.

The assessor responds that they adjust for declines in value by not applying the CCPI. This practice does not conform to any known method of appraisal. Section 5813 requires the assessor to take into account reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. Section 5803 requires the assessor to consider sales prices listed in recognized value guides. Holding the assessment at the original base year value cannot, except by remote coincidence, yield an assessed value that conforms to the requirements of sections 5803 and 5813.