

ORANGE COUNTY SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY

JUNE 2017

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2017/023

June 30, 2017

TO COUNTY ASSESSORS:

**ORANGE COUNTY
SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY**

A copy of the Orange County Supplemental 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 specified counties 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 Claude Parrish, Orange County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Orange County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Mr. Parrish 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.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

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INTRODUCTION

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Orange 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 Claude Parrish, Orange County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."¹ The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

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

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation 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.

Government Code section 15643 requires the BOE to repeat or supplement each survey of a county's assessment practices in the 10 largest counties at least once in five years. The BOE has elected to conduct a supplemental survey for Orange County. The supplemental survey includes a review of the recommendations contained in the prior survey report, the assessor's written response to the recommendations, the assessor's current records pertaining to those recommendations, and interviews with the assessor and his staff. This supplemental survey is made to determine the extent to which the assessor has implemented the recommendations contained in the prior survey report and to identify areas where problems still exist.

This supplemental survey included an assessment sample of the 2014-15 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among

¹ Government Code section 15642.

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.

assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.³

Our survey methodology of the Orange County Assessor'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 Orange County who provided information relevant to the property tax assessment program.

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

In the December 2011 Orange County Assessment Practices Survey report, there were a total of 15 recommendations. One was in the area of administration, nine were related to real property assessment, and five were related to personal property and fixture assessments. This report reflects the BOE's findings in its supplemental survey of the Orange County Assessor's Office.

³ For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>.

EXECUTIVE SUMMARY

As stated in the Scope and Methodology, the BOE has elected to perform a supplemental survey of Orange County, addressing only the recommendations from the prior survey and whether the assessor has implemented those recommendations.

In the area of administration, we reviewed the prior recommendation identified in the assessor's disaster relief assessment program. We found the assessor has implemented both parts of the recommendation made for the disaster relief assessment program made in our prior survey.

In the area of real property assessment, we reviewed the prior recommendations identified in the assessor's change in ownership, new construction, California Land Conservation Act (CLCA), taxable possessory interests, restricted historical properties, leasehold improvements, and mineral property assessment programs. We found the assessor has implemented two of the three recommendations made regarding change in ownership assessment, has implemented our recommendation regarding new construction assessment, and has implemented all three parts of our recommendation regarding CLCA assessments made in the prior survey. The assessor has implemented all parts of the recommendation made regarding taxable possessory interest assessment. Likewise, we found the assessor has implemented recommendations made for restricted historical property and leasehold improvement assessment programs. We also found the assessor needs further improvement in one area of his mineral assessment program cited in our previous survey.

In the area of personal property and fixtures, we reviewed the prior recommendations identified in the assessor's audit, business property statement, business equipment valuation, and vessel assessment programs. We found the assessor has implemented our recommendations for the assessor's audit, business property statement, and vessel assessment programs. However, we did find during our survey that the assessor implemented one of the two recommendations made in our last survey regarding business equipment valuation.

The Orange County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2014-15 assessment roll indicated an average assessment ratio of 99.98 percent, and the sum of the absolute differences from the required assessment level was 0.06 percent. Accordingly, the BOE certifies that Orange County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

ADMINISTRATION: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following is the recommendation related to administrative policies and procedures, which affect both real property and business property assessment programs, included in our December 2011 Assessment Practices Survey Report and the assessor's response to the recommendation. After the recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our supplemental survey fieldwork.

Disaster Relief

RECOMMENDATION 1: Improve the disaster relief program by:
(1) consistently issuing supplemental assessments when revaluing restored property, and (2) consistently applying the inflation factor to the assessed value of damaged properties.

(1) Consistently issue supplemental assessments when revaluing restored property.

Original Findings:

(1) Although the assessor generally issues supplemental assessments upon restoration of the damaged property, we found a few instances in which the assessor cancelled the supplemental assessments once the property had been completely repaired.

Assessor's Response:

(1) The disaster relief program is in compliance with all state laws, rules, and regulations. One (1) supplemental assessment was found to have been cancelled in error.

Current Status:

(1) We found that the assessor has implemented this recommendation. The assessor has developed written procedures for the approval of disaster relief events. All calamity events are reviewed through the calamity event approval procedure for correctness and supplemental assessments are properly issued.

(2) Consistently apply the inflation factor to the assessed value of damaged properties.

Original Findings:

(2) When there is no repair work started by the lien date following a disaster, the assessor does not always apply the inflation factor to the assessed value of the damaged property.

Assessor's Response:

(2) We respectfully disagree. The Assessor exercises appraisal judgement based on the timing of each disaster reassessment, market conditions and the condition of each property at the time of the assessment.

Current Status:

(2) We found that the assessor has implemented this recommendation. The assessor has developed written procedures for the approval of disaster relief events. All calamity events are reviewed through the calamity event approval procedure for correctness and the inflation factor is applied in situations where no repair work was started by the lien date following a disaster.

ASSESSMENT OF REAL PROPERTY: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations related to the assessment of real property included in our December 2011 Assessment Practices Survey Report and the assessor's responses to those recommendations. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our supplemental survey fieldwork.

Change in Ownership

Penalties

RECOMMENDATION 2: Remove penalty language from the standard letter sent to taxpayers who have filed an incomplete *Preliminary Change of Ownership Report (PCOR)*.

Original Findings:

The assessor's standard letter requesting additional information from a taxpayer who has filed an incomplete PCOR includes language which implies the taxpayer will have to pay a penalty if a completed PCOR is not submitted timely.

Assessor's Response:

We respectfully disagree. The penalty language in the standard letter does not specify that there is a penalty for filing an incomplete PCOR. The sentence in question states "We require the following information in order to process the transfer of property into your name and to avoid any potential penalties".

This sentence is correct. If the taxpayer completes the PCOR and returns it, they will avoid any potential penalties. The Assessor believes this statement is a strong and complete representation of the process.

Current Status:

We found that the assessor has implemented this recommendation. The assessor has updated the letter template to remove the penalty language.

Legal Entity Ownership Program (LEOP)

RECOMMENDATION 3: Improve the LEOP program by applying appropriate penalties required by section 482(b) if a change in ownership statement is not returned timely as required by section 480.1 or 480.2.

Original Findings:

The "Questionnaire Due Dates and Filing Dates for Entities Indicating a Change in Control or Change in Ownership – By Company" lists legal entities that have undergone a change in control or ownership and identifies due dates and actual filing dates of BOE-100-Bs [*Statement of Change in Control and Ownership of Legal Entities*] for each entity. When the assessor receives this report and discovers a late filing by a legal entity, a penalty is not applied because the assessor states that a system is not in place to handle such penalties.

Assessor's Response:

We concur. The Assessor is processing LEOP transfers, and is working on a plan to implement LEOP penalties.

Current Status:

We found that the assessor has partially implemented this recommendation. However, we must repeat this recommendation. Although the assessor has made improvements in the LEOP penalty process, we found instances where appropriate penalties have not been applied.

Sections 480.1 and 480.2 require the filing of a signed BOE-100-B whenever a legal entity has undergone a change in control or ownership. Section 482(b) states that if a person or legal entity required to file a BOE-100-B fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership, or (2) the date of a written request by the BOE, a specific penalty shall be applied.

The BOE provides the assessor with several reports, as well as copies of BOE-100-Bs, indicating whether a penalty applies. The assessor should review these reports and the BOE-100-Bs to identify entities with late-filings or failures to file and apply penalties accordingly.

By not processing all penalties, the assessor is not in compliance with section 482(b) and is not treating all taxpayers equitably.

Change in Ownership Exclusions – section 63.1 and section 69.5

RECOMMENDATION 4: Correct the language on section 63.1 and section 69.5 denial letters.

Original Findings:

The assessor has standard section 63.1 and section 69.5 denial letters with options to select the reason for the denial. Most letters contain correct language. However, we discovered letters that need to be updated to be in compliance with statutory law.

Assessor's Response:

We concur. The Assessor has made corrections as recommended.

Current Status:

We found that the assessor has implemented this recommendation. The assessor has performed the necessary updates to the letter templates to modify the denial language.

New Construction

RECOMMENDATION 5: Enroll all domestic and irrigation water wells as land.

Original Findings:

The assessor receives hard copies of building permits from the County Environmental Health Division. However, when we reviewed the processing of well permits issued by this agency, we found instances where the assessor did not add the value of water wells as land for all parcels that have had domestic and irrigation water wells installed.

Assessor's Response:

We concur. The Assessor will make adjustments as recommended.

Current Status:

The assessor has implemented this recommendation, reviewing all permits related to water wells and, as of lien date 2012, enrolling all domestic and irrigation water wells as land.

California Land Conservation Act Property (CLCA)

RECOMMENDATION 6: Improve the CLCA program by: (1) correctly estimating the value of nonliving improvements, (2) enrolling the correct value for properties subject to terminating restrictions, and (3) correctly assessing homesites on CLCA land.

(1) Correctly estimate the value of nonliving improvements.

Original Findings:

(1) In estimating the value of the nonliving improvements, we found the assessor capitalizes the income attributable to nonliving improvements (such as irrigation systems) required for prime acreage using the restricted capitalization rate. The assessor then adds this capitalized value to the total unrestricted nonliving improvement value. Use of a restricted capitalization rate to value unrestricted nonliving improvements is not correct. In addition, the assessor is adding income attributable to irrigation systems required for prime acreage when no irrigation system was listed on the assessor's miscellaneous improvement records.

Assessor's Response:

(1) We concur. The Assessor will correct the seven (7) parcels noted and improve assessment procedures for CLCA properties.

Current Status:

(1) The assessor has implemented this part of the recommendation. Since the prior survey, the assessor has improved documentation practices regarding the miscellaneous improvement records. In addition, the assessor correctly values nonliving improvements (such as irrigation systems) as unrestricted in accordance with Assessors' Handbook section 521, *Assessment of Agricultural and Open-Space Properties*, Part II Chapter 4, page II-46. The assessor determines the incremental value attributable to nonliving improvements associated with the restricted portions of the property, and adds the increment of value to the total unrestricted nonliving improvements to derive a total assessed value.

(2) Enroll the correct value for properties subject to terminating restrictions.

Original Findings:

(2) We found the assessor enrolls the factored base year value (FBYV) for property leaving restricted status through the nonrenewal process, even when the worksheet shows the current market value is less than the FBYV.

Assessor's Response:

(2) We concur. The Assessor will correct the seven (7) parcels noted and improve assessment procedures for CLCA properties.

Current Status:

(2) The assessor has implemented this part of the recommendation. Since the last survey, the assessor has developed new procedures for the valuation and enrollment of parcels in nonrenewal status. There are no parcels in a nonrenewal status.

(3) Correctly assess homesites on CLCA land.

Original Findings:

(3) We found the assessor has inconsistently assessed homesites on CLCA land. On one property, the assessor included a homesite assessment when there were no residential improvements. On another property, the assessor established the value of a newly created homesite using current market value as of the date of the creation of the homesite and added this to the existing land value.

Assessor's Response:

(3) We concur. The Assessor will correct the seven (7) parcels noted and improve assessment procedures for CLCA properties.

Current Status:

(3) The assessor has implemented this part of the recommendation. The assessor correctly assesses homesites on CLCA land.

Taxable Possessory Interests

RECOMMENDATION 7: Improve the taxable possessory interest program by: (1) valuing taxable possessory interests in faculty housing at the University of California at Irvine in accordance with Rule 21, (2) using the stated term of possession as the reasonably anticipated term of possession in accordance with Rule 21 when valuing taxable possessory interests, (3) not assessing a taxable possessory interest to a public user of public lands, and (4) issuing supplemental assessments on all qualifying taxable possessory interests.

(1) Value taxable possessory interests in faculty housing at the University of California at Irvine in accordance with Rule 21.

Original Findings:

(1) Faculty members hold taxable possessory interests in faculty housing at the University of California at Irvine. We found that the assessor does not value such interests using one of the prescribed methods in Rule 21(e).

Assessor's Response:

(1) We respectfully disagree. The Assessor exercised appraisal judgement based on the interpretation of the various contract provisions and recorded documents.

Current Status:

(1) The assessor has implemented this part of the recommendation. The assessor is correctly valuing taxable possessory interests in faculty housing at the University of California at Irvine using the comparative sales approach in accordance with Rule 21(e) and valuing the present worth of future rents.

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

Original Findings:

(2) The assessor does not always use the stated term of possession when determining the market value of taxable possessory interests. We found cases involving faculty housing where the stated term of possession is 99 years, but the assessor used a term of 20 or 30 years to value the taxable possessory interest. The assessor maintains that a 99-year term of possession is unreasonable, because the lessee will not remain in possession of the property for 99 years. We also found inconsistencies where the assessor used a 20-year term of possession for one roll year and a 30-year term for the following roll year.

Assessor's Response:

(2) We respectfully disagree. All UCI faculty housing ground leases make reference to an original ground lease between the Regents of the University of California and Irvine Campus Housing Authority (ICHA). The original ground lease has a 99-year stated term, and establishes the basis for possessory interest assessments. The ground lease is not between the UC Regents and the individual faculty members. The housing program was implemented with the expectation that owners of individual properties would change during the 99-year term. More than 80 years currently remain on the original 99-year term. It is not reasonable to anticipate that a faculty member would be teaching at UCI for this extended length of time. The Assessor believes that using the remaining term of the original ground lease would dramatically overstate the value. Based on a turnover study by the Irvine Campus Housing Authority, a term of 30 years for valuation purposes was used.

Current Status:

(2) The assessor has implemented this part of the recommendation. The assessor is correctly using the remaining stated term of possession per Rule 21(a)(6).

(3) Do not assess a taxable possessory interest to a public user of public lands.

Original Findings:

(3) The assessor has assessed taxable possessory interests in property owned by the California Department of Transportation (CalTrans) and leased to local municipalities.

Assessor's Response:

(3) We respectfully disagree. The properties sampled by the BOE are owned by the California Department of Transportation (Cal Trans) and used by local municipalities. The properties were acquired by Caltrans for future highway expansion, and are currently leased by local municipalities. Streets and Highway Code Section 104.13 mandates that the Assessor assess these properties as taxable possessory interests.

Current Status:

(3) The assessor has implemented this part of the recommendation. The assessor is no longer assessing taxable possessory interests in property owned by the California Department of Transportation and leased to local municipalities. The accounts noted in the prior survey have been cancelled and inactivated.

(4) Issue supplemental assessments on all qualifying taxable possessory interests.

Original Findings:

(4) Upon a change in ownership of a taxable possessory interest, the assessor establishes a new base year value. However, the assessor does not issue a supplemental assessment for taxable possessory interests enrolled on the unsecured roll.

Assessor's Response:

(4) We concur. Beginning in 2012, supplemental assessments will be generated for all possessory interests.

Current Status:

(4) The assessor has implemented this part of the recommendation. The assessor issues supplemental assessments for all possessory interests.

Restricted Historical Property

RECOMMENDATION 8: Improve restricted historical property assessments by properly applying the property tax component when valuing historical properties.

Original Findings:

When using triple-net rents to value historical properties, the assessor includes the property tax component in the overall capitalization rate. This results in a duplicate deduction of the property taxes.

Assessor's Response:

The two (2) properties noted in the survey have been reviewed. The survey was correct on the first parcel. The second property was valued correctly, with no property tax component in 2009 or any subsequent year.

Current Status:

We found that the assessor has implemented this recommendation. When using triple net rents, the assessor has not included the property tax component in the overall capitalization rate in recent years.

Leasehold Improvements

RECOMMENDATION 9: Assess all wireless communication tower sites delegated for local assessment.

Original Findings:

The assessor is not assessing all locally-owned wireless communication tower sites that were delegated for local assessment by the BOE in Letters To Assessors (LTA) No. 2001/024, dated April 11, 2001. The assessor's real property and business property divisions are working to comply by re-parceling approximately 76 former BOE parcels to standard parcels and identifying the parcels that contain cell towers. However, all parcels with wireless communication tower sites delegated for local assessment have not been assessed.

Assessor's Response:

The Assessor has made every effort to assess all locally assessed wireless communication tower sites. We are not aware of any sites that have not been assessed.

Current Status:

The assessor has implemented this recommendation. The assessor compares the annual BOE report of Wireless Communication Sites to the inventory of cell tower sites as reported by taxpayers. The assessor is in the process of implementing a procedure for the discovery,

assessment, and tracking of cell tower site improvements with the business and real property divisions.

Mineral Property

RECOMMENDATION 10: Review discounted cash flow procedures for valuing petroleum properties to better follow generally accepted appraisal standards.

Original Findings:

While the assessor's appraisals of petroleum properties are well documented, there are some practices that should be reviewed to ensure accurate appraisals. The first relates to expense data used in the cash flow analysis. The assessor declines the projected operating costs at the same rate as the decline in production. This is atypical of the relationship between oil production and operating costs. Operating costs are more closely associated with total fluid production from a petroleum property, and for many fields, these costs actually increase as the rate of petroleum production decreases. This is typically due to increased costs associated with water disposal. The assessor's practice of declining operating costs as production declines will tend to overstate property values.

Assessor's Response:

We respectfully disagree. The Assessor uses accepted appraisal standards to determine discount rates. Adjustments to standard cap rates are determined by knowledgeable oil and gas appraisers, using appraisal judgement to make adjustments for size, location, and productivity of each property.

Current Status:

Since the last survey, the assessor has implemented better documentation regarding the discounted cash flow analysis used to determine market values for petroleum properties. However, the assessor should still improve his petroleum assessment program to conform to accepted practices.

Decline curve analysis is an empirical analysis that requires examination of petroleum production curves to identify long-term decline trends. The assessor uses a rolling window of ten years and performs a least squares regression curve fitting algorithm to arrive at the decline rate used in the discount cash flow analysis. This method is contrary to accepted petroleum appraisal practices because the method does not review the actual plot of the production curve to identify the stabilized production trend. Influences from newly drilled or reworked wells will affect the assessor's results introducing errors into the analysis leading to incorrect reserves estimates and production forecasts.

The proper procedure is to review the production curve, often as a semi-log plot of production versus time, though other types of curves such as production versus cumulative production or production versus water percentage can be used. Further detail regarding production curve

analysis can be found in Assessors' Handbook section 566, *Assessment of Petroleum Properties*, pages 4-8 to 4-16.

PERSONAL PROPERTY AND FIXTURES ASSESSMENTS: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations related to the assessment of personal property and fixtures included in our December 2011 Assessment Practices Survey Report and the assessor's responses to those recommendations. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our supplemental survey fieldwork.

Audit Program

RECOMMENDATION 11: Use a comprehensive audit checklist as a standard component of the audit program.

Original Findings:

Frequently, during our review of sampled audits, we could not determine the scope of the assessor's audit investigations, because an audit checklist was not included in the work papers. The assessor's audit program does not include the routine use of a comprehensive audit checklist indicating the areas of investigation.

Assessor's Response:

A comprehensive audit checklist is a standard component of the Orange County audit program. The audit procedure manual has a checklist for the auditors to plan and use as a guide to conduct audits.

Current Status:

We found that the assessor has implemented this recommendation. The assessor's audit program now includes the routine use of a comprehensive audit checklist indicating the areas of investigation.

Business Property Statement Program

RECOMMENDATION 12: Value taxable business property in accordance with section 501, when a taxpayer fails to file a business property statement.

Original Findings:

When a completed BPS is submitted late, the assessor correctly calculates the current market value of known taxable business property owned and controlled by the property owner and applies the statutorily-defined 10 percent penalty. However, in cases where the BPS is not

returned, the assessor does not calculate the current market value of the known taxable business property; he simply applies a pre-determined escalation rate to the previous year's enrollment. During the 2009-10 roll year, the escalation rate was 10 percent. During the previous three roll years, the escalation rate was 20 percent.

Assessor's Response:

We concur. The Assessor has consistently incorporated market factors in procedures for estimating the value of a non-filer's taxable business property. The new assessment system provides the ability to apply different escalation rates based on the nature, size, and/or type of the business. This is also a resource issue, as we lack the resources to physically visit each non-filer on an annual basis.

Current Status:

The assessor took action on our prior recommendation for the 2014 lien date. Prior to the 2014 lien date the assessor continued the practice of enrolling values for non-filers based on arbitrary escalation rates without any support. For the 2014 lien date, the assessor discontinued the practice of using unsupported escalation rates.

Business Equipment Valuation

Mobile Construction and Agricultural Equipment Valuation Factors

RECOMMENDATION 13: Use the Board-recommended factor tables as intended when valuing mobile agricultural equipment.

Original Findings:

We found the assessor is not using Board-recommended factor tables as intended. We reviewed the assessor's factor tables, in addition to several processed BPSs with agricultural equipment, and found the assessor maintains only one factor table for mobile agricultural equipment designated in AH 581 to be used only for equipment purchased new. The assessor's other agricultural valuation tables are identical to his commercial and industrial valuation tables, and do not contain the agricultural trending component as recommended in AH 581. In addition, we found many instances where the assessor valued mobile agricultural equipment, such as tractors and implements, using agricultural tables derived from Board-recommended trending and percent good factors intended for nonagricultural commercial equipment. Furthermore, we found the assessor appears to rarely apply the mobile agricultural equipment tables he does have when merited.

Assessor's Response:

We concur. In 2010, the Assessor added an additional agricultural factor table for use when valuing the 36 agricultural filers in Orange County. Assessments are reviewed to ensure the consistent and proper application of the correct agricultural factors tables.

Current Status:

The assessor implemented this recommendation for the 2014 lien date. The new, used, and average mobile agricultural factors were not downloaded into the assessor's property tax system prior to the 2014 lien date due to system constraints.

Classification

RECOMMENDATION 14: Properly classify and assess personal property in apartment complexes pursuant to section 602.

Original Findings:

We found the assessor fails to separately enroll personal property located at many of the smaller apartment complexes in Orange County, particularly those with 50 units or less. The assessor may continue to send BPSs to such complexes, but does not enroll the reported personal property. Even in the case of the larger complexes, it appears the assessor does not enroll refrigerators and free-standing stoves located in the unfurnished units. We reviewed a random sampling of smaller multi-residential assessments and found several properties likely to own taxable personal property with no separately-assessed personal property or trade fixtures on the 2009-10 assessment roll.

Assessor's Response:

Reasonable costs are usually processed as reported. When a BPS appears to understate the cost of assessable supplies and equipment, additional steps are taken to verify the accuracy of the BPS. For smaller, unfurnished apartment complexes with 50 units or less that typically have minimal personal property to report, further review is mostly not done, due to limited resources.

Current Status:

The assessor did not implement this recommendation during the scope of this supplemental survey. However, the assessor has developed a procedure to address this recommendation going forward.

Vessels

RECOMMENDATION 15: Apply depreciation percentages to vessels according to type.

Original Findings:

The assessor annually establishes depreciation percentages for vessels based on the assessed value of the vessel and not the vessel type. The depreciation percentages used are a composite of findings derived from a San Diego market study. Although this study may be founded upon market evidence, the compilation of market data related to all types of vessels is too generic to be appropriately used to value any particular vessel under review.

Assessor's Response:

We concur. The old assessment system's database did not include vessel type. Implementation of a new assessment system will allow this information to be tracked, if it is available.

Current Status:

The assessor adopted the BOE-recommended vessel valuation factors commencing with the 2013 lien date. Prior to 2013, the assessor did not value vessels according to type.

APPENDIX A: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Orange County

Chief

David Yeung

Survey Program Director

Diane Yasui

Manager, Property Tax

Survey Team Supervisor:

David Dodson

Supervisor, Property Tax

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Isaac Cruz

Senior Specialist Property Auditor-Appraiser

Michael Ash

Associate Property Appraiser

Jennifer Prince

Associate Property Appraiser

Dany Lunetta

Associate Governmental Program Analyst

Evan Becker

Staff Services Analyst

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



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JUN 09 2017

County-Assessed Properties Division
State Board of Equalization

CLAUDE PARRISH
ORANGE COUNTY ASSESSOR

June 2, 2017

David Yeung, Chief
County-Assessed Properties Division
Property Tax Department
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

Subject: Orange County Supplemental Assessment Practices Survey Report

Dear Mr. Yeung,

Pursuant to Section 15645 of the California Government Code, we are pleased to respond to the State Board of Equalization's 2017 Supplemental Assessment Practices Survey Report of Orange County.

We have reviewed your draft and fully agree with your findings. We note that there are only three (3) recommendations, down from 15 previously. The three recommendations relate to LEOP penalties, valuing petroleum properties, and assessing personal property in apartment complexes. We are working on implementing the recommendation on LEOP penalties, we have made personnel changes in order to properly value petroleum properties, and have implemented the recommendation on assessing personal property in apartment complexes.

Generally, the comments expressed under Current Status in the Supplemental Assessment Practices Survey Report are an accurate reflection of our department's progress on the recommendations at the time of the survey team's visit.

I wish to thank the survey team for the courteous and professional manner in which they conducted the survey.

If you have any questions regarding our survey response, please call me at: (714) 834-2734.

Sincerely,

Claude Parrish
Orange County Assessor

CP:kw