MARIN COUNTY
ASSESSMENT PRACTICES SURVEY

JANUARY 2014

CALIFORNIA STATE BOARD OF EQUALIZATION

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TO COUNTY ASSESSORS:

MARIN COUNTY ASSESSMENT PRACTICES SURVEY

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

The Honorable Richard N. Benson, Marin County Assessor-Recorder-County Clerk, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Marin County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from January through February 2012. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

Enclosure
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INTRODUCTION

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

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

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

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

¹ This review covers only the assessment functions of the office.
SCOPe OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code2 section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Marin County Assessor-Recorder-County Clerk's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Marin County who provided 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 by Rule 371.

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

2 Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.
EXECUTIVE SUMMARY

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

Since our last survey, the assessor has made a notable improvement to the declines in value program. The assessor has developed and implemented a computer-assisted program to identify and value properties experiencing a decline in value. This program extracts sales data from a residential database and derives a rate of decline applicable to various residential neighborhoods. For the 2011-12 roll year, the assessor enrolled approximately 21,800 decline-in-value assessments using this program.

Many of our recommendations in this report concern portions of programs which are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, we noted that the assessor effectively manages staffing, workload, appraiser certification, and assessment appeals. However, we found improvement is needed in the staff property and activities program, as well as in the exemptions program.

In the area of real property assessment, the assessor has an effective program for changes in ownership. However, we found improvement is needed in the new construction, declines in value, California Land Conservation Act (CLCA) properties, taxable possessory interests, and mineral property programs.

In the area of personal property and fixtures assessment, the assessor has effective programs for audits, business property statements, business equipment valuation, and aircraft. However, we found improvement is needed in the manufactured homes and vessels programs.

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

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

Following is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.
RECOMMENDATION 1: Develop written procedures for the assessment of staff-owned property and the reporting of economic interests, and expand the written procedures for conflicts of interest.................................................................11

RECOMMENDATION 2: Improve the religious and church exemptions program by: (1) ensuring that only qualifying properties are granted the religious exemption, (2) ensuring use of the correct claim forms when granting the religious exemption, and (3) properly applying the provisions of sections 270 and 271 for exemption claims that are not timely filed...............15

RECOMMENDATION 3: Appropriately prorate the welfare exemption as of the date of acquisition in accordance with section 271. .........................17

RECOMMENDATION 4: Improve the disabled veterans' exemption program by: (1) granting the disabled veterans' exemption on a prorated basis for the initial qualification year in accordance with sections 276.1 and 276.2, and (2) terminating the disabled veterans' exemption as of the date the property is no longer eligible. .......................................................................................18

RECOMMENDATION 5: Improve the new construction program by: (1) properly classifying septic systems as structural improvements in accordance with Rule 124, (2) obtaining required information prior to granting new construction exclusions, and (3) enrolling all assessable new construction.........................29

RECOMMENDATION 6: Improve the declines in value program by including the value of excluded new construction in the full cash value estimate of a decline-in-value property. .................................33

RECOMMENDATION 7: Improve the CLCA program by: (1) using an appropriate income stream for capitalizing restricted tree and vine income, (2) valuing newly created homesites on land under CLCA contract pursuant to AH 521, and (3) using economic rent to estimate compatible use income when valuing CLCA property.................................34
RECOMMENDATION 8: Improve the taxable possessory interests program by:
(1) correctly calculating base year values for taxable possessory interests by including rent escalations in the value calculations when appropriate, (2) assessing all taxable possessory interests located at the county fairgrounds, (3) assessing only property classified as real property as taxable possessory interests, (4) reappraising taxable possessory interests in compliance with section 61(b)(2), (5) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (6) properly issuing supplemental assessments for taxable possessory interests, and (7) not cancelling a prior year's tax bill when a tenant vacates mid-year. .................................................37

RECOMMENDATION 9: Improve the mineral property program by: (1) identifying and enrolling all mineral properties in the county, and (2) applying Rule 469 to mineral properties with respect to depletion of mineral resource and measuring declines in value.................................................................42

RECOMMENDATION 10: Use current published cost guides to value manufactured homes and accessories. .................................................................48

RECOMMENDATION 11: Use a market derived procedure to value vessels and properly document the value determinations.................................51
OVERVIEW OF MARIN COUNTY

Marin County is located along the west coast of California, across the Golden Gate Bridge and north of San Francisco. The county encompasses an area of 828 square miles, which consists of 520 square miles of land and 308 square miles of water. Created in 1850, Marin County was one of California's original 27 counties. Marin County is bordered by Sonoma County to the northeast, San Pablo Bay and San Rafael Bay to the east, San Francisco Bay to the southeast, and the Pacific Ocean to the west.

As of 2011, Marin County had a population of 255,031.
Marin County has 11 incorporated cities: Belvedere, Corte Madera, Fairfax, Larkspur, Mill Valley, Novato, Ross, San Anselmo, San Rafael, Sausalito, and Tiburon. The county seat is San Rafael.

Located in Marin County is the Marin County Civic Center, which was designed by the famous American architect, Frank Lloyd Wright. Other points of interest include the Marin Headlands, Stinson Beach, Point Reyes National Seashore, and Mount Tamalpais State Park.
The following table displays information pertinent to the 2011-12 assessment roll:

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$27,097,629,328</td>
</tr>
<tr>
<td>Improvements</td>
<td>$28,930,978,579</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$87,317,218</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$184,948,611</td>
</tr>
<tr>
<td>Total Secured</td>
<td>$56,300,873,736</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$66,746,131</td>
</tr>
<tr>
<td>Improvements</td>
<td>$405,892,605</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$287,874,970</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$705,566,953</td>
</tr>
<tr>
<td>Total Unsecured</td>
<td>$1,466,080,659</td>
</tr>
<tr>
<td>Exemptions$3</td>
<td>($1,508,013,409)</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>$56,258,940,986</td>
</tr>
</tbody>
</table>

The next table summarizes the change in assessed values over recent years:$4

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>$56,258,941,000</td>
<td>0.8%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2010-11</td>
<td>$55,826,143,000</td>
<td>-1.5%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2009-10</td>
<td>$56,649,939,000</td>
<td>1.9%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>2008-09</td>
<td>$55,615,665,000</td>
<td>5.8%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>$52,574,988,000</td>
<td>6.7%</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

$3 The value of the Homeowners' Exemption is excluded from the exemptions total.
$4 State Board of Equalization Annual Report, Table 7.
ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, workload, appraiser certification, staff property and activities, assessment appeals, and exemptions.

Budget and Staffing

The following table shows the assessor's budget and staffing over recent years:

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>$6,249,504</td>
<td>-1.6%</td>
<td>56</td>
</tr>
<tr>
<td>2010-11</td>
<td>$6,352,556</td>
<td>0.5%</td>
<td>56</td>
</tr>
<tr>
<td>2009-10</td>
<td>$6,322,108</td>
<td>-1.6%</td>
<td>56</td>
</tr>
<tr>
<td>2008-09</td>
<td>$6,424,626</td>
<td>1.4%</td>
<td>56</td>
</tr>
<tr>
<td>2007-08</td>
<td>$6,336,078</td>
<td>4.2%</td>
<td>59</td>
</tr>
</tbody>
</table>

At the time of our survey, the Marin County Assessor's Office consisted of 56 budgeted permanent positions. Those positions included 4 assessor/other managers, 23 appraisers, 6 auditor-appraisers, 3 computer analysts/technicians, 3 cadastral draftspersons, and 17 support staff.

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

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5 These statistics were provided by the assessor subsequent to the survey. According to the assessor, the budget and staffing numbers the assessor reported for the BOE's annual A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices were reported incorrectly and did not accurately reflect the assessor's actual gross budget and staffing numbers.
As shown in prior tables, the total roll value has increased four of the past five years, most recently reflecting a slight increase. The gross budget has remained relatively stable over the same time period, most recently reflecting a slight decrease. During this same time period, the assessor's workload has been fluctuating. The number of reappraisable transfers due to changes in ownership and the number of assessment appeals filed have increased three of the past four years, most recently showing increases. The number of new construction assessments has decreased each of the last four years, while the number of decline-in-value assessments has increased each of the last four years.

These trends are shown in the following table:

<table>
<thead>
<tr>
<th>WORKLOAD DESCRIPTION</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reappraisable Transfers</td>
<td>4,178</td>
<td>4,096</td>
<td>3,748</td>
<td>3,623</td>
<td>4,880</td>
</tr>
<tr>
<td>New Construction Assessments</td>
<td>2,423</td>
<td>2,533</td>
<td>2,680</td>
<td>3,242</td>
<td>4,500</td>
</tr>
<tr>
<td>Decline-In-Value Assessments</td>
<td>21,769</td>
<td>16,408</td>
<td>12,612</td>
<td>2,957</td>
<td>507</td>
</tr>
<tr>
<td>Assessment Appeals Filed</td>
<td>841</td>
<td>818</td>
<td>1,207</td>
<td>742</td>
<td>256</td>
</tr>
</tbody>
</table>

**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. At the time of our survey, there were a total of 31 certified appraisers on staff, including the assessor; 22 held advanced appraiser's certificates. We found that the assessor and his staff possessed the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits met the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Marin County, the chief of assessment standards is responsible for ensuring that the certified appraisers on staff, including the assessor, fulfill their annual training requirements. To track training needs and courses completed, a spreadsheet is maintained for all certified staff. The spreadsheet is organized by fiscal year and shows the courses taken, along with the number of training hours received upon completion of each course. When the preliminary training reports are received from the BOE's Training and Certification Unit, the reports are checked against the assessor's spreadsheet to determine if there any discrepancies, such as missing courses or training credits. If any discrepancies are discovered, they are reported to the BOE for review and correction.

Training needs of the certified staff are primarily identified during the principal appraiser's review of staff's work. When a deficiency or need is noted, plans are made to enroll staff in courses deemed to expand knowledge and refresh familiarity with assessment issues. Staff are also registered for courses that will enable them to obtain an advanced appraiser certificate issued by the BOE.

We reviewed the training records of the assessor's certified staff and found the assessor's appraiser certification program to be well administered. We have no recommendations for this program.
Staff Property and Activities

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

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

The completion of Form 700 is an annual practice of the assessor and his staff for reporting economic interests. While the list of governmental officials required to file Form 700 does not include county assessors, in Marin County, the assessor annually files Form 700. In addition, both certified staff and non-certified staff are required to annually file Form 700. We found that the assessor and his staff completed Form 700 for 2011, and that the assessor duly reported this to the BOE. While we found the assessor and his staff to be in compliance with reporting economic interests, the assessor does not have written procedures for staff to annually report economic interests.

It is also the assessor's practice to annually request that all staff report whether they own any taxable property within the county and, if so, to include all activity, such as new construction or changes in ownership, having occurred during staff's employment at the county. In addition, staff is required to report any outside employment they are engaged in during the period of their employment with the county or during the prior calendar year. These reports are reviewed and maintained by the chief of assessment standards.

The assessor's written procedures dealing with conflicts of interest are limited. Currently, the assessor follows the guidelines set forth in the County of Marin Personnel Management Regulations (PMR) manual, which defines general standards of conduct for county employees. Included in these regulations is a standard of conduct regarding outside employment, which requires county employees to receive prior approval before obtaining outside employment in order to avoid potential conflicts of interest. Additionally, the assessor's General Office Manual includes a section on outside employment and references the county's standard on this issue. However, we found that both of these manuals have few written procedures on conflicts of interest.

The assessor has only an unwritten policy and no written procedures for reviewing the assessments of staff-owned property. Currently, value estimates of staff-owned property that are performed by staff are reviewed by an upper level staff member, such as an appraiser III or higher. Automated value estimates and value estimates initially performed by an appraiser III or higher do not require review. This review process is the same for all assessments, regardless of whether the assessment is for staff-owned property or not. In addition, the assessor informs staff
that the office policy is not to assess any property in which staff, a family member, or a friend has an interest.

We reviewed the assessor's procedures regarding staff property and activities, as well as the assessor's practices related to conflicts of interest and reporting economic interests. We also reviewed the assessor's practices related to the assessment of staff-owned property, which included reviewing several staff-owned property files. This review included any recent activity on the property since our last survey, such as new construction or changes in ownership. We reviewed recorded documents, claim forms filed for exclusions from reassessment, supplemental assessments, assessment roll changes, factored base year values, requests for informal reviews, and declines in value and found no issues. We found that all assessments had been completed by an appraiser other than the owner of the property and that the values enrolled were reasonable. We found no evidence that any staff member was directly involved in the assessment of their own property. We found that staff had adhered to the assessor's assessment and review policies. However, we found an area in need of improvement.

**RECOMMENDATION 1:** Develop written procedures for the assessment of staff-owned property and the reporting of economic interests, and expand the written procedures for conflicts of interest.

We found that the assessor has only unwritten policies and no written procedures addressing the assessment of staff-owned property and the reporting of economic interests, and that the unwritten policies are not as comprehensive as good business practices would expect. For example, the existing policy for the review of staff-owned property assessments does not require a higher level of review; the review process is the same for all assessments, regardless of whether the assessment is for staff-owned property or not. In addition, we found that while the assessor has written procedures for conflicts of interest, these procedures do not reference or incorporate the PMR, and they do not include procedures to track and document outside activities.

The assessor's unwritten policy of annually requiring each staff member to complete both Form 700 and a county-created form to report the ownership and status of all staff-owned property, as well as report any outside employment, is good business practice. However, written procedures are preferred because they are more easily tracked and can be referenced when questions arise; their existence commonly results in a greater degree of compliance.

Letter To Assessors No. 2008/058 was issued as a guide to assist assessors in establishing procedures relative to the assessment of staff-owned property. In addition, the issue of preventing conflicts of interest in assessors' offices has been statutorily addressed. Section 672 provides that certified employees must reveal their financial interests held in corporations and section 1365 prohibits assessors and their employees from engaging in remunerative employment that would involve a conflict of interest with their official activities.

Written procedures for the assessment of staff-owned property need not be lengthy or complicated, but should be formalized in a written format and provided to all staff. The procedures adopted by the assessor should:
• Clearly define the assessor's policies and procedures,
• Establish staff's responsibilities,
• Create a file or listing of all staff-owned property in the county,
• Contain well-defined review procedures, and
• Accurately track and document all events with potential assessment implications.

Developing written procedures for addressing the assessment of staff-owned property that includes these bulleted practices is recommended. In addition, the creation of written procedures to address staff reporting of economic interests and expanding or amending the assessor's existing written procedures addressing conflicts of interest is recommended. The written procedures should provide staff with clearly established procedures. These procedures should include obtaining acknowledgements of receipt of the written procedures from staff and maintaining a tracking system to ensure staff is in compliance. Further development of the written procedures in these areas will help ensure that staff is aware of and follows office policy.

**Assessment Appeals**

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

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

Marin County has two assessment appeals boards (AAB). Each board consists of three members appointed by the board of supervisors. The county does not have hearing officers. Pursuant to section 1624.01, all members of the AAB have successfully completed the required training as provided in section 1624.02. In Marin County, the filing period for assessment appeals is July 2 through November 30.

Assessment appeal applications are received by the clerk, who reviews them for completeness and timely filing before sending a date stamped copy of the application to the assessor. BOE-305-AH, *Application for Changed Assessment*, is available at the clerk's office and on the county's website. The clerk will also mail applications to taxpayers per telephone or mail requests. Currently, the clerk does not accept electronically submitted applications for changed assessments.
For timely filed applications, the clerk sends a response letter to the taxpayer acknowledging the receipt of the application. If an application is not filed timely, the clerk mails a copy of the application to the taxpayer with a letter stating that the application was not filed timely and, therefore, is invalid. In addition, the clerk sends copies of the letter and the invalid application to the assessor. The clerk enters the necessary data from the assessment appeal applications into a database and tracks the progress of each appeal. The clerk works with the assessor to ensure that no assessment appeal is held for more than two years without an extension or waiver being filed.

The following table sets forth the appeal workload over recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeals Filed</td>
<td>841</td>
<td>818</td>
<td>1,207</td>
<td>742</td>
<td>256</td>
</tr>
<tr>
<td>Appeals Carried Over From Prior Year</td>
<td>501</td>
<td>956</td>
<td>582</td>
<td>218</td>
<td>218</td>
</tr>
<tr>
<td><strong>Total Appeals Workload</strong></td>
<td><strong>1,342</strong></td>
<td><strong>1,774</strong></td>
<td><strong>1,789</strong></td>
<td><strong>960</strong></td>
<td><strong>474</strong></td>
</tr>
<tr>
<td>Resolution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawn</td>
<td>517</td>
<td>1,033</td>
<td>580</td>
<td>240</td>
<td>199</td>
</tr>
<tr>
<td>Stipulation</td>
<td>95</td>
<td>152</td>
<td>67</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>Appeals Reduced</td>
<td>35</td>
<td>28</td>
<td>48</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Appeals Upheld</td>
<td>22</td>
<td>10</td>
<td>28</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Appeals Increased</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Determination*</td>
<td>56</td>
<td>50</td>
<td>109</td>
<td>98</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total Resolved</strong></td>
<td><strong>725</strong></td>
<td><strong>1,273</strong></td>
<td><strong>833</strong></td>
<td><strong>378</strong></td>
<td><strong>256</strong></td>
</tr>
<tr>
<td>To Be Carried Over**</td>
<td>617</td>
<td>501</td>
<td>956</td>
<td>582</td>
<td>218</td>
</tr>
</tbody>
</table>

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

Once the assessor receives a copy of a valid assessment appeal from the clerk, the principal appraiser in charge of appeals reviews the application and forwards it to the appraiser assigned to that geographical area. The appraiser reviews the valuation of the property being appealed and discusses the findings with the principal appraiser before contacting the taxpayer.

For assessment appeals of residential properties, the appraiser contacts the taxpayer and discusses the assessed value, comparable sales, and market trends as they relate to the property. For income-producing commercial properties, the appraiser requests, in writing from the applicant or agent, documentation the appraiser deems necessary for making an accurate determination of value, such as income and expense data. The appraiser inspects the property from the exterior and, if necessary, from the interior, to verify that the assessor's records are accurate and current. The appraiser then completes an appraisal of the property and makes a value determination. All appraisals and value determinations are reviewed and approved by the principal appraiser.
If an applicant decides to withdraw their appeal or agrees to a stipulated value after a discussion with the appraiser, the assessor sends a withdrawal or stipulation form to be signed by the applicant. Withdrawal forms are returned to the clerk and stipulations are returned to the assessor. If the appraiser and the applicant cannot reach an agreement as to the assessed value of the property, the appeal process continues and a hearing is scheduled.

During our survey, we were able to attend an assessment appeals hearing. We found that the assessor's presentations were organized, thorough, well documented, and presented in a professional manner. The assessor attended the hearing, along with the principal appraiser in charge of appeals, the principal appraiser for residential properties, and several real property appraisers. Overall, the assessor's assessment appeals program is well administered and we have no recommendations for this program.

**Exemptions**

**Church and Religious Exemptions**

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

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

The following table shows religious and church exemption data for recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RELIGIOUS EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
<th>CHURCH EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>91</td>
<td>$61,331,708</td>
<td>59</td>
<td>$53,269,653</td>
</tr>
<tr>
<td>2010-11</td>
<td>91</td>
<td>$64,141,145</td>
<td>54</td>
<td>$40,528,769</td>
</tr>
<tr>
<td>2009-10</td>
<td>89</td>
<td>$61,810,739</td>
<td>56</td>
<td>$41,099,399</td>
</tr>
<tr>
<td>2008-09</td>
<td>90</td>
<td>$58,451,614</td>
<td>56</td>
<td>$41,371,832</td>
</tr>
<tr>
<td>2007-08</td>
<td>91</td>
<td>$59,201,463</td>
<td>48</td>
<td>$37,273,130</td>
</tr>
</tbody>
</table>
We reviewed a number of church and religious exemption claims to ensure adherence to statutes and acceptable procedures. We discovered several areas where improvement is needed.

**RECOMMENDATION 2:** Improve the religious and church exemptions program by:

1. ensuring that only qualifying properties are granted the religious exemption,
2. ensuring use of the correct claim forms when granting the religious exemption, and
3. properly applying the provisions of sections 270 and 271 for exemption claims that are not timely filed.

**Ensure that only qualifying properties are granted the religious exemption.**

We found that the assessor improperly granted the full religious exemption on a property in which the claimant was leasing a portion of the property to a private school, as well as to several nonprofit groups.

Section 207 provides that property used exclusively for religious purposes is exempt from taxation. Those religious purposes include property owned and operated by a church and used exclusively for religious worship or used for both religious worship and school purposes. Allowing portions of the property to be leased by a private school and several nonprofit groups is not included as an exempt use for religious purposes. The assessor should either grant a partial exemption based on qualifying ownership and use, or require both owner and qualifying operators to file for the welfare exemption, which allows a property tax exemption for eligible nonprofit organizations.

By granting the full religious exemption on a property that is partially being leased by a private school and nonprofit groups, the assessor is not following statutory guidelines and is inappropriately granting the religious exemption for nonqualifying uses.

**Ensure use of the correct claim forms when granting the religious exemption.**

We found that the assessor sends claimants BOE-267-S, Religious Exemption, annually for subsequent years, even though the claimants are not required to submit annual filings in order to receive the religious exemption. After the initial filing, the assessor should send BOE-267-SNT, Religious Exemption Change in Eligibility or Termination Notice, annually for subsequent years. In addition, we found examples where claimants submitted BOE-262-AH, Church Exemption, for a first-time filing and for subsequent year filings; however, the assessor granted the religious exemption instead, even though the claimant never submitted BOE-267-S, Religious Exemption, to receive the religious exemption.

Section 257 provides that the religious exemption requires a one-time filing only; the exemption remains in effect until it is terminated or the property is no longer eligible. Once the religious exemption has been granted, the claimant must notify the assessor by February 15 if the property becomes ineligible for the exemption. In accordance with section 257.1, the assessor shall mail a notice each year to claimants who received the religious exemption for the previous year. The notice shall include a card, which is to be returned to the assessor by the claimant in order to maintain eligibility for the religious exemption. The Board-prescribed form used for this purpose is BOE-267-SNT.
The assessor’s practice of sending claimants BOE-267-S to submit annual filings for continued eligibility of the religious exemption is not in compliance with statute. In addition, allowing claimants to submit claims for the church exemption while granting the religious exemption is improper and not good business practice.

Properly apply the provisions of sections 270 and 271 for exemption claims that are not timely filed.

We found that the assessor granted the full religious exemption on a property, even though the claim was filed late. The property was acquired in April 2010, but no claim was submitted until May 2011.

Section 270 provides that: (1) 90 percent of any tax, penalty, or interest shall be canceled or refunded if the claim is filed on or before January 1 of the next calendar year, or (2) 85 percent of any tax, penalty, or interest shall be canceled or refunded if the claim is filed after January 1 of the next calendar year. For property acquired after the lien date, section 271(a) provides that a claim for exemption must be filed within 90 days from the first day of the month following the month in which the property was acquired or by February 15 of the following calendar year, whichever is earlier. Where a timely claim is not filed, section 271(b) provides that 85 percent of any tax, penalty, or interest shall be canceled or refunded if the claim is filed after the time required. If a claim is not timely filed, the combined tax, penalty, and interest may not exceed $250.

In this instance, the claimant did not file a claim for 2009-10 or 2010-11, and did not file the 2011-12 claim until May 18, 2011. Thus, the claimant was only eligible for a 90 percent cancellation or refund of taxes for 2011-12. The assessor's failure to correctly apply the late-filing provisions according to statutes results in the granting of property tax exemptions greater than allowed by statute.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either Organizational Clearance Certificates (OCCs) to qualified organizations or Supplemental Clearance Certificates (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the
property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table shows welfare exemption data for recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>WELFARE EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>817</td>
<td>$1,260,455,425</td>
</tr>
<tr>
<td>2010-11</td>
<td>797</td>
<td>$1,230,110,280</td>
</tr>
<tr>
<td>2009-10</td>
<td>815</td>
<td>$1,199,534,681</td>
</tr>
<tr>
<td>2008-09</td>
<td>791</td>
<td>$1,107,697,935</td>
</tr>
<tr>
<td>2007-08</td>
<td>810</td>
<td>$1,067,651,622</td>
</tr>
</tbody>
</table>

In general, we found that the assessor has an effective program for administering the welfare exemption. However, we found an area in need of improvement.

**RECOMMENDATION 3:** Appropriately prorate the welfare exemption as of the date of acquisition in accordance with section 271.

For low-income housing properties, we discovered that the assessor did not prorate or cancel the taxes for the welfare exemption as of the date of acquisition. Instead, the assessor granted the welfare exemption for the entire fiscal year, even though the claimant is only eligible for a portion of the fiscal year.

Section 271(a)(3) provides that property acquired after the beginning of any fiscal year by an organization qualified for the welfare exemption shall be cancelled or refunded in the proportion of the number of days for which the property was so qualified during the fiscal year. By granting the exemption for the entire fiscal year, the assessor generated a larger refund to the claimant than appropriate.

**Disabled Veterans' Exemption**

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of exemption is $100,000 or, for qualifying low-income claimant, $150,000. Both of these amounts are adjusted annually by a cost of living index.

The disabled veterans' exemption at the $100,000 basis requires a one-time filing, while the low-income exemption at the $150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.
The following table shows disabled veterans' exemption data for recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DISABLED VETERANS' EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>183</td>
<td>$18,308,221</td>
</tr>
<tr>
<td>2010-11</td>
<td>191</td>
<td>$18,192,349</td>
</tr>
<tr>
<td>2009-10</td>
<td>201</td>
<td>$18,788,456</td>
</tr>
<tr>
<td>2008-09</td>
<td>207</td>
<td>$18,520,094</td>
</tr>
<tr>
<td>2007-08</td>
<td>207</td>
<td>$17,986,698</td>
</tr>
</tbody>
</table>

We found areas in need of improvement for the disabled veterans' exemption program.

**RECOMMENDATION 4:** Improve the disabled veterans' exemption program by:
(1) granting the disabled veterans' exemption on a prorated basis for the initial qualification year in accordance with sections 276.1 and 276.2, and (2) terminating the disabled veterans' exemption as of the date the property is no longer eligible.

Grant the disabled veterans' exemption on a prorated basis for the initial qualification year in accordance with sections 276.1 and 276.2.

We found that the assessor does not always prorate the disabled veterans' exemption as of the date the property became eligible for the exemption. We found examples where the assessor granted the exemption for either an entire calendar year or, in one case, for an entire fiscal year, even though the claimants were only eligible to receive the exemption for a portion of a fiscal year.

Section 276.1(b) provides that subject to the provisions regarding cancellations and the limitations periods on refunds, the disabled veterans' exemption applies beginning on the effective date, as determined by the USDVA, of a disability rating that qualifies the claimant for the exemption. Additionally, section 276.2(b) provides that the entire amount of the exemption applies to any property tax assessment, including a supplemental and escape assessment, that was made and that served as a lien against the property. The exemption amount shall be appropriately prorated from the date the property became eligible for the exemption.

Granting an exemption on a property for an entire calendar or fiscal year when a claimant is only eligible to receive the exemption for a prorated portion of a fiscal year may cause the assessor to exempt property that would otherwise be taxable. In addition, granting an exemption for an entire calendar or fiscal year on a newly acquired property when the prior owner was not eligible to receive an exemption may result in the assessor incorrectly issuing a refund to the prior owner for the portion of the year they owned the property.
Terminate the disabled veterans' exemption as of the date the property is no longer eligible.

We discovered that the assessor did not terminate the disabled veterans' exemption as of the date the property was no longer eligible for the exemption. The claimant, who was the surviving spouse of a disabled veteran, died in May 2010; however, the assessor did not terminate the exemption until June 2011.

Section 276.3(a) states, "In the event that property receiving a disabled veterans' exemption as described in Section 205.5 is sold or otherwise transferred to a person who is not eligible for that exemption, the exemption shall cease to apply on the date of that sale or transfer."

Section 276.3(b) further states, "In the event that property receiving a disabled veterans' exemption as described in Section 205.5 is no longer used by a claimant as his or her principal place of residence, the exemption shall cease to apply on the date the claimant terminates his or her residency at that location." Finally, section 276.3(c) states, "Termination of the exemption under this section shall result in an escape assessment of the property pursuant to Section 531.1."

The statute clearly requires the assessor to terminate the exemption and escape the property for the prorated denied exemption.

The assessor's practice of not terminating the disabled veterans' exemption as of the date the property is no longer eligible to receive the exemption is contrary to statute.
ASSESSMENT OF REAL PROPERTY

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

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

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

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

Document Processing

The assessor's primary source for discovering properties that have changed ownership is by reviewing deeds and other recorded documents from the county recorder's office. The recorder's office requires BOE-502-A, Preliminary Change of Ownership Report (PCOR), to accompany documents submitted for recording that transfer ownership of real property. If a transfer document is received without a PCOR, the recorder's office will apply a $20 charge to the recording fee. Marin County has a local ordinance that requires the assessor's parcel number (APN) to be displayed on the first page of any document being recorded that transfers real property. PCORs are available at both the assessor's and recorder's offices, as well as on the assessor's website.
The following table sets forth the total number of recorded documents received and the total number of reappraisable transfers processed in Marin County in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RECORDED DOCUMENTS RECEIVED</th>
<th>REAPPRAISABLE TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>14,377</td>
<td>4,178</td>
</tr>
<tr>
<td>2010-11</td>
<td>14,025</td>
<td>4,096</td>
</tr>
<tr>
<td>2009-10</td>
<td>13,673</td>
<td>3,748</td>
</tr>
<tr>
<td>2008-09</td>
<td>11,665</td>
<td>3,623</td>
</tr>
<tr>
<td>2007-08</td>
<td>N/A</td>
<td>4,880</td>
</tr>
</tbody>
</table>

The assessor also discovers potential changes in ownership through change of address requests, homeowners' exemption claims, business property statements, newspapers, information from BOE's Legal Entity Ownership Program (LEOP), field checks by appraisers, and information from the public.

The Marin County Assessor also functions as the recorder and the county clerk. The recorder's office scans all recorded documents on a daily basis and places preselected documents into a shared database for the assessor to access. The assessor's Mapping Section reviews the recorded documents from the recorder's office on a weekly basis, further culling those documents that do not involve functions of the assessor's office, and making any necessary changes to the APN maps. Once reviewed, the documents are then forwarded to the Change in Ownership Section for processing. The assessor collects the original PCORs from the recorder's office on a daily basis and scans them into the database.

Assessment recording technicians (ART) review each document and corresponding PCOR to verify the names of the grantor and the APN being transferred are correct, and to send any necessary correspondence to the property owner. The ART determines the percentage of interest being transferred, whether the transfer results in a reappraisable event, and updates any necessary information in the computer system. Documents resulting in reappraisable events are transferred electronically to the appropriate appraiser's work queue for valuation.

We examined several recorded documents and found the assessor conducts a proper and thorough review for reappraisable events.

**Penalties**

When a recorded document is received without a PCOR or the PCOR is incomplete, the assessor may send a letter requesting more information if the details of the transfer are not clear or the assessor may send a second PCOR with a cover letter requesting the property owner complete and return the PCOR. However, the assessor does not send BOE-502-AH, *Change in Ownership Statement* (COS), and, therefore, correctly does not apply penalties if the property owner fails to respond to the assessor's letter or second PCOR requesting more information.
Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The public is able to view this information at the public counter in the assessor’s office. In accordance with section 408.1(b), the transfer list is updated monthly and it is divided into geographical areas by APN. Pursuant to section 408.1(c), the transfer list contains the transferor, transferee, APN, address of the property, date of recording, recording reference number, and consideration paid. The assessor observes the confidentiality provisions of section 481, which preclude the disclosure of information on a PCOR or COS.

Legal Entity Ownership Program (LEOP)

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

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

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

In Marin County, the assessor discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, newspaper articles, business property statements, and recorded documents.

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6 Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.
When the assessor receives the monthly LEOP reports, an ART in the Change in Ownership Section reviews the report for the effective date and any changes that have occurred. The ART identifies and reviews all parcels located within the county. A name search is also performed to ensure that all of the entity's real property is reassessed. Once a change in control or ownership of a legal entity has been confirmed and processed for a reappraisable event, the parcels involved are assigned to the appropriate appraiser for valuation.

Our review of several records shows the assessor does an effective job reviewing LEOP reports and reassessing all property interests identified on BOE-100-Bs. The assessor also reviews any additional properties owned by the entity that were not reported on the BOE-100-B. The assessor has not had any late-filings of BOE-100-Bs in recent years and, therefore, has not applied any penalties for late-filings. We found the assessor's LEOP program to be well administered.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first $1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

To enforce the $1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. However, if an assessor opts not to report quarterly to the BOE, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their $1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website.

The following table represents the number of section 63.1 claims filed and granted in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SECTION 63.1 CLAIMS FILED</th>
<th>SECTION 63.1 CLAIMS GRANTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>510</td>
<td>499</td>
</tr>
<tr>
<td>2010-11</td>
<td>655</td>
<td>651</td>
</tr>
<tr>
<td>2009-10</td>
<td>705</td>
<td>702</td>
</tr>
<tr>
<td>2008-09</td>
<td>784</td>
<td>744</td>
</tr>
<tr>
<td>2007-08</td>
<td>661</td>
<td>N/A</td>
</tr>
</tbody>
</table>
The assessor is proactive regarding public awareness of potential change in ownership exclusions. If a PCOR indicates that a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, the assessor sends a claim form and cover letter to the property owner advising of a possible exclusion from reassessment. The ART tracks the progress of the section 63.1 claim form and, if the property owner has not responded within 45 days, the ART sends a second claim form and cover letter. If the second claim form has not been returned within 60 days, the ART processes the transfer for reappraisal and forwards it to the appropriate appraiser's work queue for valuation.

The ARTs review all section 63.1 claim forms received and determine if the exclusion will be granted or denied. When a claim is denied, the property owner is notified in writing.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a Report of Transferors Exceeding $1,000,000 from the BOE, the report is reviewed to determine if property in Marin County has exceeded the limit. If multiple properties transfer, the assessor allows the property owner or representative to determine which properties to exclude and which to reassess. If parcels exceeding the limit are in counties other than Marin County, the assessor contacts the property owner to determine how they would like to have the excess allocated and reassessed. If necessary, contact is made with other counties to determine which property to exclude and which to reassess.

Pursuant to section 63.1(i), to protect property owner confidentiality, claim forms are scanned and kept on a secured computer server not accessible to the public. Original claim forms are kept in a secure location before eventually being destroyed.

We reviewed several section 63.1 claim forms and found them to be properly handled.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Marin County does not accept base year value transfers from other counties. Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website.
The following table represents the number of section 69.5 claims filed and granted in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SECTION 69.5 CLAIMS FILED</th>
<th>SECTION 69.5 CLAIMS GRANTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>49</td>
<td>45</td>
</tr>
<tr>
<td>2010-11</td>
<td>50</td>
<td>42</td>
</tr>
<tr>
<td>2009-10</td>
<td>37</td>
<td>26</td>
</tr>
<tr>
<td>2008-09</td>
<td>80</td>
<td>82</td>
</tr>
<tr>
<td>2007-08</td>
<td>84</td>
<td>N/A</td>
</tr>
</tbody>
</table>

If a PCOR indicates that a transfer may involve a base year value exclusion, the assessor sends interested parties a claim form, along with a letter explaining the exclusion. An ART reviews all submitted claim forms for initial approval. Approved claim forms are forwarded to appraisers to determine the fair market value of both the replacement and original properties, and to determine whether the property values meet the exclusion requirements before accepting or denying the claim. When a claim is denied, the property owner is notified in writing by the chief of assessment standards.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. To avoid duplicate filings of a section 69.5 claim, the assessor's office reviews the Duplicate SSN Report from the BOE to determine if any claims made in Marin County duplicate any claims made in another county.

Pursuant to section 69.5(n), to protect property owner confidentiality, claim forms are scanned and kept on a secured computer server not accessible to the public. Original claim forms are kept in a secure location before eventually being destroyed.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. The assessor references the BOE database to verify that past section 69.5 exclusion claims have not previously been granted.

We reviewed several accepted and denied section 69.5 claim forms and found them to be properly handled.

**Valuation**

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every transfer causing a reappraisable event is reviewed to confirm that the reported sale price accurately reflects market value; the sale price is not automatically enrolled. Residential properties experiencing a change in ownership are valued primarily using the comparative sales approach, while commercial properties are valued using the income approach with secondary consideration given to the comparative sales approach. If the property is unique, the cost approach may be considered, as well. Field inspections are conducted at the appraiser's discretion.
We reviewed several property records having recently experienced a change in ownership. We found that the assessor's office is following proper procedures for valuation and has an efficient valuation program in place for reappraising properties having undergone a change in ownership.

Direct Enrollment Program

Direct enrollment allows the assessor's office to process the assessment of properties meeting certain criteria with minimal appraiser involvement. Marin County has a direct enrollment program for single-family residences and condominiums.

In order to qualify for the direct enrollment program, single-family residences and condominium sales must meet certain criteria. Sales that have confirmed sale prices verified by Multiple Listing Service (MLS) are included in the program. The transfer cannot be a short sale, a foreclosure, a family transaction, involve any exclusions, or have ongoing new construction. Condominiums, or attached residences, must have a sale price greater than $100,000, but not more than $3,000,000, while single-family residences, or detached residences, must have a sale price greater than $300,000, but not more than $5,000,000 to be considered for the program. When a transfer qualifies for the direct enrollment program, the appraiser of the area is notified electronically and has the ability to override the direct enrollment valuation if the appraiser deems it necessary.

We reviewed several properties in the direct enrollment program and found the assessor's program to be effective and well administered.

Improvement Bonds

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

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration paid for a property exclusive of the lien amount. An assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in that consideration.

Marin County has 4,667 parcels encumbered by improvement bonds. In accordance with section 163, entities receiving revenue derived from payments created by an improvement bond annually notify the assessor of required statistics. The assessor does not maintain a bond study or regression analysis. It is the assessor's policy not to add any amount for improvement bonds unless market evidence indicates otherwise. This is consistent with the requirements of section 110(b).
New Construction

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

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

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

Discovery

In Marin County, the assessor's primary means of discovering new construction is by reviewing building permits. The assessor receives building permits from 12 permit-issuing agencies. Other methods used to discover new construction include field canvassing, newspaper articles, aerial photos, and information from taxpayers.

The following table shows the number of building permits received and the number of new construction assessments processed in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>BUILDING PERMITS</th>
<th>NEW CONSTRUCTION ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>11,065</td>
<td>2,423</td>
</tr>
<tr>
<td>2010-11</td>
<td>10,789</td>
<td>2,533</td>
</tr>
<tr>
<td>2009-10</td>
<td>10,259</td>
<td>2,680</td>
</tr>
<tr>
<td>2008-09</td>
<td>11,674</td>
<td>3,242</td>
</tr>
<tr>
<td>2007-08</td>
<td>12,343</td>
<td>4,500</td>
</tr>
</tbody>
</table>

Permit Processing

The assessor receives all permits from each permit-issuing agency on a monthly basis. The Marin County Community Development Agency provides the permits electronically, while all other permit-issuing agencies provide the permits in hard-copy format. Information from each permit is entered into the computer system upon receipt. The assessor's computer system automatically culls certain permits, such as maintenance and repair permits, based on predetermined parameters. The remaining permits are electronically forwarded to the appraisers'
work queues for further review and valuation. Appraisers may cull any permits that they deem not assessable.

Data for unpermitted new construction is entered into the computer system upon discovery. The escaped new construction is valued and enrolled as of the date of completion, whenever possible. If the appraiser is unable to determine the date of completion, the unpermitted new construction is enrolled as of the date of discovery. The assessor enrolls supplemental assessments, as allowed by law, for unpermitted new construction when discovered.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For CIP, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We reviewed several property records and found that the assessor is correctly valuing CIP.

Valuation

Appraisers value new construction at its full value as of the date of completion. An appraiser confirms completion of new construction through field inspections, information provided by permit-issuing agencies, and new construction cost questionnaires.

The appraisers rely primarily on the cost approach and comparative sales approach to value new construction; however, the income approach may also be used when appropriate. A variety of sources are used to develop a cost indicator of value for new construction. These sources include Assessors' Handbook Section 531, Residential Building Costs, Assessors' Handbook Section 534, Rural Building Costs, owner's reported costs, local costs, and Marshall Valuation Service. The appraiser documents the unit cost factors and the source of the costs on the property record.

The appraisers send cost questionnaires to property owners when additional information is needed for valuation of the new construction. The information provided on the cost questionnaire is used as an additional source of data in the valuation process. For complex projects, the appraiser gathers the necessary data through site inspections and/or telephone contact with the property owner and developer rather than using the cost questionnaire, since the cost questionnaire is not sufficient for these types of properties.

Appraisers prepare electronic diagrams for all newly constructed buildings using computer software. The appraiser typically bases the diagram on the building plans. The diagram is retained in the property record.

Exclusions

We found that the assessor correctly excludes from new construction assessment fire sprinkler systems that are added to an existing building in accordance with section 74. In addition, newly
constructed active solar energy systems for the original owner-builder or the initial purchaser, who purchased the new building from the original owner-builder, are correctly excluded from new construction assessment in accordance with section 73. We also found that the assessor is properly excluding from new construction assessment disabled access improvements constructed for the purpose of making a dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling. In accordance with section 74.3, the assessor only grants this exclusion if the applicant submits the appropriate claim form and all required documentation.

Summary

We reviewed several new construction records and found the assessor's program for the discovery and assessment of new construction to be thorough, the property records to be well documented, and the values to be reasonable. Supplemental assessments were created and issued based on the date of completion of the new construction. However, we found areas in need of improvement.

RECOMMENDATION 5: Improve the new construction program by: (1) properly classifying septic systems as structural improvements in accordance with Rule 124, (2) obtaining required information prior to granting new construction exclusions, and (3) enrolling all assessable new construction.

Properly classify septic systems as structural improvements in accordance with Rule 124.

For California Land Conservation Act (CLCA) properties, we found that the assessor incorrectly classifies septic systems as land when enrolling value for completed new construction. Rule 124(b)(2) provides that buried tanks are classified as improvements. Though components of septic systems include grading that could be classified as land, septic systems are generally classified as improvements and should be valued as such.

By classifying and assessing septic systems as land, the assessor is underassessing the structural improvements, while overassessing the land. This may also result in incorrect special assessments.

Obtain required information prior to granting new construction exclusions.

We found several examples where the assessor excluded from new construction assessment disabled access improvements constructed for the purpose of making a building or structure more accessible to, or more usable by, a disabled person without obtaining the necessary claim form and documentation as required by section 74.6. In addition, we found examples where the assessor granted exclusions from new construction assessment for seismic retrofitting components without obtaining the necessary claim form or documentation as required by section 74.5.

For buildings not eligible for the homeowner's exemption, section 74.6 excludes from the term "newly constructed" the construction, installation, removal or modification of any portion or structural component of an existing building or structure to the extent it is made for the purpose
of creating a building or structure more accessible to, or more usable by, a disabled person. To qualify for this exclusion the following conditions must be met: the construction must be completed on or after June 7, 1994 to an existing building; the construction must be for the purpose of making the building more accessible to, or more usable by, a disabled person; and the construction must not qualify for the new construction exclusion provided by section 74.3.

To receive the exclusion, the property owner must submit to the assessor the following: notice prior to, or within 30 days of, the completion of the project that they intend to claim the exclusion for improvements making the building or structure more accessible to, or usable by, a disabled person and a statement by the property owner, primary contractor, civil engineer, or architect identifying the portions of the project making the building more accessible to, or usable by, a disabled person. Section 74.6(g) requires that the BOE prescribe the manner and form for claiming the exclusion. The property owner must file BOE-63-A, Claim For Disabled Accessibility Construction Exclusion From Assessment, along with any necessary supporting documentation, in order to qualify for the exclusion. All documents necessary to support the exclusion must be supplied no later than six months after the completion of the project.

Section 74.5 provides for a new construction exclusion for the addition of any seismic retrofitting components to existing buildings and structures. In order to receive this new construction exclusion, the property owner must notify the county assessor prior to, or within 30 days of, completion of the project. Additionally, all documents needed to support the claim must be filed no later than six months after completion of the project. It is the responsibility of the property owner, contractor, engineer, or architect to certify to the building department which portions of the project are for seismic retrofitting components. Upon completion of the project, the building department is to report to the county assessor the costs of those portions of the project designated for seismic retrofitting components. Section 74.5(d) requires that the BOE prescribe the manner and form for claiming the exclusion. The property owner must file BOE-64, Claim For Seismic Safety Construction Exclusion From Assessment, along with any necessary supporting documentation, in order to qualify for the exclusion.

Excluding new construction assessments without obtaining the required claim forms and supporting documentation as required by sections 74.5 and 74.6 is contrary to statute and may result in the assessor excluding new construction assessments that would otherwise be assessable.

**Enroll all assessable new construction.**

The assessor's computer system is designed to automatically cull certain building permits that fall within specified parameters. Examples of building permits being automatically culled include any tenant improvements (TIs) that are $10,000 or less, regardless of whether they are first time or replacement TIs; commercial signs for residential property that are $20,000 or less; and residential skylights that are $5,000 or less.

It is the duty of the county assessor to inventory and assess all taxable property within his jurisdiction. Section 71 provides that the assessor shall determine the new base year value for the portion of any taxable real property which has been newly constructed. Section 70(a) defines "newly constructed" or "new construction" as: (1) any addition to real property, whether land or
improvements, including fixtures, since the last lien date; and (2) any alteration of land or improvement, including fixtures, since the last lien date that constitutes a major rehabilitation or that converts the property to a different use. Further, section 155.20(e)(1) states that a county board of supervisors does not have the authority to exempt from taxation new construction, unless the new total base year value of the property, as adjusted by the annual inflation factor, including this new construction, is $10,000 or less.

The assessor's practice of automatically culling certain building permits that may contain assessable new construction may lead to escape assessments and the unequal treatment of taxpayers.

**Declines in Value**

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

Due to unfavorable economic conditions, Marin County, like many other counties, has experienced a notable decline in property values. Consequently, there has been a significant increase in the total number of properties eligible for decline-in-value assessment. For the 2011-12 roll year, there were 21,769 properties in Marin County with assessed values below their FBYV.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER OF PARCELS WITH REVIEW REQUESTS</th>
<th>EQUALIZED ROLL NUMBER OF PROPERTIES DECLINED</th>
<th>LOSS IN VALUE OF ASSESSMENT ROLL AT PRELIMINARY ROLL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>2,475</td>
<td>21,769</td>
<td>$3,541,000,000</td>
</tr>
<tr>
<td>2010-11</td>
<td>1,710</td>
<td>16,408</td>
<td>$2,933,000,000</td>
</tr>
<tr>
<td>2009-10</td>
<td>4,689</td>
<td>12,612</td>
<td>$1,633,000,000</td>
</tr>
<tr>
<td>2008-09</td>
<td>2,154</td>
<td>2,957</td>
<td>$333,000,000</td>
</tr>
<tr>
<td>2007-08</td>
<td>831</td>
<td>507</td>
<td>N/A</td>
</tr>
</tbody>
</table>

As shown in the table, the number of decline-in-value assessments has increased dramatically over the last four years, along with the number of properties with requests for review, causing a major workload increase for the assessor and his staff.

Discovery and valuation of properties with declines in value are high priority for the assessor. The assessor has been proactive in discovering and adjusting the assessments of properties affected by declines in value. The assessor uses a computer-assisted program to aid in identifying certain residential properties for potential declines in value. Other methods of discovery used to
identify potential declines in value are taxpayer requests for an informal review, assessment appeals, and appraiser familiarity with market conditions in their assigned geographic areas.

Property owners may request an informal review of their assessment by completing and submitting an *Informal Assessment Review* to the assessor. This form is available to the public in the assessor's office at the public counter and on the assessor's website. In addition, the assessor mails the informal review form to property owners upon request. Applicants filing an informal request for review near the final filing date are advised of their appeal filing rights in case the assessor cannot complete the informal review before the assessment appeals filing deadline. Property owners are notified of their results from the informal request for review by mail.

The assessor's computer-assisted program allows the assessor to identify certain residential properties that may be suffering from a decline in value. In developing the computer-assisted program for decline-in-value reviews, the assessor identified 12 distinct residential appraisal communities. Properties situated in each of these communities are considered to be affected by common economic factors that would have an impact on their market value. Sales data is gathered from each of these communities in order to determine appropriate adjustment factors for each area. The adjustment factors are reviewed by the assessor before they are accepted as appropriate value adjustment factors.

The computer-assisted program then applies the appropriate adjustment factor in each community to the prior year's enrolled value for each property to establish an indicated market value as of the current lien date. The resulting data is spot checked manually by the appraiser of the geographical area. In spot checking, the appraiser compares the computer-generated value against current market data from the assessor's sales database and the property's factored base year value. Based on the review, the appraiser may accept the computer-generated value, override the computer-generated value and enroll another value determination, or deny the value change altogether.

Residential properties that have other events outstanding, such as a permit for new construction that has not been worked, do not meet the criteria for the computer-assisted program review and are pulled from the program, so they can be reviewed on an individual basis by the appraiser of the area. Appraisers rely primarily on the comparative sales and cost approaches to value residential properties.

The assessor does not have a computer-assisted program in place to identify commercial properties experiencing a decline in value. Commercial properties are reviewed for potential declines in value only when the property owner requests an informal review, the appraiser of the area becomes aware of a potential decline in value, or the property owner files an assessment appeal.

When the assessor receives a request for an informal review on a commercial property, a letter is sent to the property owner requesting data, such as income and expenses or comparable sales data, to assist the assessor in determining the current market value of the property in question. If the taxpayer does not provide the requested data, the request for an informal review is denied and the taxpayer must file an assessment appeal with the clerk of the board if they wish to appeal the current assessed value. Commercial properties experiencing a decline in value are reviewed on
an individual basis by the appraiser of the area. Appraisers rely on the comparative sales, income, and/or cost approaches to value commercial properties.

Each year the assessor sends value notices by mail to property owners when their assessed value has been temporarily reduced due to a decline in value, and when the assessed value has been partially or fully restored back to its FBYV. Information included in this notice includes the proposed current assessment, the FBYV, the assessment appeals filing period, notification of hearings by the assessment appeals board, and an explanation of the stipulation procedure.

Once a property is determined to be in a decline-in-value status, it is assigned a taxability code of "DECL." This designation identifies the property for annual review, as well as suspends the application of the annual inflationary factor until the FBYV is fully restored.

We reviewed several decline-in-value assessments and found that the assessor's program is effective and well administered. However, we found an area in need of improvement.

**RECOMMENDATION 6:** Improve the declines in value program by including the value of excluded new construction in the full cash value estimate of a decline-in-value property.

We found that when analyzing property for a decline in value, the assessor is not considering the value of excluded new construction in the full cash value estimate. We discovered properties containing excluded seismic and solar new construction assessments that the assessor did not value as part of the full cash value estimate to be compared to the property's FBYV.

Section 51 provides that the assessor is to annually enroll the lower of a property's FBYV or its full cash value as of the lien date. Section 110 defines "full cash value" as the amount of cash or its equivalent that a property would bring if exposed for sale on the open market. Letter To Assessors No. 2009/024 provides that when a property with excluded new construction sells, the excluded new construction becomes assessable, along with everything else on the property. Since an estimate of full cash value for decline in value purposes is made as if the property was exposed for sale, the full cash value should not be reduced by the value of any excluded new construction.

By not considering all the components of the property when determining the full cash value estimate, the assessor may be underestimating the current market value of the property, causing incorrect assessments to be enrolled.

**California Land Conservation Act Property**

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

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

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

For the 2011-12 roll year, Marin County had 512 parcels encumbered by 266 CLCA or other types of open space contracts, totaling approximately 104,100 acres. The total assessed value for restricted land and all improvements was $123,537,254. Included in these statistics are 66 parcels totaling 18,366 acres that are under Farmland Security Zone (FSZ) contracts; the total assessed value for these properties was $12,686,078. Marin County has 19 parcels (representing 14 contracts) totaling 966 acres in nonrenewal status. There have been no contracts cancelled in recent years.

In Marin County, the gross value of agricultural production for 2011 was $70,076,404. This represented a 24.7 percent increase from the 2010 production value. Milk is the premier commodity for Marin County, accounting for approximately 45 percent of the total agricultural production value in 2011.

The valuation of CLCA properties in Marin County is the responsibility of a real property appraiser. Income and expense data is gathered from a variety of sources, including annual open-space questionnaires, annual crop and crush reports, information from other counties, and interviews with property owners and farm managers. This data is used to determine income and expenses used in the valuation process.

The appraiser enters the selected income and expense data into a spreadsheet in order to calculate the restricted value for each parcel. In developing a capitalization rate to be used in the valuation process, the appraiser correctly includes the current interest component provided annually by the BOE, as well as components for risk and property taxes. The assessor compares the restricted value to the factored base year value and to the current market value, enrolling the lowest of the three values.

We reviewed several CLCA properties and found areas where improvement is needed in the assessor's CLCA program.

**RECOMMENDATION 7:** Improve the CLCA program by: (1) using an appropriate income stream for capitalizing restricted tree and vine income, (2) valuing newly created homesites on land under CLCA contract pursuant to AH 521, and (3) using economic rent to estimate compatible use income when valuing CLCA property.
Use an appropriate income stream for capitalizing restricted tree and vine income.

We found that the assessor uses a constant-terminal income premise when appraising vineyards and orchards, without consideration of the age of the vineyard or orchard and its future stages of production.

AH 521 describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements is similar: (1) a period of development when production (income stream) initiates and rises, (2) a period of maturity when production remains relatively stable, and (3) a period of decline when production drops as the improvements near the end of their economic lives. Since the probable future income stream is irregular, the most accurate method of valuing living improvements is to estimate the present worth of each future year of (irregular) income by using the discounted cash flow method.

Not recognizing the future shape of the income stream may result in incorrect assessments of trees and vines.

Value newly created homesites on land under CLCA contract pursuant to AH 521.

When a residence is newly constructed on land under CLCA contract, we found that the assessor properly adds value to the land for site development and correctly values the residential improvements. However, the assessor does not establish a homesite for the newly constructed residence. A portion of the restricted agricultural land should be established as a homesite and the homesite should then be valued as unrestricted property.

According to AH 521, when a restricted CLCA property contains residential improvements, the assessor should determine if the improvement qualifies as a residence, estimate a reasonable site size for the qualifying residence, and determine the base year value of the qualifying site. A reasonable size for the site would include an area large enough to encompass the dwelling and any related improvements, such as garages, sheds, landscaped areas, utility sources, and driveways, when they service only the residential improvements. To qualify as a residence, the structure should be built for and capable of being used as a permanent home.

Section 428 prohibits the valuation of the residence or the site on which the residence is situated as restricted property. The residence and the site must be valued as unrestricted property at the lower of its factored base year value or current market value as provided under article XIII A of the California Constitution.

The base year value of the newly created homesite should be based on the value of the homesite as of the date the existing base year value for the entire CLCA property was established. In other words, a portion of the existing base year value of the CLCA property must be attributed to the homesite. The new construction associated with the residential improvements should receive a separate base year value upon the date of its completion. In accordance with AH 521, any new construction is assessable and should receive a new base year value, but the value of the underlying land is not reassessable and the homesite should retain the same base year as the restricted land.
By not properly establishing a separate base year value for homesites, the assessor allows the homesite to be valued as restricted property, which may result in incorrect assessments.

**Use economic rent to estimate compatible use income when valuing CLCA property.**

The assessor recognizes compatible uses of restricted land; however, we found examples where the assessor did not use economic (market) rent when estimating the compatible use income. In one example, the assessor used the contract rent as stated in the 1997 initial agreement, even though the contract itself provided for a 20 percent escalation in the rent every five years. The assessor should estimate the economic rent and use that rent in the capitalization process.

The assessor's practice of using the original contract rent as the compatible use income rather than the economic rent may cause the incorrect valuation of the compatible use.

**Taxable Possessory Interests**

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

For the 2011-12 roll year, the assessor enrolled 1,151 taxable possessory interests with a total assessed value of $79,034,323. These 1,151 taxable possessory interests were located on real property owned by 51 different public agencies in Marin County. Some of the uses on these publicly owned properties included employee housing, airplane tie downs and hangars at the county airfield, grazing permits, and cable television franchises. Taxable possessory interests are assessed on the unsecured roll. The assessment roll correctly shows the name of the specific local, state, or federal agency that holds title to the real property where the taxable possessory interest is situated. A real property appraiser is responsible for the assessment of all taxable possessory interests in Marin County.

In Marin County, the administrative services associate prepares a mailing each January to all public agencies owning real property in the county. Items included in the mailing are:

1. A letter to the public agency contact outlining the reason for the request and the information to be provided.
2. Two copies of the prior year's *Possessory Interests Per 20XX Roll* that was provided by the public agency. One copy is to be updated with current tenant information, such as the lease expiration date and any renewal options as of the current lien date, and then returned to the assessor.
3. A *Possessory Interest Questionnaire* to be completed by the public agency contact for any new tenants, changes in tenancy, and modifications to an existing lease. The questionnaire also requests that a copy of the lease, if any, be attached.

If there is no response from the public agency, it is the responsibility of the real property appraiser to follow up on those requests and obtain the required information.
The assessor maintains a *Possessory Interest Appraisal Record* for each taxable possessory interest. The record contains the name of the lessee, the fee owner or public agency, the possessory interest assessment number, the parcel number of the underlying parcel, a description of the use, the base year, the base year value, the term of possession used by the assessor to establish the base year value, a tenant history, and value calculations. This information assists the assessor in identifying when a change in ownership occurred due to a creation, renewal, extension, or assignment of a taxable possessory interest. Hard copies of the appraisal record are maintained in individual property folders, as well as digitally on a shared drive in the assessor's computer system.

The primary method of valuation used by the assessor to value taxable possessory interests is the income approach-direct method. In the direct method, the value of the taxable possessory interest is determined by discounting the estimated future market rent over the reasonably anticipated term of possession.

Our review of the assessor's taxable possessory interests program found several areas in need of improvement.

**RECOMMENDATION 8:** Improve the taxable possessory interests program by:

1. correctly calculating base year values for taxable possessory interests by including rent escalations in the value calculations when appropriate,
2. assessing all taxable possessory interests located at the county fairgrounds,
3. assessing only property classified as real property as taxable possessory interests,
4. reappraising taxable possessory interests in compliance with section 61(b)(2),
5. using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests,
6. properly issuing supplemental assessments for taxable possessory interests, and
7. not cancelling a prior year's tax bill when a tenant vacates mid-year.

**Correctly calculate base year values for taxable possessory interests by including rent escalations in the value calculations when appropriate.**

We reviewed several taxable possessory interest files containing a copy of the lease agreement that created the taxable possessory interest. We noted that while the assessor considered the contracted rent to reflect market rent, the assessor did not include any contracted rent escalations in the value calculations that established the base year value. Instead, the assessor used only the first year of contracted rent as a level terminal income stream over the entire contracted term of possession. With an income stream that is scheduled to escalate over the term of the contract, the assessor should use a discounted cash flow analysis and discount each year's income (reflecting the annual increase) separately at the appropriate discount factor, before summing each year's result to establish the value of the taxable possessory interest.
For example, the lease for one taxable possessory interest states: the base rent is $1,359.75 per month, which is subject to a 4 percent annual escalation; the common area maintenance expense to the tenant is 10 percent of the rent each month; and the lease term is five years. Using the assessor's current practice of discounting the first year's contract rent as a level terminal income stream, and using a typical discount rate of 9 percent, the indicated base year value is $57,120. Using a discounted cash flow analysis, the resulting estimated base year value differs by about 7 percent when the 4 percent annual escalation is applied to the base rent each year in the value calculations as shown in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>$16,317 x .90 =</th>
<th>$14,685 x .917431 =</th>
<th>$13,472</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2</td>
<td>$16,970 x .90 =</td>
<td>$15,273 x .841680 =</td>
<td>$12,855</td>
</tr>
<tr>
<td>Year 3</td>
<td>$17,649 x .90 =</td>
<td>$15,884 x .772183 =</td>
<td>$12,265</td>
</tr>
<tr>
<td>Year 4</td>
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<td>$16,520 x .708425 =</td>
<td>$11,703</td>
</tr>
<tr>
<td>Year 5</td>
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<td>$17,180 x .649931 =</td>
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</tr>
<tr>
<td></td>
<td>Total</td>
<td>$61,461</td>
<td></td>
</tr>
</tbody>
</table>

Rule 21(e)(3)(C)(a) provides, in part, that the economic rent of the subject taxable possessory interest may be estimated by reference to (1) the contract rent for the subject taxable possessory interest, (2) contract rents for comparable taxable possessory interests, (3) contract rents for comparable fee simple absolute fee interests in real property, or (4) contract rents for other comparable interests in real property. Therefore, when using a contract rent as specified in the lease agreement as economic rent to value a taxable possessory interest, the assessor should recognize and include as rental income any escalations in rent over the specified term of possession.

In addition, Rule 8(b) provides that when using the income approach, an appraiser values an income property by computing the present worth of a future income stream and that the present worth depends upon the size, shape, and duration of the estimated income stream. Thus, it is incumbent on the appraiser to consider the pattern of the income stream. The pattern may be level, variable or irregular, straight-line (constant amount) change per period, or exponential-curve (constant-ratio) change per period. In our example, the contracted rent escalations written into the lease agreement reflect a straight-line (constant amount) change per period income stream. With such an income stream, the assessor should discount each year's income stream.

By not including escalations in the estimate of economic rents, the assessor may be underassessing these taxable possessory interests.

Assess all taxable possessory interests located at the county fairgrounds.

We found that the assessor is not assessing any taxable possessory interests at the Marin County Fairgrounds. The assessor does not request any information from the fairgrounds, such as a list of vendors or concessionaires, or obtain a list of tenants or lessees that may be renting a portion of the fairground facilities. Marin County does not currently have a low-value ordinance in effect.
and, therefore, the assessor should be assessing all taxable possessory interests located at the fairgrounds, regardless of value.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide a private benefit. Recurring uses of the county's fairground facilities by the same private persons or entities could constitute taxable possessory interests and should be reviewed for possible assessment. Failure to assess all taxable possessory interests located at the fairgrounds may result in escape assessments.

**Assess only property classified as real property as taxable possessory interests.**

During our review of taxable possessory interests for employee housing, we noted a number of instances where the assessor was assessing manufactured homes owned by a government entity as taxable possessory interests. These manufactured homes are not on approved permanent foundations and, therefore, are considered personal property.

Rule 20(b) states that "taxable possessory interests" are possessory interests in publicly owned real property. Since a possessory interest is defined as an interest in real property, an assessment of a possessory interest would be in land and improvements only. It would not include an assessment of a possessory interest in personal property. A manufactured home not affixed or installed on an approved permanent foundation system, in compliance with Health and Safety Code section 18551, is classified as personal property. Therefore, private uses, such as employee housing, of a manufactured home owned by a government entity is not taxable.

The assessor's practice of assessing manufactured homes classified as personal property as taxable possessory interests is contrary to statute and may be causing invalid assessments to be enrolled.

**Reappraise taxable possessory interests in compliance with section 61(b)(2).**

We reviewed several taxable possessory interests in which the existing tenant renewed the lease or maintained possession after the termination of the reasonably anticipated term of possession used to value the taxable possessory interest. The assessor revalued these interests using a new term of possession; however, the assessor did not use the date of renewal of the lease as the date of event for valuation purposes. Instead, the assessor used the subsequent lien date as the date of event.

Section 61 provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax-exempt real property for any term. Section 61(b)(2) provides that a renewal or extension of a taxable possessory interest causes a change in ownership of that interest at the end of the reasonably anticipated term of possession used by the assessor to value the interest, at which time the assessor should establish a new base year value for the interest, based on a new reasonably anticipated term of possession.

The assessor should be using the date immediately following the end of the reasonably anticipated term of possession as the date of the change in ownership and establishment of the new base year value, not the subsequent lien date. By not revaluing the taxable possessory
interest as of the end of the reasonably anticipated term of possession, the assessor is not in compliance with statute and may be enrolling incorrect assessments.

Use the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests.

We found several instances in which the assessor did not use the stated term of possession as the reasonably anticipated term of possession when valuing a taxable possessory interest with a stated term of possession. For example, we found several taxable possessory interests with contracts indicating a 1-year stated term of possession in which the assessor used a 5-year term of possession, rather than the 1-year stated term, to value the taxable possessory interests.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on the lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

We found no evidence in the files demonstrating that the public owner and private possessor had reached a mutual understanding or agreement, whether in writing or not, such that the stated term of possession should not be deemed to be the reasonably anticipated term of possession. Therefore, the assessor should use the stated term of possession to establish the base year value of the taxable possessory interest and then, for subsequent years, periodically review the taxable possessory interest for a possible decline in value using a declining term based on the remaining term of possession. If the assessor does have clear and convincing evidence to support using a term other than the stated term of possession, then the assessor should properly document that evidence in the file.

The assessor's practice of using a term of possession different from the stated term of possession is contrary to Rule 21 and may result in incorrect assessments.

Properly issue supplemental assessments for taxable possessory interests.

Taxable possessory interests, like other real property, are subject to supplemental assessments whenever there is a change in ownership or completed new construction. We reviewed several
taxable possessory interests for which supplemental assessments had been issued by the assessor based on changes in ownership. We found, for the most part, the assessor is properly issuing supplemental assessments for taxable possessory interests upon a change in ownership. However, we found the following problems regarding supplemental assessments for taxable possessory interests:

(1) The assessor does not issue supplemental assessments for taxable possessory interests when the change in ownership is due to the renewal of a lease by the existing tenant.

(2) The assessor does not issue supplemental assessments for taxable possessory interests that are established by a month-to-month agreement and have a full cash value over $50,000.

(3) The assessor incorrectly calculates the supplemental assessment for taxable possessory interests by offsetting the new base year value against the prior year's assessed value.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction, unless section 75.5 applies.

Section 75.5 provides that a newly created taxable possessory interest that is established by a month-to-month agreement and has a full cash value of $50,000 or less is excluded from supplemental assessment. While we found examples where the assessor was properly excluding from supplemental assessment taxable possessory interests established by month-to-month agreements where the full cash value was $50,000 or less in compliance with section 75.5, we also found examples where the assessor was improperly excluding from supplemental assessment taxable possessory interests established by month-to-month agreements where the full cash value was over $50,000, which is not in compliance with section 75.5.

In addition, according to Assessors' Handbook Section 510, Assessment of Taxable Possessory Interests (AH 510), when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll when one taxable possessory interest is terminated during an assessment year and a second (but distinct) taxable possessory interest is created involving the same land and improvements during the same assessment year.

The assessor's failure to properly issue supplemental assessments is contrary to statute and results in a loss of revenue.

**Do not cancel a prior year's tax bill when a tenant vacates mid-year.**

In our review of the assessor's files for taxable possessory interests, it was discovered that when a private user vacates the public property after the lien date, the assessor incorrectly cancels the current year's assessment thereby relieving the tenant of any property tax liability incurred for the lien date.
Section 2192 states that, except as otherwise specifically provided, all tax liens attach annually as of 12:01 a.m. on the first day of January preceding the fiscal year for which the taxes are levied. Tax bills issued for the unsecured roll in August and for the secured roll in October are based on ownership or occupancy on the lien date within that calendar year. Sale or disposal of the rights in a taxable possessory interest between the lien date and the start of the fiscal year does not relieve the assessee of the tax liability.

The assessor's practice may lead to a potential loss in property tax revenue.

**Mineral Property**

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

There are no petroleum or high temperature geothermal properties located in Marin County. It is the responsibility of the principal appraiser of the Commercial Division to value the mineral properties located within the county.

**Mining Property**

**RECOMMENDATION 9:** Improve the mineral property program by: (1) identifying and enrolling all mineral properties in the county, and (2) applying Rule 469 to mineral properties with respect to depletion of mineral resource and measuring declines in value.

**Identify and enroll all mineral properties in the county.**

There is not a significant amount of mineral production in Marin County. The assessor has identified, assessed, and enrolled one major mineral property. However, we found two other properties that appear to be producing sand and gravel in the county. One property may have started production in the county as early as 2004. It is uncertain whether the other property is producing minerals any longer and it may only be part of a landfill operation at this time. We found nothing in the property record files indicating that these properties had ever been reviewed to determine their taxable status.

Section 104(b) provides that real property includes all mines, minerals, and quarries. All mineral property is assessable as real property, and the assessor should identify and assess all taxable real property in the county, ensuring that it gets enrolled.
Apply Rule 469 to mineral properties with respect to depletion of the mineral resource and measuring declines in value.

Due to limited resources, the assessor does not deplete the factored base year value attributable to mineral production from quarries. The assessor's current practice is to adjust the base year value each year by the BOE's annually announced inflation factor (CCPI).

The quarry enrolled in Marin County produces a significant amount of sand and gravel used throughout the San Francisco Bay Area. The operation is located in such a manner that the material can be loaded on barges and moved by water to market. There is a significant amount of information available regarding the operation of this property. An amended use permit and reclamation plan has been approved in the last few years, and the assessor should be able to make projections about future production from this information. In addition, the assessor can request operational data from the taxpayer through BOE-560-A, Aggregate Production Report, or by making a request for data pursuant to section 441(d).

Once this information has been gathered, the assessor can perform the calculations necessary to adjust the base year value of the mineral property to reflect the depletion of the minerals. This adjusted base year value of the appraisal unit can then be compared to the current market value of the mineral appraisal unit to determine the proper value to be enrolled. Failure to make the adjustments to the base year value for depletion overstates the adjusted base year value of the mineral property and may result in an incorrect assessment.
**Assessment of Personal Property and Fixtures**

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

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

In this section of the survey report, we review the assessor's audit, business property statements, business equipment valuation, manufactured homes, aircraft, and vessels programs.

**Audit Program**

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

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

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of $400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

In Marin County, the audit responsibility falls upon a senior auditor-appraiser and four auditor-appraisers, who are under the direction of a principal auditor-appraiser.
As previously noted, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 45 audits per year hereafter. The assessor completed 50 audits during the 2009-10 roll year and 49 audits during the 2010-11 roll year. Given recent and current audit production levels, the assessor has exceeded the minimum number of audits required as defined by section 469.

Statute of Limitations

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

The assessor requests signed waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. We reviewed a number of waivers presented to property owners during recent years and found them to be adequately prepared and properly executed.

Audit Quality

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

We found that the assessor verifies leased equipment, accounts for supplies, conducts field inspections, and properly classifies equipment. We also reviewed the assessor's application of roll corrections to reflect audit findings and found that the assessor prepares roll corrections to be enrolled for each year in which the escape assessment took place pursuant to section 531. Since the board of supervisors adopted a resolution enacting the provisions of section 1605(c), the assessor uses the tax bill as notification of enrollment of escape assessments.

We sampled several completed audits and found that the audits were thoroughly conducted, well documented, and supported by a comprehensive audit narrative and checklist defining the areas of investigation. We have no recommendations for this program.

Business Property Statement Program

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

General Statement Processing

BPSs are date stamped and reviewed by support staff for completeness, timeliness, and the inclusion of an authorized signature. BPSs are also reviewed for any changes to existing accounts, such as mailing address, ownership or business name, DBA, or situs address. Support staff scan all BPSs into the computer system. A principal auditor-appraiser oversees all routine processing of BPSs performed by non-certified staff. Value adjustments to be entered into the system are prepared by certified auditor-appraisers. The assessor also has an e-filing program in place in order to receive and accept BPSs through the Internet.

Discovery

The assessor utilizes a wide range of tools for discovering taxable business property. Taxpayer self-reporting and periodic field canvassing are the main discovery sources used by the assessor. Other means of discovery include reviewing city and county business licenses, fictitious business name filings, real property appraiser referrals, business directory services, and landlord reports of tenants. We found that the assessor employs a sufficiently diversified program for discovering business personal property.

Direct Billing

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

The direct billing program is beneficial to the taxpayer and to the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff thereby increasing time available for the auditor-appraisers to perform other required duties.

In Marin County, there were 3,863 direct billing accounts enrolled for the 2011-12 roll year. Auditor-appraisers determine which accounts qualify to participate in the direct billing program. BPSs are sent to participating businesses every other year in order to update assessment information. We found the assessor has an effective direct billing program.

Findings

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, application of penalties, coordination with the real property
division, and record storage and retention. In addition, we reviewed several recently processed BPSs and found that all BPSs sampled and accepted by the assessor evidenced the proper usage of Board-prescribed forms and were completed in sufficient detail.

Overall, we found that the assessor is properly processing BPSs and has an effective program in place. We have no recommendations for this program.

**Business Equipment Valuation**

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

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

The assessor has written procedures describing business equipment valuation. The assessor has a coding system to identify and designate the use of specific valuation tables for business equipment reported on the BPS. We reviewed the assessments of business equipment reported on BPSs for a variety of businesses, such as banks and financial institutions, service stations, grocery stores, manufacturing, construction, and agricultural.

**Application of Board-Recommended Index Factors**

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The indices and factors parallel those published in AH 581, with the exception of specific types of equipment (such as pagers, facsimile equipment, and high tech medical equipment) that the CAA recommends should not be trended. We reviewed the assessor's valuation tables and a number of processed BPSs. We found the assessor's application of Board-recommended valuation tables to be both consistently and accurately applied.

**Mobile Construction and Agricultural Equipment Valuation Factors**

The assessor currently utilizes separate and appropriate factor tables for new and used mobile construction and agricultural equipment in accordance with the instructions on Table 5 and Table 6 in AH 581. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile construction and mobile agricultural equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. When the condition is indicated, the assessor should use the "new" or "used" table. We reviewed the assessor's factor tables related to this issue and found the Board-recommended cost index and depreciation tables to be correctly compiled.
Manufactured Homes

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

In Marin County, there were 243 manufactured homes with a total assessed value of $8,929,568 for the 2011-12 roll year. Currently, there are nine mobilehome parks located in Marin County and none of the parks are resident-owned. It is the responsibility of one appraiser to assess all manufactured homes located in mobilehome parks. Any manufactured homes located outside of a mobilehome park are assigned to the appraiser of that particular area.

The assessor identifies manufactured homes on the assessment roll with a fictitious parcel number beginning with "900" and a use code of "12." All manufactured homes are classified as personal property on the secured roll. For those manufactured homes located on approved permanent foundations (per Health and Safety Code section 18551), the assessor correctly classifies them as real property improvements and they are no longer assigned to a fictitious "900" parcel number.

The primary means of discovering assessable manufactured homes is through the receipt of information from the Department of Housing and Community Development (HCD), dealer reports of sale, building permits, tax clearances from the tax collector, and field canvassing.

The assessor uses Assessors' Handbook Section 531, Residential Building Costs (AH 531) to value manufactured homes. Accessories, such as decking, awnings, and skirting, are included and valued using a combination of costs from AH 531 and Kelley Blue Book, Official Manufactured Housing Guide (Kelley Blue Book). In accordance with section 5803, the assessor does not include any value attributable to the site in the final estimate of value for those manufactured homes located in rental parks.

We reviewed several manufactured home assessments. We found that the assessor is properly issuing supplemental assessments for all reappraisable events for manufactured homes. The assessor annually reviews all manufactured homes for declines in value and enrolls the lower of the factored base year value or current market value. Overall, the assessor has a comprehensive program to assess manufactured homes. However, we found an area in need of improvement.

RECOMMENDATION 10: Use current published cost guides to value manufactured homes and accessories.

We found that the assessor is valuing manufactured homes and accessories using outdated cost guides. For example, the assessor is using the January 2010 edition of AH 531 to value manufactured homes for declines in value as of the January 1, 2011 lien date, even though there is a more current edition of AH 531, which is the January 2011 edition, effective January 1, 2011. In addition, we found that the assessor is using an outdated cost guide to value accessories for manufactured homes. Several years ago, the assessor developed costs to value
accessories, and these costs were derived from Kelley Blue Book and AH 531. The assessor continues to use these costs for the 2011 lien date, even though publication of the Kelley Blue Book was discontinued in 2006.

AH 531 is revised annually with updated costs based on the most current data available in the market place. When using AH 531 costs, the assessor should use the edition that corresponds with the date of valuation, such as the lien date. Thus, for January 1, 2011 decline-in-value assessments, the assessor should use the January 2011 edition of AH 531 to determine the value. Best appraisal practices call for use of the most current, reliable, and relevant market indicators available for any given appraisal.

By not utilizing the most current cost guides when valuing manufactured homes and accessories, the assessor may be using unreliable and/or outdated market value indicators. This may result in incorrect assessments being enrolled.

**Aircraft**

**General Aircraft**

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

For the 2011-12 roll year, there were 214 general aircraft enrolled with a total assessed value of $50,404,595. Marin County does not have any certificated, fractionally owned, or historical aircraft.

A senior auditor-appraiser is responsible for all aspects of general aircraft valuation. Aircraft are discovered through airport operators' reports, other county referrals, Federal Aviation Administration (FAA) reports, and the FlightAware website.

Each year, the assessor mails BOE-577, *Aircraft Property Statement*, to the known aircraft owners in the county, requesting current information on all aircraft. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, current situs information, and transfer information if applicable. The aircraft statement indicates a filing due date of April 1, and the assessor imposes a 10 percent penalty for failure to file and late-filings.

The senior auditor-appraiser uses the *Bluebook* to estimate the fair market value of general aircraft. Commencing with the *Bluebook* value, the assessor decreases the indicated value by 10 percent for overall condition, and modifies this value with other adjustments to reflect additional condition issues, engine hours, airframe time, and avionics. Sales tax is then applied to the final adjusted value. The assessor conforms to the BOE valuation guidelines contained in AH 577 and Letter To Assessors No. 97/03.
We reviewed several general aircraft records for valuation methodology, legal signatures, adherence to legally mandated procedures, and the application of late or non-filer penalties pursuant to section 5367. We found the assessor's procedures for the discovery, valuation, and assessment of general aircraft conforms to statutory provisions and guidelines set forth in Assessors' Handbook Section 577, *Assessment of General Aircraft* (AH 577).

We have no recommendations for the assessor's aircraft program.

**Vessels**

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.

The following table shows the number and total assessed value of vessels in Marin County over recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO. PLEASURE VESSELS</th>
<th>ASSESSED VALUE</th>
<th>NO. DOCUMENTED VESSELS</th>
<th>ASSESSED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>3,811</td>
<td>$169,981,546</td>
<td>17</td>
<td>$82,845</td>
</tr>
<tr>
<td>2010-11</td>
<td>3,888</td>
<td>$167,112,576</td>
<td>15</td>
<td>$97,788</td>
</tr>
<tr>
<td>2009-10</td>
<td>4,029</td>
<td>$179,219,849</td>
<td>15</td>
<td>$166,492</td>
</tr>
<tr>
<td>2008-09</td>
<td>4,213</td>
<td>$194,259,810</td>
<td>21</td>
<td>$230,897</td>
</tr>
<tr>
<td>2007-08</td>
<td>4,308</td>
<td>$194,886,360</td>
<td>19</td>
<td>$81,565</td>
</tr>
</tbody>
</table>

The assessor enrolled a total of 3,828 vessels for the 2011-12 roll year, with a total assessed value of $170,064,391. The assessor utilizes DMV monthly transaction reports, marina reports, and listings from the United States Coast Guard as methods of discovery.

The assessor sends BOE-576-D, *Vessel Property Statement*, to registered owners of all vessels newly enrolled in the county, subject to a change in ownership, or having an aggregate cost of $100,000 or more.

**Valuation**

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. For the purposes of California property taxation, vessels are valued at their fair market value every year as of the January 1 lien date. Sections 401 and 401.3 require the assessor to value boats at market value each year. An assessment recording technician initially calculates all vessel values, and a certified auditor-appraiser reviews and approves all vessel values before enrollment. Newly enrolled vessels are valued with the aid of the National Automobile Dealers Association *Marine Appraisal Guide* (NADA), the *BUC Used Boat Price Guide* (BUC), and Boats.com website.
All pleasure vessels are valued each year. A master spreadsheet is used to track and prepare values to be enrolled for each vessel. For mass appraising purposes, the assessor researches certain vessel manufacturers, makes a value determination, and applies that same value to all vessels of a similar manufacturer and/or type in an effort to attain uniformity. Adjustments are made for equipment, motor, motor condition, and accessories. The assessor makes deductions for trailers, and adds sales tax and penalties when applicable.

We reviewed several pleasure vessel assessments and found an area in need of improvement for the assessor's vessel program.

**RECOMMENDATION 11:** Use a market derived procedure to value vessels and properly document the value determinations.

We found that the assessor's method of mass appraising pleasure vessels makes it difficult to determine how the assessor came to the value determinations for certain vessels, and there is no documentation in the file or on the master spreadsheet to show how the calculations were performed or the sources that were used to make those value determinations.

According to Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), the use of valuation factors should be supported by a recognized sampling method. To utilize sampling of current market evidence, assessors must develop and use recognized methods that will be accepted with confidence by the BOE and property owners.

The assessor may also use the recently developed vessel valuation factors provided by the BOE. To promote uniformity of vessel assessments among counties within California, the BOE developed market derived depreciation tables available for use by assessors since the 2009 lien date. These depreciation factors were developed with the assistance of many county assessors to be used in the mass appraisal of vessels when determining a value for property taxation purposes.

By not using an accepted market derived procedure to value pleasure vessels, the assessor may not be assessing all pleasure vessels at current market value. In addition, by not adequately documenting the appraisal records, the assessor's value conclusions, even if correct, may not be fully understood by taxpayers or other appraisers.

**Vessels Qualifying for the 96 Percent Exemption**

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. For vessel's owners to qualify for the exemption, they must file BOE-576-E, *Affidavit For 4 Percent Assessment Of Certain Vessels*. If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent (80 percent of the 96 percent exemption). However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

We sampled several partially exempt vessels and found that the exemption forms were sufficiently completed and exemptions were appropriately granted when the qualifications in section 227 were met.
APPENDIXES

A. County-Assessed Properties Division Survey Group

Marin County

Chief

Dean Kinnee

Survey Program Director:

Mike Harris Manager, Property Taxes

Survey Team Supervisor:

Sally Boeck Supervisor, Property Taxes

Survey Team Leader:

Ronald Louie Supervisor, Property Taxes

Survey Team:

James McCarthy Senior Petroleum and Mining Appraisal Engineer
Andrew Austin Senior Specialist Property Appraiser
Gary Coates Associate Property Appraiser
Robert Marr Associate Property Appraiser
Jay Price Associate Property Appraiser
Paula Montez Associate Property Auditor-Appraiser
Hilary Si Associate Property Auditor-Appraiser
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 show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. **When surveys to be made.**

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the 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 ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the 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 ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

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

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

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
(3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

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

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


(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 audits in accordance with Revenue and Taxation Code section 469.

(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 Board a response to the findings and recommendations in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Marin County Assessor's response begins on the next page. The BOE has no comments on the response.
December 24, 2013

Mr. David Gau, Deputy Director
State Board of Equalization
Property and Special Taxes Department
P.O. Box 942879
Sacramento, CA 94279-0064

Re: Assessor’s Responses to Recommendations
BOE Assessment Practices Survey – Marin County

Dear Mr. Gau:

Thank you for this opportunity to respond to the recommendations of the State Board of Equalization’s Assessment Practices Survey performed during the start of the year 2012. These responses are submitted pursuant to Section 15645 of the California Government Code.

This office is most appreciative of the State Board of Equalization’s efforts to help achieve correct appraisals and uniform assessment practices in the State through the survey process. The surveys provide Assessors, staff and the public an invaluable source of information and ideas about how to effect positive change. We are appreciative of your favorable observations as well as your recommendations which contribute to the effective administration of the property assessment program. Indeed, the State Board of Equalization’s survey program is one which aligns with the County of Marin’s strategic plan to provide excellence in public service and promote a sustainable future for the County. Likewise, we are grateful and impressed by the professionalism and courtesy exhibited by your fine staff both in the field and with their ongoing assessment procedures assistance to Assessors.

We concur with your recommendations and as described in our responses, have immediately implemented most recommendations. We are in the process of implementing all recommendations with improvements in new technology, systems, procedures and resources.

I wish to take this opportunity to also acknowledge and thank the employees of the Marin County Assessor’s Office for their cooperation with the Board of Equalization Survey Team as well as their professionalism, dedication and commitment to public service.

Sincerely,

Richard N. Benson
Assessor-Recorder-County Clerk
Assessor’s Responses to Recommendations

**Recommendation 1:** Develop written procedures for the assessment of staff-owned property and the reporting of economic interests, and expand the written procedures for conflicts of interest.

**Reply:** We concur and procedures for this recommendation have been implemented.

**Recommendation 2:** Improve the religious and church exemptions program by: (1) ensuring that only qualifying properties are granted the religious exemption, (2) ensuring use of the correct claim forms when granting the religious exemption, and (3) properly applying the provisions of sections 270 and 271 for exemption claims that are not timely filed.

**Reply:** We concur and procedures for this recommendation have been implemented.

**Recommendation 3:** Appropriately prorate the welfare exemption as of the date of acquisition in accordance with section 271.

**Reply:** We concur and procedures for this recommendation have been implemented.

**Recommendation 4:** Improve the disabled veterans’ exemption program by: (1) granting the disabled veterans’ exemption on a prorated basis for the initial qualification year in accordance with sections 276.1 and 276.2, and (2) terminating the disabled veterans’ exemption as of the date the property is no longer eligible.

**Reply:** We concur and procedures for this recommendation have been implemented.

**Recommendation 5:** Improve the new construction program by: (1) properly classifying septic systems as structural improvements in accordance with Rule 124, (2) obtaining required information prior to granting new construction exclusions, and (3) enrolling all assessable new construction.
Assessor’s Responses to Recommendations – Marin County

Reply: We concur and procedures for the recommendations for parts (1) and (2) have been implemented. We also concur with part (3) and will pursue implementation with available staff and resources. Staff and resource limitations, as well as an assessor’s lack of authority to inspect private property without voluntary permission, impose logistical considerations to the challenge of pursuing absolutely all potentially assessable new construction activities.

Recommendation 6: Improve the declines-in-value program by including the value of excluded new construction in the full cash value estimate of a decline-in-value property.

Reply: We concur with the recommendation and are pursuing implementation with electronic data structure reconfiguration and available staff and resources. Staff and resource limitations, as well as an assessor’s lack of authority to inspect private property without voluntary permission, impose logistical considerations to the challenge of pursuing absolutely all potentially assessable new construction activities.

Recommendation 7: Improve the CLCA program by: (1) using an appropriate income stream for capitalizing restricted tree and vine income, (2) valuing newly erected home sites on land under CLCA contract pursuant to AH 521, (3) valuing nonliving improvements as restricted unless expressly provided for in the contract, and (4) using economic rent to estimate compatible use income when valuing CLCA property.

Reply: We concur and procedures for this recommendation are being implemented.

Recommendation 8: Improve the taxable possessory interests program by: (1) correctly calculating base year values for taxable possessory interests by including rent escalations in the value calculations when appropriate, (2) assessing all taxable possessory interests located at the county fairgrounds, (3) assessing only property classified as real property as taxable possessory interests, (4) reappraising taxable possessory interests in compliance with section 61(b)(2), (5) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (6) properly issuing supplemental assessments for taxable possessory interests, and (7) not cancelling a prior year's tax bill when a tenant vacates mid-year.
Assessor's Responses to Recommendations – Marin County

Reply: We concur and will pursue implementation with available staff and resources. We note BOE Assessors' Handbook 510, page 63, reports the weaknesses identified in Revenue and Taxation Code Section 480.6 and recommends assessors accommodate accordingly with investigative resources. Considering the limitation of resources and the general self-reporting nature of property tax administration, strengthening the reporting requirement of Section 480.6 may additionally help assessors avoid labor-intensive investigations.

Recommendation 9: Improve the mineral property program by: (1) identifying and enrolling all mineral properties in the county, and (2) applying Rule 469 to mineral properties with respect to depletion of mineral resources and measuring declines in value.

Reply: We concur and procedures for this recommendation are being implemented. The valuation and assessment of certain mineral producing properties in Marin are extremely complex and we appreciate the support offered by BOE staff for implementing this recommendation.

Recommendation 10: Use current published cost guides to value manufactured homes and accessories.

Reply: We concur and procedures for this recommendation have been implemented.

Recommendation 11: Use a market derived procedure to value vessels and properly document the valued determinations.

Reply: We concur and procedures for this recommendation are being implemented. While market value guides are utilized to arrive at reliable assessments, further implementation procedures include improved documentation and a new computer program incorporating trending factors.