RIVERSIDE COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 1998

CALIFORNIA STATE BOARD OF EQUALIZATION

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FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county except state-assessed property. The assessor's responsibilities include such things as: (1) discovering and taking inventory of all property within the county; (2) determining a property's eligibility for a full or partial exemption from assessment; (3) determining the proper assessee, who is usually but not always the owner; (4) determining the location of the property; and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a value base set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division, is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey. The surveys may include a sampling of assessments of the local assessment roll, and they must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings. This report, the county assessor's response, and the Board's comments regarding the response constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the Riverside County Assessor's Office was completed by County Property Tax Division staff during October l996 through April 1997. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable Gary L. Orso, the Riverside County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William Jackson, Chief
County Property Tax Division
Department of Property Taxes
California State Board of Equalization
March 1998

COUNTY PROPERTY TAX DIVISION SURVEY GROUP

Riverside County

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I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

A. INTRODUCTION

Section 15640 of the Government Code, in part, mandates that 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. The survey may include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the County Property Tax Division's (CPTD) assessment sampling and its office survey to be integral components of unified process, i.e., the evaluation of how well the county assessor is carrying out the sworn duty to assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

This section also provides that:

> "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 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."

The way in which the sampling and office survey process is carried out was developed after consultation with the county assessors by the staff of the County Property Tax Division.

This report is the culmination of a review of the Riverside County Assessor's operation including CPTD staff's appraisals of properties selected on the basis of assessment category and assessed value. The survey team analyzed the results of the assessment sampling and examined current practices and procedures in key areas. Finally, the survey team offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in his or her program.

Overview of the Riverside County Assessment Roll

The County Property Tax Division's field appraisal team completed appraisals of 328 properties of all types assessed on the 1995-96 Riverside County assessment roll. This roll contained a total of 653,479 assessments having a total enrolled value of $71,728,552,798. (For a detailed explanation of County Property Tax Division's assessment sampling program, see the Appendix at the end of this report). Sampling data indicated the roll was composed by property type as follows:

Property Type	No. of Assessments In County	Enrolled Value
Residential	570,419	$50,190,484,365
Rural	22,233	$4,647,977,303
Commercial-Industrial	49,007	$16,390,094,246
Miscellaneous	11,821	$499,996,884
Totals	653,480	$71,728,552,798

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to local government agencies in Riverside County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board of Equalization to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Riverside County Assessor's Office by the Board's County Property Tax Division (CPTD).

This survey was conducted according to the method mandated by section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

B. SUMMARY

Revenue and Taxation Code section 75.60 requires the Board of Equalization to certify that a county is eligible to recover the administrative costs of processing supplemental assessments. In order to be eligible, a county assessor must achieve an average assessment level that is at least 95 percent of the assessment level required by statute; and the sum of the absolute values of the differences from the statutorily required assessment level does not exceed 7.5 percent of the total amount of the county's statutorily required assessed value.

Based upon CPTD's sampling of its 1996-97 roll, Riverside County is eligible for reimbursement of the costs associated with administering supplement assessments. The county's average assessment level was 99.2 percent. The sum of absolute value differences was 5.27 percent. This implies that the assessor's program complies substantially with property tax statutes.

The recommendations and suggestions contained in this report are based on our analysis of data which indicates that statutory violations, under-or overassessments, or unacceptable appraisal practices may be occurring in specific areas.

The Board's previous assessment practices survey, dated February l996, detailed the budget cuts and resultant staff reductions experienced by the assessor's office between l990-91 and l994-95. These reductions were coupled with an increase in the number of roll units and assessed value, as well as tremendous growth in the volume of assessment appeals.

Since that time, Riverside County has opted to participate in the State-County Property Tax Administration Program, also known as AB 818 (Assembly Bill 818), the specifics of which are discussed in the ADMINISTRATION section of this report. It was evident that the infusion of these funds has already had a significant impact on the assessor's operations, but it is also apparent that problems remain as evidenced by the number of recommendations in this report, several of which are repeated from our last survey. It is anticipated that in the future the continued availability of AB 818 funds will enable the assessor to address many of the assessment problems highlighted on the following pages.

Of primary concern, and the major weakness in the assessor's program, is the lack of documentation on appraisal records justifying value changes. Many times our review of the assessor's operations was hampered by this lack of documentation. Documentation problems are discussed generally, and then specifically as part of several recommendations in various sections of this report.

Under REAL PROPERTY ASSESSMENT, we note that properly accounting for outstanding improvement bonds continue to be a problem for the assessor's office. Selling prices of real property must be adjusted by the cash equivalent amount of outstanding improvement bonds. Not only is the assessor not making such adjustments, which is the basis of a recommendation, but there is no means available for determining which parcels are so encumbered. Governmental agencies issuing improvement bonds do not provide the assessor's office with information on bond status.

Documentation is a significant issue in the new construction program; particularly, the lack of documented market data relied on to value new construction or corroborate historical costs. Also, descriptions and diagrams of new construction were often missing.

With regards to tenant improvements, we found inconsistent assessment practices between the real property and business property division staff in spite of what appear to be adequate written procedures. In addition, we note that supplemental assessments for structural tenant improvements are not being generated when these properties are valued by the business property division staff.

Reliance on computer programs to determine declining values has made the assessment task easier but has perhaps facilitated and encouraged the failure to note on the appraisal record what comparables formed the basis of the value conclusion.

The Riverside County Board of Supervisors has adopted three low-valued property exemptions, each targeted to a specific property type. However, Revenue and Taxation Code section 155.20 specifies that once the exemption level is set, it must be uniform for all property types except property described in Revenue and Taxation Code section 52. We recommend that the assessor request that the board of supervisors revise their low-valued property exemption resolution.

We also recommend that the assessor refrain from canceling small revised supplemental assessments without the enabling ordinance adopted by the board of supervisors.

The assessment of possessory interests appears to be a low priority. Discovery techniques are limited and lack of documentation prevented adequate review of current assessments. In addition, the file management system was inadequate, lacking the capability to alert staff to lease expirations or other information indicating that a reappraisal is required.

In the BUSINESS PROPERTY ASSESSMENT section of this report, we note that there is a significant backlog of mandatory audits and recommend that the program be brought up to current status by dedicating sufficient resources to the mandatory audit program. We also found that waivers of the statute of limitations are not regularly obtained when a mandatory audit will not be completed on time.

A two-part recommendation on the assessment of pleasure boats addresses the county practice of enrolling only those boats brought into the county, or newly acquired since the last lien date, having values of $10,000 or above. This means that boats valued at less than $10,000, when purchased new or brought into the county, have escaped assessment. Furthermore, the values of enrolled boats are arbitrarily depreciated 5 percent of their current value each year. Consequently, enrolled boat values approximate market value only by coincidence.

Our review discovered that none of the private aircraft were revalued for the l996 lien date, and racehorses continue to go undiscovered and unassessed. With respect to computers, we recommend that hardware be assessed using the Board's recommended factors as intended.

While the assessment practices surveys tend to focus on assessment areas in need of improvement, it is also important to commend county assessors for implementing previous survey recommendations or innovative solutions to assessment problems.

We commend the Riverside County Assessor for emphasizing computerization in response to shrinking budget and staff levels prior to State-County Property Tax Administration Program funding. This is evident in an efficient and well administered automated roll correction process. We acknowledge the benefits of consolidating the assessment of manufactured homes to one district office, and assigning all timeshare assessment duties to one appraiser, thereby promoting assessment uniformity. We commend the assessor for implementing previous recommendations regarding their California Land Conservation Act (CLCA) assessments, further improving what is already a well administered program. Lastly, we want to compliment the assessor on his knowledgeable, professional, and hard working staff.

C. RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the Riverside County Assessor's Office. Our recommendations are reserved for situations where one of more of the following conditions exist:

- Property tax statutes or taxpayers' rights are being violated;
- Existing practices are reducing local tax revenues;
- Existing appraisal practices do not conform to generally accepted appraisal theory.

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

RECOMMENDATIONS

RECOMMENDATION 1: Adjust the selling price of real property by the cash equivalent amount of outstanding improvement bonds. (Page 19)

RECOMMENDATION 2: Require documentation on appraisal records for: (1) comparable data relied upon in arriving at the value of new construction by the sales comparison approach; (2) corroboration of historical costs; and (3) accurate diagrams and descriptions of improvements. (Page 24)

RECOMMENDATION 3: Include the value of fire sprinklers when valuing new structures by the cost approach. (Page 25)

RECOMMENDATION 4: Ensure equitable and consistent treatment of tenant improvements by: (1) clarifying existing procedures; and (2) generating supplemental bills where appropriate. (Page 26)

RECOMMENDATION 5: Revise the decline in value program by properly noting comparable properties used in the valuation of a decline in value. (Page 29)

RECOMMENDATION 6: Request that the board of supervisors revise the county's low-valued property exemption resolutions in conformance with Revenue and Taxation Code section 155.20. (Page 34)

RECOMMENDATION 7: Discontinue the practice of canceling small supplemental assessments without authorization from the board of supervisors. (Page 35)

RECOMMENDATION 8: Discontinue the negative supplemental assessment of trees and vines when they are removed. (Page 36)

RECOMMENDATION 9: Revise the procedures for valuing California Land Conservation Act (CLCA) properties by: (1) recognizing the income generated by compatible uses; and (2) using appropriate base year values for newly created homesites. (Page 38)

RECOMMENDATION 10: Improve the possessory interest assessment program by: (1) improving discovery techniques; (2) providing better documentation on possessory interest records; and (3) developing a file management system capable of tracking all possessory interests. (Page 40)

RECOMMENDATION 11: Annually review county and state water inspection reports to discover assessable water company properties. (Page 42)

RECOMMENDATION 12: Revise private regulated water company assessment procedures by: (1) considering the sales comparison and income approaches to value when valuing private water companies; and (2) requiring that each water company provide a copy of its annual report to the assessor. (Page 43)

RECOMMENDATION 13: Review the status of private unregulated water companies for possible assessment. (Page 44)

RECOMMENDATION 14: Revise assessment procedures for mutual water companies by: (1) obtaining the articles of incorporation and bylaws of all mutual water companies; and (2) reviewing all assessments of mutual water companies. (Page 45)

RECOMMENDATION 15: Revise the assessment and valuation procedures for section 11 properties by: (1) reviewing the non-taxable properties list for property owned by government agencies but located outside their boundaries; and (2) reviewing and correcting the assessments of improvements located on taxable government-owned lands. (Page 46)

RECOMMENDATION 16: Revise the timeshare data bank to include more information. (Page 48)

RECOMMENDATION 17: Bring the mandatory audit program to current status. (Page 52)

RECOMMENDATION 18: Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time. (Page 52)

RECOMMENDATION 19: Revise the equipment index factors and depreciation factors used to appraise business property and fixtures. (Page 53)

RECOMMENDATION 20: Closely screen business property statements for proper signatures. Reject those that do not meet regulatory requirements. (Page 55)

RECOMMENDATION 21: Utilize the Board Form V-600 B to discover and assess taxable leased property. (Page 56)

RECOMMENDATION 22: Assess all pollution control devices financed by state bond issues as either possessory interests or equipment. (Page 57)

RECOMMENDATION 23: Revise boat appraisal procedures by: (1) assessing all taxable pleasure boats; and (2) annually assessing boats at current market value. (Page 58)

RECOMMENDATION 24: Revise aircraft assessment procedures by: (1) mailing out the annual aircraft questionnaire to all aircraft owners and making adjustments for information obtained; and (2) annually appraising aircraft. (Page 60)

RECOMMENDATION 25: Establish procedures to discover racehorse owners and annually mail a racehorse tax return to the owners of racehorses. (Page 61)

RECOMMENDATION 26: Assess computers using the Board's recommended factors as intended. (Page 64)

SUGGESTIONS

SUGGESTION 1: Review all documents received from the recorder's office twice before they are discarded. (Page 17)

SUGGESTION 2: Actively pursue commercial and rural properties that have current market values below their factored base year values. (Page 29)

SUGGESTION 3: Revise disaster relief assessment practices by: (1) establishing and maintaining a central file or listing of properties which apply for, receive, or are denied disaster relief; and (2) documenting fire damage on the appraisal records. (Page 33)

SUGGESTION 4: Revise manufactured home procedures by placing greater emphasis on the use of recognized value guides. (Page 37)

SUGGESTION 5: Consolidate the responsibility for valuing section 11 properties. (Page 47)

II. ADMINISTRATION

A. BUDGET AND WORKLOAD COMPARISONS

The following analysis utilizes the State Board of Equalization's A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices, 1994-95, dated May 1996. This report is a compilation and analysis of data by the Board's Policy, Planning, and Standards Division originating from an annual questionnaire which is sent to all assessors.

The purpose of our analysis is to see how the Riverside County Assessor's Office compares with other counties that are similar in one or more important ways. We caution the reader that the budget and staffing of the Riverside County Assessor's Office, or that of its comparables, are not assumed to be adequate or proper. These comparisons are merely meant to illustrate how counties compare in total local roll units, net budget, total staff, units worked per appraiser, etc. No two counties are exactly alike and a variety of factors can greatly affect individual budget and workload comparisons.

Total Roll Units and Net Roll Value

The primary criteria used in choosing comparables for the Riverside County Assessor's Office is Total Local Roll Units, because other counties close to Riverside County in number of roll units would presumably need similarly sized staff and budget. Of course, property type mix, ratio of rural to urban uses, and county size are also important influences, but in general, Total Local Roll Units is considered a valid starting point.

County	Total Local Roll Units	Total Secured Roll Units	Total Unsecured Roll Units	Total Net Roll Value in 000's
Kern	385,338	359,621	25,717	$ 33,044,692
Alameda	443,412	384,257	59,155	79,201,224
Riverside	**642,743**	**609,285**	**33,458**	**74,620,474**
San Bernardino	749,916	681,138	68,778	75,242,003
Orange	870,701	734,889	135,812	177,063,375
San Diego	899,332	809,106	90,226	$147,692,129

In the above table, Riverside County is being compared to other counties closest in roll size.

Assessor's Budget vs. Assessment Roll

The following comparison is the amount of money budgeted per roll unit. This table reflects Net Budget, Budget Per Roll Unit, and Roll Value Per Budget Dollar.

County	Net Budget	Budget Per Roll Unit	Roll Value Per Budget Dollar
Kern	$ 4,965,773	$ 12.89	$ 6,664
Alameda	5,801,958	13.08	13,651
Riverside	**5,525,361**	**8.60**	**13,505**
San Bernardino	6,467,605	8.62	11,664
Orange	15,465,625	17.76	11,449
San Diego	$ 12,928,187	$ 14.38	$11,424

Staffing

The following table shows Total Staff as well as the staffing units, Assessor and Other Managers, Real Property Appraisers, and Business Property Appraisers.

County	Assessors & Other Managers	Real Property Appraisers	Business Property Appraisers	Total Staff
Kern	5	38	13	94
Alameda	10	59	27	183
Riverside	**12**	**63**	**9**	**165**
San Bernardino	6	58	8	152
Orange	7	75	56	305
San Diego	11	69	30	279

We reviewed the assessor's annual budgets for the last nine years. The following table shows the budget and staffing history for the Riverside County Assessor's Office.

FISCAL YEAR	POSITIONS	GROSS BUDGET
1988-89	193	$ 7,714,912
1989-90	207	$ 8,494,801
1990-91	221	$ 9,620,788
1991-92	202	$10,077,395
1992-93	183	$ 9,523,914
1993-94	164	$ 9,884,354
1994-95	165	$10,139,692
1995-96	178	$10,890,241
1996-97	192	$13,368,779

As shown in the above table, staffing in the assessor's office went from a high of 221 in l990-91 to a low of 164 in l993-94. Increases in staff in l995-96 and l996-97 are due to finding from the State-County Property Tax Administration Program.

Total Workload Per Staff Member

The next comparison is Total Roll Units Per Manager, Secured Roll Units Per Appraiser, Unsecured Roll Units Per Auditor-Appraiser, and Total Roll Value Per Staff Member.

County	Total Roll Units Per Manager	Secured Roll Units Per Appraiser	Unsecured Roll Units Per Auditor-Appraiser	Total Roll Value Per Staff Member
Kern	77,067	9,463	1,978	$ 351,539,277
Alameda	44,341	6,512	2,190	432,604,457
Riverside	**53,561**	**9,671**	**3,717**	**452,245,297**
San Bernardino	124,986	11,743	8,597	495,013,178
Orange	124,385	9,798	2,425	580,535,656
San Diego	81,757	11,726	3,007	$ 529,362,441

Units Worked Per Appraiser

The following table shows the comparison of Number of Real Property Units Worked Per Appraiser and Number of Unsecured Units Worked Per Auditor-Appraiser.

County	Number of Real Property Units Worked	Units Worked Per Appraiser	Number of Unsecured Units Worked	Units Worked Per Auditor-Appraiser
Kern	45,867	1,207	28,593	2,199
Alameda	96,430	1,634	58,534	2,167
Riverside	**274,949**	**4,364**	**35,563**	**3,951**
San Bernardino	314,161	5,324	55,113	6,889
Orange	408,996	5,453	125,262	2,236
San Diego	326,881	4,737	140,769	4,692

Real Property Activity

When comparing real property activity, we compared activities that represent most of the assessor's workload. They are Total Transfers, New Construction, Declines in Value (Prop 8), and Miscellaneous Roll Changes.

County	Total Transfers	New Construction	Prop 8	Miscellaneous Roll Changes
Kern	18,081	10,980	3,333	12,531
Alameda	27,106	5,930	34,608	16,097
Riverside	**63,513**	**N/A**	**126,319**	**41,291**
San Bernardino	110,818	12,269	132,682	54,805
Orange	65,235	18,245	259,912	61,417
San Diego	99,849	19,478	109,275	98,016

Business Property Activity

Six categories typically make up the business property work activities. The following categories are compared in the table below: Number of Boats, General Aircraft, Direct Billing, Property Statements, Field Appraisals, and Mandatory Audits.

County	Number of Boats	General Aircraft	Direct Billing	Property Statements	Field Appraisals	Mandatory Audits (4yrs.)
Kern	3,474	1,018	6,500	9,358	1,661	644
Alameda	14,901	877	11,428	23,380	6,016	1,935
Riverside	**3,354**	**1,167**	**3,712**	**21,284**	**5,482**	**1,317**
San Bernardino	20,019	1,730	12,446	20,196	-0-	N/A
Orange	37,180	970	--	80,840	4,000	5,516
San Diego	19,448	2,049	12,037	92,886	12,531	3,195

All of the information used for the above comparisons is from the 1994-95 roll year. Since the 1995-96 fiscal year, the Riverside County Assessor's Office has applied for and received monies loaned by the State as part of the State-County Property Tax Administration Program. This loan program is discussed in detail in the following section.

B. STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM

Under the provisions of Revenue and Taxation Code section 95.31, Riverside County elected to participate in the State-County Property Tax Administration Program. This program is commonly referred to as AB 818 after its Assembly Bill number.

This program is basically a loan of state monies to individual counties for use in property tax administration. The county must enter into a contract with the State Department of Finance whereby they agree to enhance their existing property tax program. Those monies cannot be used to supplant an assessor's budget; a base level of staffing and total funding must be maintained. The base was established as the budget and staffing levels for the l994-95 fiscal year. Originally, the program had loan elections for the years l995, l996, and l997. Recently, loan elections have been extended until the year 2000. Riverside County applied for and received a loan in the amount of $2,358,068 for fiscal year l995-96 and $2,358,068 for fiscal year l996-97.

Riverside County's contract with the Department of Finance states that loaned amounts will be used to reduce the backlog of mandatory and non-mandatory audits, declines in value, the discovery of escaped assessments, and preparation of assessment appeal defenses. Meeting the agreed upon goals, in the above mentioned areas of assessment, is considered repayment of the loan.

Riverside County contractually agreed to reduce the accumulated backlog of 879 mandatory audits to 699 in l995-96, and from 1,233 to 629 in l996-97. A non-mandatory audit program was to be established whereby 78 non-mandatory audits were to be completed for l995-96, and an accumulated 298 for l996-l997. In addition, a defense was to be prepared for each assessment appeal scheduled by the assessment appeals board. A backlog of 25,000 decline in value assessments were to be reduced to 10,000 in l995-96 and to 5,000 by l996-97. The last contract element called for the establishment of a canvassing program for escaped assessments. The goal was the completion of 500 discovery assessment units in l995-96, and an accumulated 919 in l996-97.

Also, as part of the contract the assessor was to provide an estimate of the potential revenue gains or revenue retention as a result of funding and achievement of contract goals.

Repayment or goal achievement is to be measured, and the percentage of success for each of the county's five goals is weighted 20 percent and added together. If this total is 95 percent or greater, the loan is considered repaid. Any percentage less than 95 percent is multiplied by the loan amount and that is the loan amount considered repaid.

Attachment A of the Riverside County contract presents the assessor's estimated loan allocation. For l995-96, $707,692, or 30 percent, of the $2,358,016 loan amount was allocated to additional staffing. The remainder, $1,650,376, or 70 percent went towards computer hardware and software acquisitions, maintenance, and contract programmers, analysts, and consultants. In l996-97, $1,350,024, or 57 percent, is allocated to staffing and $1,008,044, or 43 percent, was targeted for computer acquisition, maintenance, and professional services.

Should any of the loaned funds not be spent, the county may return those monies to the state or carry them over to the next fiscal year for authorized uses. If the county fails to repay the loan, the Director of Finance shall notify the Controller, who shall take funds credited to the Motor Vehicle License Fee Account in the Transportation Tax Fund to which the county is entitled, and apply them to the general fund on behalf of the county in the amount of the required payment.

The loan agreement has specific reporting requirements. By March 31 of each fiscal year, an Interim Report prepared by the county assessor must specify the projected impact of funds on each goal. By August 15 of the following fiscal year, the county must submit to the State Department of Finance a listing of actual achievements for each goal and the average increment of assessed value change for goal achievement. This report must be verified by the county's auditor-controller.[1]

The Board's assessment practices sample surveys are one of the criteria the Department of Finance may consider when determining if the terms of repayment have been satisfied. Our survey objective was to review terms of the contract; verify maintenance of base year funding and staffing levels; review the county auditor-controller's report; review audit workpapers; and form an opinion as to audit procedures.

A copy of Riverside County's contract was provided for our review. The l994-95 fiscal year base funding and staffing levels were determined to be $9,405,692 and 164 positions. The assessor's fiscal year base funding and staffing has not dropped below the contracted amounts. The Riverside County Auditor-Controller's office provided us with the audit workpapers for their audit verifying contracted goal achievements and the assessed value changes associated with goal achievement.

We found the auditor-controller's review to be quite thorough, with 220 hours spent reviewing contract compliance. The audit workpapers reflected a quality audit; the audit objective and procedures were clearly stated. Workpapers were well documented and well organized with tables of contents and extensive cross referencing. Explanations as to criteria used to evaluate completion of contract objectives were also included. All performance measurements were documented in detail. Samples reviewed were based on a judgment sample and appropriate tests were made on selected samples. The auditor did state, however, that no audit of the electronic data processing (EDP) system was performed as the auditor-controller's office has no EDP auditor on staff.

The auditor assigned to review the contract spent several weeks at the assessor's office first learning about the particular functions of the assessor's office and then verifying contract elements. Our review indicated audit procedures were proper and that one could place reliance on the auditor-controller's verification.

C. POLICY AND PROCEDURES

1. Training

The Revenue and Taxation Code contains specific educational and training requirements that must be met and maintained for a person to perform the duties of a county

[1] Agreement for State-Property Tax Administration Program, by and between County of Riverside and the State Department of Finance, dated December 19, 1995; and Amended and Restated Agreement for State-County Property Tax Administration Program, by and between the County of Riverside and State Department of Finance, dated November 5, 1996.

property appraiser for property tax purposes (see sections 670 and 671). The Board of Equalization is charged with ensuring that these requirements are met.

Section 671 of the Revenue and Taxation Code requires an appraiser to receive 24 hours of approved training each year in order to retain a valid appraiser's certificate. Holders of advanced appraiser certificates need only 12 hours of training each year.

To qualify for an advanced appraiser's certificate, one must have a minimum of six SBE courses with at least two classified as advanced. Outside courses that could be substituted for a SBE advanced course include an Appraisal Institute course lasting longer than three days or a college appraisal course.

Nine Riverside County appraisers were not current in their continuing education requirements. Most of them lacked one advanced appraisal course that would qualify them for advanced certification and hence fewer required hours of continuing education. The county staff member in charge of training has been working with the Board's training unit to offer an advanced course locally. All other appraisers that qualify already have an advanced certificate.

For fiscal year 1996-97, the Riverside County Assessor's Office has allotted $15,000 for training. This money is designated for training only. Other expenses incurred for training purposes, such as travel expenses and mileage, are covered under another part of the yearly budget. There is no set amount designated for each appraiser. Any classes requested that are beyond the usual certification requirements are reviewed on a case by case basis by a three-person training committee.

The assessor encourages upward mobility and continued education. A training bulletin board is displayed which includes listings of current seminars and workshops, Appraisal Institute courses, and local college catalogs.

2. Documentation

After reviewing many appraisal files during the course of our survey fieldwork, we found that supporting documentation for value changes made for any reason was minimal or nonexistent. This was true of computerized files as well as hard copy appraisal records. Our sampling and survey review was many times hampered by the lack of documentation on appraisal records. Without documentation substantiating the choice of the cost, market, and income data relied upon, the validity of the assessment cannot be easily verified.

In most cases it was difficult to determine how the appraiser arrived at enrolled values. For example, on decline in value (Prop 8) assessments, the appraisal record often contained no reference to the decline in value action, nor were any comparables listed when a decline in value was determined by the sales comparison approach. As for declines in value on commercial properties, most files did not contain the rents, expenses, capitalization rates, or other data necessary to support the value reduction.

In multi-parcel transfer situations, there was little documentation in any single file as to the number of parcels transferred, nor was there a reference to a master file.

Most possessory interests files contained so little documentation that we could not really determine if the majority of these assessments are even being done.

Appraisals of new construction had unusually brief notes. In some instances, the appraiser would simply write "no value change" on the appraisal record without documenting the type or location of new construction, the square footage added, the source of cost data, or any justification of the value conclusion.

We understand that the Riverside County Assessor's Office is in a state of transition from paper records to computer data base; however, documentation of records is an extremely important issue that should not be overlooked. Standard appraisal practice requires proper documentation substantiating a value estimate. The basis for every value change should be documented on the appraisal record or computerized file. Without documentation, the assessor leaves himself open to criticisms and questions concerning his appraisal guidelines and his staff's value conclusions.

The lack of documentation was of concern in several assessment areas. Consequently, the lack of documentation is the subject of, or part of, several recommendations in this report. Individual discussions of documentation problems pertaining to particular areas of assessment are covered in corresponding sections of this report. Though this may at times seem repetitive, this was considered preferable to one overall recommendation, so as to sufficiently emphasize the extent of this problem, its importance, and consequences.

III. REAL PROPERTY ASSESSMENT

A. INTRODUCTION

Under our present property tax system, county assessor's programs for assessing real property include the following elements:

(1) Revaluation of properties that have changed ownership;
(2) Valuation of new construction;
(3) Annual revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government owned land; and
(4) Annual review of properties having declining values ("Proposition 8" assessments authorized by Section 2 (b) of article XIII A).

The statistics derived from the County Property Tax Division's (CPTD) assessment survey of the 1996-97 Riverside County local assessment roll indicates the overall quality of the roll for that year. CPTD's sampling of 328 roll entries included 311 assessments of real property other than trade fixtures. Of these, 100 were appraised by CPTD staff at values different from the values determined by the assessor's staff (53 were underassessed and 47 were overassessed). These sample item differences, expanded by statistical measurement to represent all real property assessed on the 1996-97 local roll, indicates about 81,351 properties were underassessed by approximately $1,682,543,723 while about 90,835 properties were overassessed by approximately $1,560,195,304.

The significance of these statistics is limited by the purposes for which they were created. In order to determine the total roll value, random samples were selected from nine value strata. Expansion factors are then derived by dividing the number of roll units in a value group by the number of samples selected from that group. This is a statistical technique which is designed to accurately estimate the total roll value from a few sample appraisals. However, since the expansion process targets the total roll, rather than its components, we have less confidence in these expansion factors when they are applied to smaller groups within the total roll. Consequently, we use the expanded figures, referred to above, primarily to indicate areas worthy of study.

For this reason, readers are advised that the projected underassessments and overassessments presented elsewhere in this report may not agree with the figures just presented. This could happen because one individual sample item may contain offsetting errors. The net "bottom line" differences can conceal the fact that there may have been two significant value differences in the appraisal, one positive and the other negative. We analyze line item differences rather than "bottom line" differences in order to isolate accurately the problems involved.

1. Change in Ownership

a. General

Staff at the Riverside County Assessor's Office review over 120,000 deeds yearly which have been forwarded by the Riverside County Recorder's Office. This review results in over 100,000 deeds which require processing by the title transfer section, and review by the appraisal services section for possible reappraisal of transferred properties of all types. The deeds are sent from the recorder's office to a copying company, and they are picked up from the copying company by the assessor's office staff. The assessor's office receives deeds on a daily basis with a one-day delay -- deeds recorded yesterday are received today.

b. Deed Processing

All recorded documents received from the recorder's office are initially sorted by one title transfer technician. On average, 2,000 to 2,500 documents are received daily. The transfer technician scans the documents and throws away those that do not need to be processed by the assessor's office, e.g., name changes. Approximately 60 percent of the documents received from the recorder's office are discarded during this initial sort.

The remaining deeds and their corresponding Preliminary Change in Ownership Reports (PCOR's), if applicable, are matched and sorted for further processing. Deeds involving parcel splits or multiple parcel combinations are sent to the mapping section. All other deeds are sent to data entry for input into the assessor's system. After entry, they are forwarded to appraisal services for processing.

The title transfer section is efficient and has a very thorough procedures manual which covers all aspects of the operation. We do offer, however, one suggestion which may improve the initial sort process and ensure that changes in ownership do not escape reappraisal.

SUGGESTION 1: Review all documents received from the recorder's office twice before they are discarded.

Currently, one title transfer technician has the responsibility of reviewing the 2,000 to 2,500 documents received daily from the Riverside County Recorder's Office. This technician has complete discretion to determine whether a document should be processed by the assessor's office. There is no method to check the accuracy of the technician's work.

We suggest that the documents determined by the title transfer technician to have no relevance to the assessor's functions be scanned a second time before being discarded. Given the extremely large volume of documents being processed by one technician daily, it is not unreasonable to assume that some errors could occur.

A secondary review of all documents received from the recorder's office will ensure that no properties escape assessment and that all documents effecting a change in ownership are processed in a timely manner.

c. PCOR's and Change in Ownership Statements

Section 480.3 of the Revenue and Taxation Code requires that the county recorder make available to transferees of real property a Preliminary Change in Ownership Report (PCOR) at the time of recordation of any document involving a change in ownership. Approximately 75 percent of the transferees in Riverside County complete the PCOR at the time of recordation. The original PCOR's are sent directly to the county assessor's office daily.

For transferees who elect not to file a PCOR with the Riverside County Recorder's Office, the assessor's staff sends the Transfer Verification Questionnaire (TVQ) to the taxpayer. Since a Board approved form is required before penalties can be assessed, no penalties are imposed by the assessor's office for nonfiling of the unapproved TVQ.

In the past, the board of supervisors has routinely abated penalties imposed by the assessor's office. Since it is counterproductive and costly for the assessor's staff to enroll a penalty and notify the taxpayer of such penalty, only to have it later overturned by the board of supervisors, the assessor has elected not to bother using a Board-prescribed Change in Ownership Statement (COS) or enroll penalties for failure to file a COS.

The county assessor is currently attempting to persuade the Riverside County Board of Supervisors to enact a resolution allowing the assessor the authority to abate penalties imposed under Section 480.2 of the Revenue and Taxation Code. The Assessor would then abate penalties only when appropriate.

d. Cash Equivalent Adjustments

Property Tax Rule 4 (Title 18, Public Revenue, California Code of Regulations) requires assessors to convert a noncash selling price to its cash equivalent. Noncash elements of the selling price generally fall into two classes: (1) real or personal property included in the consideration; and (2) elements of financing, i.e., trust deeds, improvement bonds, etc.

The Riverside County Assessor's staff is aware of the requirements of Property Tax Rule 4 and has established procedures to make cash equivalent adjustments for all sales involving noncash elements. Working from information provided by the transferee on the Preliminary Change in Ownership Report (PCOR) or the Transfer Verification Questionnaire (TVQ), a senior title transfer technician converts all possible sales information to a cash equivalent which reflects what the seller received in cash. The cash equivalent may be equal to the confirmed sales price if the seller received that same equivalent. If the information received on the PCOR or TVQ is not complete or in conflict with the confirmed sales price, the field appraiser makes the determination regarding market value.

The assessor's office uses a spreadsheet-based cash equivalent personal computer (PC) program. The program is updated monthly based on rates submitted by lending institutions in Riverside County. The assessor's staff diligently monitors interest rates and points to ensure that the cash equivalent program accurately reflects current market conditions.

Except where improvement bonds are involved, the cash equivalent procedures in the Riverside County Assessor's Office are very effective for transactions involving real property.

e. Improvement Bonds

In Riverside County, bonds are issued by the county and by various cities under the Street Improvement Act of 1911 and the Improvement Bond Act of 1915. The bond proceeds are used to construct off-site land improvements such as streets and water and sewer systems. The cost of the bond redemption and the interest thereon is assessed against the property which provides the security for bond repayment. When using the sales comparison approach, the appraiser must add the unpaid cash equivalent principal of any bonds outstanding as an adjustment to the nominal selling price. The nominal price adjusted by the bonded indebtedness is a value indicator; it does not necessarily represent market value. The reliability of the indicator must be resolved by the appraiser prior to being enrolled as market value.

There are numerous parcels in Riverside County with outstanding assessment bonds totaling over $300 million.[2] The assessor's office has no procedure to determine which parcels are encumbered with improvement bonds. In our prior survey of the assessor's office we found the same to be true and made a recommendation concerning adjustments for improvement bonds. We repeat that recommendation.

RECOMMENDATION 1 : Adjust the selling price of real property by the cash equivalent amount of outstanding improvement bonds.

Bonds issued by the County of Riverside under the 1911 Act are serviced by the Riverside County Treasurer and Tax Collector's Office. Bonds issued by the County of Riverside under the 1915 Act are serviced by the Riverside County Auditor-Controller's Office. In addition, both 1911 and 1915 Act bonds are issued by 16 cities within the County of Riverside.[3] None of these governmental entities provide information regarding the status of these bonds to the assessor's office.

Section 163 of the Revenue and Taxation Code (Statutes of 1995, Chapter 527) requires entities that receive revenue from improvement bonds to annually notify the assessor of all of the following:

(a) The lien amount on each subject parcel at the time the lien was created.

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[2] Financial Transactions Concerning Cities of California and Financial Transactions Concerning Counties of California, State Controller, table 9.
[3] Financial Transactions Concerning Cities of California, State Controller.

(b) In the case in which a lien has been completely satisfied, the date and amount of the payment in satisfaction of the lien, and the identity of the party that made that payment.

(c) The amount of the principal balance of the lien on each subject parcel.

In accordance with the mandates of section 163, the Finance Department of the City of Riverside is developing a program to automate the records of improvement bonds issued by the City of Riverside, thereby creating a mechanism of providing the county assessor with current information on parcels affected by 1911 and 1915 Act improvement bonds. The assessor's staff is following the progress of the City of Riverside with the anticipation of recommending this system to other cities in the county once the program is fully automated. The program will eventually interface with the cash equivalent program already in place in the assessor's office.

We recommend that the assessor's staff pursue information from the County of Riverside and the various cities within the county regarding improvement bonds issued under the 1911 and 1915 Acts so that proper adjustments can be made to the selling price of transferred real property.

2. New Construction

Prior to receiving funding from the State-County Property Tax Administration Program, the Riverside County Assessor's Office had experienced significant reductions in budget and staffing. Combined with an increased workload of assessment appeals and decline in value reassessment activity, the assessor's staff have found it increasingly difficult to keep current with their traditional methods of appraising and documenting all new construction. In an effort to meet these challenges, the assessor's office has opted to modernize by adopting a comprehensive computerized system. This system appears to work well for many aspects of the new construction assessment program. The current processes are explored by the following categories:

a. Permit Process

The Riverside County Assessor's Office receives building permits from 24 cities and the County of Riverside. Currently, four cities supply the permit data on computer disks or by electronic mail. The remaining cities provide permit information in paper form. The permit information is picked up from the various building and safety departments by the assessor's staff. All building permits received are entered into a computer data base. The electronically received information is automatically sent to the data base, while the information received in paper form is keyed into the system.

Once in the data base, residential permits are screened by clerks to determine which permits are likely to represent reappraisable events. These permits are entered into a second data base of permits to be worked. Permits are screened based on the type of permit and the listed permit value. Permits such as reroof, electrical, or plumbing are often screened out; however, these permits may be forwarded to appraisers if other indicators suggest that there may

be assessable activity. Permits for commercial properties are screened by the supervisors who determine which permits are likely to indicate reappraisable events.

Property information is merged into the data base of "to be worked permits" creating the permit tracking system, which provides the pertinent permit and property information. Any updates on the permitted new construction, such as receipt date of a new construction statement or completion date of permitted construction, is keyed into the system.

The permit tracking system allows staff to sort permit files in a number of ways so that supervisors can effectively make assignments and appraisers can track the status of permits. Once entered in the permit system, permits will remain there until they are worked or actively removed.

While there is not a local ordinance requiring building and safety departments to list assessor's parcel numbers on building permits, in most cases the parcel numbers are included. When the parcel numbers are not included, the assessor's staff finds that the parcel numbers can be determined using the legal description and address normally found on the permit.

Building permit numbers and information are usually listed on the building records regardless of the appraisal action. In the move toward reliance on electronic record keeping, information that is not found on the paper property records is often found in the corresponding electronic data files. Computer archives are maintained, containing all permit information that has been received.

Permit information is the primary source of discovering new construction. The assessor's staff estimates that 95 to 99 percent of countywide new construction is permitted. In the past, the assessor's office has engaged in record update projects where appraisers have compared building records to actual improvements in an effort to discover escaped construction. While appraisers continually look for unpermitted new construction, canvassing for assessable new construction without permits is now rare.

b. New Construction Questionnaires

The Riverside County Assessor's Office uses new construction questionnaires to request information from property owners about additions and alterations to their property. The data entry staff, as they are screening and entering permits into the computer system, will make an entry that results in a new construction questionnaire being generated and sent out. The building permit screen will also be updated to show the date that a new construction questionnaire was sent.

The mailing of a new construction questionnaire is triggered when it is determined that the issuance of a building permit may indicate a reappraisable new construction event. Questionnaires are sent to the address of the property owner for the property referenced in the permit. New construction questionnaires are sent most often for permits indicating residential additions, alterations, pools, patios, and certain electrical permits. New construction questionnaires are generally not sent on permits for new residences, nor for repair or reroof permits. Specialized questionnaires are sent for commercial and industrial properties.

	92/93	*93/94*	*94/95*	*95/96*	*96/97*
No. of Permits Worked:	25,501	18,395	20,923	16,958	12,256
No. of New Constr. Ques. Mailed:	10,150	8,392	7,897	7,850	8,465

When a new construction statement has been received by the assessor's office, the permit system screen is updated to alert the appraiser of its receipt. Then it is sent to the appropriate regional office for filing and review by an appraiser. Owner reported historical cost data and completion dates are compared to other available information sources to determine the completion date and added value.

If the original questionnaire is not returned, a second questionnaire is not automatically sent; an appraiser must request a second mailing. No penalties are applied for failure to reply.

Since completed new construction questionnaires can be found in many property files having assessable new construction, it can be assumed that the new construction questionnaire program is satisfying the need for this important information by delivering owner reported costs to the appraisers. However, due to the scarcity of appraisal notes in the building records, it was difficult to tell how often the owner reported information was relied upon in assessing the new construction.

c. Construction in Progress

Property Tax Rule 463(d) (section 463 (d) of Title 18 of the California Code of Regulations) reads: "New construction in progress on the lien date shall be assessed at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value."

New construction questionnaires are not sent to check the status of construction in progress. Properties with ongoing construction have separate forms in the files and the status of the new construction is logged at various check dates. Additionally, the permit system will allow the appraiser to produce reports of all properties with ongoing construction.

When ongoing construction is not complete on the lien date of each year, an appraiser will confirm the portion of work that has been completed and assess the value of the entire unfinished construction as of the lien date. Typically, an appraiser will field check the property for progress on or around the lien date, although the status may be confirmed by letter or telephone. Observation and owner reported completion dates are the most commonly used

methods for closing out construction in progress. In addition, the computerized permit system allows the appraiser the ability to confirm final dates with the various building departments.

The computerized permit system will recirculate the construction in progress parcel until a final value is posted. As practiced, the assessor's construction in progress system seems adequate for valuing partially complete construction.

d. Cost Data

Several sources of construction cost information are available for the appraisal of new construction. In addition, building departments supply the assessor's office with building permit value and a final completion date upon request. Although not required to do so by ordinance, most building departments cooperate with the assessor's office by supplying building plans. Returned new construction statements often provide the actual cost, project description, and completion date. Even though all these resources are in place, the lack of documentation on the appraisal records made it difficult to determine how or whether information is being used.

For valuation of residential construction by the cost approach, the assessor's staff typically has access to the Board of Equalization's Assessors' Handbook section 531 (AH531), Residential Cost Manual. To supplement the AH 531 manual, the assessor's staff have developed their own costs for miscellaneous improvements and periodically conduct pool and patio studies based on the market value contribution of these improvements. New construction assessments for construction of this type are typically based on the results of those studies rather than actual costs or costs from the manual. For convenience, all cost data has been incorporated into the computer system.

In appraisals where the cost approach is used for commercial/industrial properties, the assessor's staff generally use costs published by the Marshall Valuation Service, both in computerized and hard copy form.

In practice, the most common valuation methods used for new construction are the observed contribution to market value and a reliance on historical cost as market value. In the observed contribution to market value approach, an appraiser familiar with the area estimates the value the addition appears to contribute by comparing the market value of similar properties with and without the new construction.

While determining the contribution to market value of new construction is the goal of all cost approach methods, this method relies very heavily on an appraiser's experience and judgment. Because sale comparables and other market data used to arrive at the value are not documented, it is difficult to confirm the accuracy of these assessments. Though it is difficult to discount this method as less accurate than other methods, the fact that the market data relied on is not documented on the appraisal records impacts its credibility.

e. Documentation

RECOMMENDATION 2 : Require documentation on appraisal records for: (1) comparable data relied upon in arriving at the value of new construction by the sales comparison approach; (2) corroboration of historical costs; and (3) accurate diagrams and descriptions of improvements.

Documentation of Market Data

It is difficult to argue that a market value estimate determined by an experienced appraiser, familiar with a subject's area, is any less accurate than a value derived by the use of cost manuals. However, that appraiser should be able to substantiate the value by documenting the information relied upon in arriving at the estimate.

In many cases, it has become the practice at the Riverside County Assessor's Office to allow new construction values to be enrolled with no supporting documentation in the file. When market indicators and cost data used for valuation are not reflected in the file, it creates an appearance that the value may be based on appraiser judgment alone.

Corroboration of Historical Costs

Similarly, the use of historical cost data for smaller additions and new construction projects should be supported by documentation verifying that the reported costs represent market value. It is well recognized that the actual costs of new construction are a good indicator of value, and often represent the market value contributed by new construction. However, these costs should be corroborated by the replacement cost or sales comparison approaches to ensure validity as an indicator of market value.

Regardless of the methodology used in assessing new construction, documentation supporting the value conclusion is a necessary element of any appraisal. If a cost approach is being used to value new construction, the source of the costs used must be indicated along with any adjustments and how the costs are being applied. If reported historical costs are being used, it should be demonstrated that those costs represent the market value of the new construction. This can be done by showing how the historical costs relate either to acceptable costs from cost manuals, sales comparison approach information, or market studies in order to show that the reported costs represent market value. Since the respondent to a new construction questionnaire often has an incentive to report construction costs as greater than or less than the actual amount, reported construction costs cannot be relied upon exclusively. Appraisers should provide documentation on the building record of what information was relied upon in supporting the reported historical costs when historical cost is used.

Accurate Diagrams of Improvements

It is important for the assessment of new construction to keep accurate diagrams of existing improvements on the building records. When changes are made to a structure, an

appraiser must be able to distinguish the existing improvements from the new improvements to determine what has been added. While the computerized files often may be updated with the new building area, the building diagram should also be updated to reflect the property as it exists after the construction.

In the case of residences in new subdivisions, it has become the practice at the Riverside County Assessor's Office to use the floorplan provided in the developer's marketing material as the building diagram for the assessor's building record. The size of the structures reported by the subdivision developer is then used as the square footage for the official assessor's records.

Experience has shown that this practice can be problematic, because developers use different criteria for arriving at the square footage reported in their marketing brochures. While it has been argued that buyers of subdivision properties in the marketplace are actually paying for the advertised square footage, the advertised building area can be different than the building area derived from actual measurement. The assessor's building diagrams should accurately reflect the dimensions as measured from the outside. Additionally, cost manuals, including the AH 531, are based on square footage derived by measuring the outside of structures.

Conversations with assessor's staff indicate that they are aware of the shortcomings of these practices. These methods were being used to expedite appraisals during a period of limited resources and steps are already being taken to provide more acceptable building diagrams.

It is important that building diagrams are included as part of individual building records. It is also important that the diagram be based on measurement of the physical structure or other methods that are accurate enough to be used in the cost approach. Building records without a diagram or records with area calculations based only on unsubstantiated representations made by the developer are incomplete. We recommend that accurate diagrams and descriptions of improvements be documented on appraisal records.

f. Fire Sprinklers

Whether using cost manuals or reported historical cost information for the valuation of new commercial structures, it is important to include value for all improvements included in the new construction. We found that in several instances the value for the costs of fire sprinklers has been intentionally removed from the new construction assessment of commercial structures. This action may indicate a misunderstanding of the property tax law as it relates to fire sprinkler assessment.

RECOMMENDATION 3 : <u>Include the value of fire sprinklers when valuing new structures by the cost approach.</u>

Revenue and Taxation Code section 74(e) provides that newly constructed fire sprinkler systems are exempt only when installed in existing structures. We have observed several examples where the value for fire sprinkler systems were either being omitted or

removed from the value of new structures. The fire sprinklers should be assessed when valuing new structures.

g. Tenant Improvements

Commercial, industrial, and other income producing properties require constant monitoring by assessor's staff because changes in tenants often result in new construction due to new tenant improvements. When new construction to a property by a tenant adds value to a property, these changes by law must be reviewed and reflected in the property's assessment.

The assessor's staff recognizes the need to identify new construction due to tenant improvements. Attempts to discover this new construction include identifying tenant improvement construction permits, sending new construction questionnaires to tenants, examining rent rolls to look for tenant changes, and coordinating with the business property division for the discovery of tenant changes and related new construction.

The Business Property Statement (BPS) is required to be filed annually by business owners and is a useful source for discovering tenant improvements. A portion of this form is reserved for reporting the costs expended by tenants for improvements to their rented premises. The Riverside County Assessor's procedures manual titled "1996 Processing Policies and Procedures for Property Statements," section 7.4, "Improvements," discusses how business property division staff are to process property statements with improvements reported on schedules B1, B3, and B4.

This manual explains that the business property division will review secured assessments and refer improvement costs to the real property commercial division if the combined costs exceed $100,000. The business property division is to assess unsecured tenant improvements if no descriptions are provided and are to refer them to the commercial division if the combined improvement costs exceed $100,000 (excluding replacements and maintenance costs). In a later paragraph, the manual states that business property division staff are not to assess tenant allowances but are to send a copy of schedule B to the commercial division if costs are over $30,000.

The Riverside County Assessor's Audit Manual, section 7.1, specifies audit objectives and procedures for auditing tenant improvements. For example, staff must be sure not to duplicate land and building values, consider article XIIIA restrictions on values, and identify and process supplemental assessments. Classification and coordination with the commercial division is also emphasized.

RECOMMENDATION 4 : Ensure equitable and consistent treatment of tenant improvements by: (1) clarifying existing procedures; and (2) generating supplemental bills where appropriate.

Clarify Existing Procedures

Inconsistencies exist in the treatment of improvements reported on unsecured assessments. Some unsecured assessments are completely handled by the commercial division,

while others are partially handled by the commercial division and partially handled by the business property division. Improvement additions handled by the business division are typically appraised using a "default" 15 year life table, whereas, the commercial division appears to appropriately employ base year value indexing. Thus, property appraised by the business property division typically decreases in value each year, while property appraised by the commercial division will increase in value. This causes similar properties to be assessed differently due solely to procedural differences.

The assessor's office does have a positive response system in place for communication between divisions when referrals are made, but inconsistencies found indicate that either the staff is unaware of tenant improvement procedures or have chosen not to follow them.

Whether referred to the real property division or assessed by the business property division, tenant improvements should be properly classified and uniformly assessed. We recommend that management provide staff with clarification on procedures in place, particularly with regards to tenant improvement assessment responsibilities of the business versus real property staff, and their coordination with each other.

Generate Supplemental Bills Where Appropriate

As real property, new construction of structures requires supplemental assessments. Our review found several instances where the business property division assessed structural tenant improvements reported on business property statements but did not generate supplemental billing.

Section 75.5, et seq. of the Revenue and Taxation Code requires that supplemental assessments be made when new construction other than a fixture occurs. When a tenant improvement to the structure is valued by the commercial real property division, a supplemental bill is generated to cover the period of time from completion date to the next lien date.

We recommend that when structural tenant improvements are valued by the business property division, action be taken to generate the appropriate supplemental bills. To accomplish this, procedures should be clarified and the business property division staff should be trained to generate supplemental billings.

B. SPECIAL POLICIES AND PROCEDURES

1. Decline in Value

Section 51 of the Revenue and Taxation Code requires the assessor to value taxable real property at the lesser of either its factored base year value or its current market value, as defined in section 110. The factored base year value is commonly referred to as the "Proposition 13" value, while the current market value is commonly referred to as the "Proposition 8" value.

Recent legislation has amended Revenue and Taxation Code section 4831 to permit roll corrections for up to one year after the delivery of the roll, if the purpose of the correction is to reflect a decline in market value. This permits the assessor to make decline in value reductions after the roll has closed, and should serve to reduce the number of assessment appeals.

As we noted in our last survey, the assessor relies on a variety of methods to identify possible declines in value. He has developed a simplified reappraisal request form, issued press releases, and made numerous public appearances informing taxpayers of their rights and the appropriate actions to take to avail themselves of those rights.

In addition, Riverside County has two very similar computer programs for annually checking residential housing for declines in value. The first system is called the "Prop 8 Projects." There are currently 406 projects located throughout the county. Each project is a homogeneous residential tract identified by project number. Given specified search parameters, the program analyzes the sales in its database and predicts a value for the ensuing lien date. The appraiser then makes a decision to either enroll this predicted value, let the factored base value be enrolled, or choose another value to enroll.

If the appraiser decides to enroll the predicted "Prop 8" value, the appraiser posts a "Y" in the upload box and the value is enrolled. If the appraiser chooses not to enroll the predicted value, a "N" is posted in the upload box. Should a decline in value not be re-evaluated the following year, the factored base year value is automatically enrolled to ensure that a reduced assessment will not be rolled over into succeeding years.

The second program is basically the same as the first except the program does not predict values for the ensuing lien date. The appraiser assigned a particular geographic area uses the data base to review residential properties for declines in value. Once again, after search parameters are keyed, the program extracts a band of sales within the desired limits. From the band of sales the appraiser decides on a value and compares it to the factored base year value. The lower of the two is enrolled. All enrolled declines in value are coded "G" which helps with future identification.

The drawback of both decline in value programs is that substantiation of the value conclusion is not on the appraisal record. In other words, there is no way for a reviewer to determine exactly what sales were used to justify a specific value conclusion.

The commercial and rural section appraisers currently do not review for declines in value. Action is taken only when the taxpayer files a request for reappraisal, at which time an appraiser will review the property and reduce the value if necessary.

While it is obvious the county is trying to recognize most declines in values, we recommend two improvements to the program.

RECOMMENDATION 5 : Revise the decline in value program by properly noting comparable properties used in the valuation of decline in value.

Our research has shown that comparable properties are rarely noted anywhere in the appraisal process. The assessor's staff had to be consulted as to what approach was used, because we were unable to determine it from the poorly documented records. It is standard appraisal practice to list comparables used to reach a value conclusion. Listing comparables justifies an appraiser's opinion of value. Currently, when questions arise as to the value, the appraiser or reviewer will have no idea which comparables were actually used to support the value.

We recommend that the appraisal staff note at least three comparables for each value conclusion on the appraisal record; or, the appraiser could simply print the screen from the decline in value computer program used for valuation and file it with the appraisal record.

SUGGESTION 2 : Actively pursue commercial and rural properties that have current market values below their factored base year values.

We suggest the assessor expand his program for seeking out declines in value on commercial, industrial, and rural properties. Currently, the assessor has a computer program that functions similarly to the residential programs in that the appraiser can set parameters and the program will search and find comparable sales for a subject property. However, the data base is not regularly updated, or may lack essential information on a recently transferred property, such as a property description. In short, the data base needs to contain all relevant information and be regularly updated.

With the newly extended memory capacity of the county's computer system and recently hired technicians and programmers, the assessor should have little problem updating and adding to the data bank. This would allow for easier identification of comparables, thereby expediting the appraisal process and expanding the decline in value review of commercial and rural properties.

2. Assessment Appeals

Riverside County Ordinance 510 provides for assessment appeals boards and hearing officers and creates as many as five appeals boards. Currently, no hearing officers are being used and only two appeals boards are operating. Each of the assessment appeals boards has three members who are appointed by the board of supervisors in accordance with Revenue and Taxation Code section 1622.1. The board of supervisors is given copies of and instructed to follow the mandated eligibility requirements for appeals board members as expressed in section 1624, et al. of the Revenue and Taxation Code. However, the clerk of the board does not routinely verify that appointees meet all eligibility requirements. That responsibility is left to the board of supervisors.

The clerk of the board is aware that recently, in October 1996, the appeals board members attended a training session in San Diego conducted by the State Board of Equalization. When training is available, the board members usually attend. The appeals board has a "Rules and Procedures of the Assessment Appeals Board" manual that explains the operations of the appeals process. Additionally, there is an information pamphlet as well as internal written documents explaining appeals operations.

Assessment appeals board hearings are held in one of three conference rooms in the board of supervisors hearing room. All three meeting rooms are on the fourteenth floor of the County Hall of Administration building. There is usually a check-in booth on the fourteenth floor for applicants when appeals board hearings are being held.

The clerk of the board and the assessor's office share the same computer data base for scheduling coordination and tracking of appeals hearings. Riverside County covers a large geographic area, and all appeal hearings are held in the city of Riverside, so appraisers may have to be summoned from long distances. For this reason, the clerk of the board schedules hearings with input from the assessor's office on appraiser knowledge and availability.

A "Hearing Date Confirmation Notice" card is sent with the appeals application to determine if the applicant will be attending the hearing. The notice provides the applicant with four options: (1) withdrawal of the application, (2) attendance at the hearing, (3) a one time rescheduling, and (4) stipulation. The return card can be mailed, faxed, or delivered in person either confirming attendance or requesting rescheduling; however, any request to reschedule must be in writing and a hearing can only be rescheduled once. The returned card is received by the clerk of the board and a copy is sent to the assessor's office.

Notices of pending appeals hearings are automatically sent to applicants from the data base. Notice of the hearing is sent 45 days prior to the hearing date, plus a ten-day leeway period. When a hearing is rescheduled, the rescheduled date will be at least 45 days from the request date and is typically two to three months later. If an applicant has a time conflict, the appeals board will try to accommodate him or her. Very few applications expire under the two-year limit.

Appeal defenses are generally prepared by the appraisal staff in the district office where the files are assigned. The appraiser who prepares the appeal defense typically also presents it at the hearing. Since appraisers are assigned geographic areas of responsibility, the appraiser responsible for subject's geographic area will be the one assigned to prepare the appeal. In addition, there is an assessment appeals team that concentrates specifically on the backlog of residential and vacant land appeals and utilizes an automated appraisal program.

About 10 percent of residential property appeal applications actually result in a hearing. While some cases are withdrawn pending assessor's roll corrections, depending on the nature of the correction, this is not a general policy. Withdrawal pending assessor's corrections is not a method used to avoid going before the assessment appeals board.

Over the last several years the appeals workload has increased substantially. The following chart shows the workload by year:

Year	***1990***	***1991***	***1992***	***1993***	***1994***	***1995***	***1996***
No. of Appeals	1,686	4,047	9,114	16,926	21,994	26,289	23,500 estimated (19,000 as of 10/22/96)

The burden that this increased workload has placed on the assessor's staff has been alleviated to some extent by the infusion of State-County Property Tax Administration Program money, and the assessor's staff appear to be responding well to the increased demand and adequately addressing their appeals responsibilities.

In response to the increasing number of applications for assessment appeals, the Riverside County Board of Supervisors adopted assessment appeals Rule 10 in 1994. Rule 10 requests property owners appealing an assessment to supply the basic grounds for the appeal to the county assessor's office prior to the appeals hearing. The State Board of Equalization has taken the position that once an assessment has gone to appeal, under Revenue and Taxation Code section 1606, both the taxpayer and assessor have the right to request an exchange of information. However, the assessor does not unilaterally have the right to require the applicant to divulge their appeals strategy. The legality of Rule 10 was upheld in Superior Court. The Board appealed the court's decision, and the case was awaiting a hearing before the appellate court at the time this report was printed.

3. Assessor's Roll Corrections

Sections 616 and 617 of the Revenue and Taxation Code require the assessor to complete the annual local assessment roll and deliver it to the county auditor on or before July 1 of each year. After delivery of the roll to the auditor, assessments cannot be changed without authorization of the board of supervisors, the district attorney, or statutory provisions.

Section 51.5 of the Revenue and Taxation Code requires the assessor to correct any error or omission that occurs in the determination of a base year value. If the error or omission involved a value judgment, the base year value must be corrected within four years after July 1 of the assessment year for which the base year value was first established. All value increases to the 601 roll due to a roll correction require the assessor to notify the assessee by mail of the amount and reason for the increase. The Revenue and Taxation Code codifies the legal authority for assessment roll changes. Specific sections apply to assessments, escapes, and overassessments.

In our review of the Riverside County Assessor's Office we randomly reviewed 20 roll corrections and found no irregularities in their roll correction procedures.

a. Processing Roll Changes

The county assessor has developed an automated roll change program called RCHANG, which displays current value information and allows appraisers or assessment technicians to input corrections. The program contains a list of standardized reasons for roll corrections with appropriate legal citations. It also performs many of the necessary cross checks and edits, including value assessment calculations. Once the roll correction has been input, anyone can view its status and assessment.

b. Roll Correction Procedures

- The district office and appraisal section initiating a roll correction are identified by "pod names," for example: Riverside/Residential (RIVRES); Perris/Commercial (PERCOM); Riverside/Business Personal Property (RIVBUS); and Riverside/Roll Change (RIVROL).
- The appraiser or assessment technician takes a screen print of the assessment to be corrected and marks the changes in red on the document (effective date, Revenue and Taxation Code section, new full values, action code, reason, and identification number).
- After the initial roll correction is made, it is submitted to the area senior appraiser or supervisor for approval, after which it goes to a batch program for processing. This program performs many of the checks and edits, including value assessment calculations.
- Finally a hard copy is printed and delivered to the county auditor for completion.

Overall, we found the county's automated roll correction process to be efficient and well administered. The assessor should be commended for utilizing computer technology to streamline and expedite the roll correction process.

4. Disaster Relief

Section 170 of the Revenue and Taxation Code allows a county board of supervisors to adopt an ordinance that would provide property tax relief to assessees whose properties have been damaged or destroyed through no fault of their own. The ordinance is also applicable to a major misfortune or calamity within a region that has been declared a state of disaster by the Governor, or to any other misfortune or calamity. The ordinance may specify a period of time within which the ordinance shall be effective, or it may remain in effect until it is repealed.

To obtain relief under an ordinance of this type, assessees must make a written application to the assessor requesting reassessment within 60 days of the misfortune or calamity. However, if no application is made and if the assessor is aware of a property damaged by misfortune or calamity within the previous six months, the assessor must either provide the last known assessee with an application for reassessment or revalue the property with the approval of the board of supervisors.

To be eligible for disaster relief, the property must suffer a loss in value of at least $5,000. The assessor must calculate the percentage of full cash value lost and that percentage must then be applied to the values appearing on the assessment roll.

The assessee is liable for a prorated portion of the taxes that would have been due on the property had the misfortune or calamity not occurred, plus a proration of the tax due on the property as reassessed in its damaged condition. Any taxes paid in excess of the total tax due must be refunded to the assessee as an erroneously collected tax without the necessity of a claim being filed by the assessee.

The Riverside County Board of Supervisors has adopted a misfortune and calamity ordinance which is in accordance with section 170. We reviewed a list of properties that experienced damage due to misfortune or calamity. We found proper assessment procedures were followed when relief was granted, but our review also revealed that some improvement was needed to the overall program.

SUGGESTION 3: Revise disaster relief assessment practices by: (1) establishing and maintaining a central file or listing of properties which apply for, receive, or are denied disaster relief; and (2) documenting fire damage on the appraisal records.

Establish and Maintain a Central File or Listing of Properties Which Apply For, Receive, or Are Denied Disaster Relief

Our review of the assessor's disaster relief program found that there was no central file or listing of properties in which an application for disaster relief had been denied. We were informed that once a disaster relief application is received, it is forwarded to the appraiser who has responsibility for the geographic area in which the property is located. The application is then either approved or denied by the appraiser. If denied, the taxpayer is informed and the application is attached to the appraisal record with no further action taken; if approved, it is processed. When the value is ultimately restored, all the disaster forms are attached to the appraisal record and the record is refiled in the general file by assessor's parcel number. During the processing period, the individual appraiser keeps track of the affected property until the process is complete; no separate listing is ever created for management review or follow-up purposes.

We suggest the assessor establish and maintain a central listing for oversight purposes to ensure that damaged properties are properly tracked and accurately assessed.

Document Fire Damage on Appraisal Records

Our current review found that the appraisal records of many fire damaged properties, whether granted disaster relief or not, are not properly documented even when the appraisal staff is aware of the damage.

We suggest that once the assessor's appraisal staff verifies that fire or other damage occurs to a property, the appraisal record be properly documented. This will ensure that

the appraiser is aware of a property's history so that future appraisal activity on damaged properties reflects an appropriate valuation.

In our last survey we recommended that the assessor periodically request updated lists of fire occurrences from the local fire departments as an additional source of discovery. As a result of our current review, we discovered that the periodic cumulative damage report that used to be available from fire departments in Riverside County is no longer produced. Fire departments have converted to a new reporting system which fulfills requirements for several state agencies such as the State Fire Marshall and Division of Forestry. The new system, known as "EARS," is designed for the state's statistical purposes and is accessed primarily on an 'inquiry' basis rather than a 'report generating' basis as in the past. This means that in order to access information on fire damage, the date and location of damage must already be known. Obviously, this data base will not be useful as a discovery tool, but, the assessor's policy is to continue to notify local insurance agents, builders, and building departments of the provisions and requirements of section 170 of the Revenue and Taxation Code.

5. Low-Valued Property Exemption

Section 155.20 of the Revenue and Taxation Code permits the county board of supervisors to exempt from property tax all real and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine at what level of exemption the cost of processing assessments and collecting taxes exceed the proceeds, and then establish the exemption level uniformly for all classes of property, real and personal except property described in Revenue and Taxation Code section 52. The full value to be exempt may not exceed $5,000 (effective January 1, 1996, the exemption limit was increased from $2,000 to $5,000).

RECOMMENDATION 6 : Request that the board of supervisors revise the county's low-valued property exemption resolutions in conformance with Revenue and Taxation Code section 155.20.

The Riverside County Board of Supervisors, by resolution, have adopted three low-valued property exemptions of $2000: the first applied to personal property and trade fixtures; the second was adopted for mining claims; and in 1990, the third was adopted to include mobilehome accessories, airplane tie down possessory interests, and boat docking possessory interests. But, the board of supervisors has only the authority to set the level of exemption, not target it to specific property types. Once the exemption level is set, it must be uniform for all property classes except property described in Revenue and Taxation Code section 52.

Our 1996 assessment practices survey recommended that the assessor request that the board of supervisors consolidate the low-value exemption resolutions into one that includes all property, real and personal, which has a value less than the adopted low-value limit. The Riverside County Assessor has in fact drafted an amendment to the resolution in compliance with section 155.20 of the Revenue and Taxation Code. This amendment also

includes an exemption of mobilehome accessories valued at $5,000 or less installed or added to mobilehomes purchased prior to July 1, 1980 and subject to vehicle license fees. However, as of this date, the assessor has not made a decision whether to submit the amendment to the board of supervisors for approval.

We again recommend that the assessor request that the board of supervisors revise the three resolutions into one that's uniform and applies to all property, real and personal, that has a value less than the adopted low-value limit.

6. Supplemental Roll Assessments

Per Revenue and Taxation Code section 75 et seq., supplemental assessments are used to effect tax adjustments resulting from changes in ownership or new construction.

The county is making a major effort to integrate their supplemental assessment processing into existing programs. As a result of this effort, the regular and supplemental rolls are processed concurrently, allowing year round processing. Supplemental assessments are computer-generated once the appraisal staff has completed a value change and the values are posted to the supplemental roll. These supplemental assessments then go to the county auditor's office where, under Revenue and Taxation Code section 75.41(d), the auditor cancels any resultant tax bills that are $20 or less. Our review found the county's computerized supplemental assessment processing to be current and reflect accurate value calculations.

Section 75.55(b) of the Revenue and Taxation Code allows the board of supervisors to adopt an ordinance authorizing the assessor to cancel small supplemental assessments producing less than $20 in taxes, or $50 in taxes in the case of eligible manufactured home accessories. In no event, though, does it allow for cancellation of amounts in excess of the above mentioned figures.

During our field review in l996, we found that the assessor's staff was in effect canceling small supplemental assessments by not sending to the auditor those revised supplemental assessments generating tax bills of $25 or less. Though expedient, the assessor has no legal authority to cancel any small supplemental assessments without an enabling ordinance.

RECOMMENDATION 7 : Discontinue the practice of canceling small supplemental assessments without authorization from the board of supervisors.

The above recommendation is repeated from our last assessment practices survey. The county board of supervisors still has not adopted an ordinance giving the assessor the authority to cancel small supplemental assessments. In reviewing the county's revised supplemental assessments created by an appeal or decline in value reduction, we found the assessor's staff continues to cancel small revised supplemental assessments, but now the threshold amount has been raised to $100.

With approval of an ordinance by the board of supervisors, the assessor could legally cancel small supplemental assessments that do not exceed the legal tax limit as prescribed in section 75.55 of the Revenue and Taxation Code.

We recommend the assessor refrain from canceling small supplemental assessments unless authorized to do so by the board of supervisors.

RECOMMENDATION 8 : Discontinue the negative supplemental assessment of trees and vines when they are removed.

Currently, when assessable trees and vines are removed from a property, the assessor's staff processes a supplemental assessment as is done when nonliving improvements are removed. This results in a negative supplemental assessment which generates a refund to the taxpayer due to the removal of the trees or vines.

When trees or vines are planted, they are not enrolled until the lien date either three or four years later (vines get a three-year exemption, trees get a four-year exemption after planting), whichever is appropriate. Similarly, when trees or vines are removed, their value is not removed from the roll until the following lien date. This is because trees and/or vines (living improvements) are not subject to supplemental assessments.

Land and structures are subject to supplemental assessments, but section 463.5 (c) (9) of Title 18 of the California Code of Regulations specifically excludes trees and vines from the definition of structures. It provides that "'structures' means all improvements subject to supplemental assessments other than living improvements (trees and vines) and fixtures which qualify for assessment pursuant to Section 75.15 and 75.16 of the Revenue and Taxation Code."

We recommend that the assessor direct his staff to terminate the practice of processing negative supplemental assessments for the removal of trees and vines which is in direct conflict with current statutory provisions.

C. SPECIAL PROPERTY VALUATION AND PROCEDURES

1. Manufactured Homes

Manufactured homes have been taxable on county tax rolls since July 1, 1980. Under current law, a manufactured home can become subject to local property taxation either because it was first sold new on or after July 1, 1980, or because the owner voluntarily requested conversion from vehicle license fee to local property taxation. The statutes prescribing how manufactured homes must be valued and assessed are sections 5800 through 5843 of the Revenue and Taxation Code. There are also sections of the Health and Safety and Vehicle Codes that may apply to manufactured homes.

At the time of our survey fieldwork, about 50,000 manufactured homes were assessed on the Riverside County tax roll. Of these, approximately 12,000 are located in 332 rental parks or on leased lots.

The majority of manufactured homes are valued and assessed by staff in the Perris district office, which is dedicated specifically to the assessment of manufactured housing.

The appraisal team includes one principal appraiser, one senior appraiser, one appraiser II, an appraiser trainee, two assessment technicians, an office assistant, and two temporary office clerks. The appraisal staff values all types of manufactured housing, including those located on permanent foundations and those that are licensed with assessable accessories.

Although the overall program appears to work effectively, our review noted two areas that are in need of improvement.

SUGGESTION 4 : Revise manufactured home procedures by placing greater emphasis on the use of recognized value guides.

The manufactured home appraisal staff has developed a computer program that contains all manufactured home sales, including those located on permanent foundations, those on lots owned by the manufactured home owner, and those where the assessor does not assess the manufactured home but assesses the accessories and hook-ups. Each type is coded and organized by assessment number. When an appraiser needs to value a manufactured home, the desired parameters such as square footage, assessment number (special property type identifier), and date can be input and the program will extract a list of sales from within the requested parameters. From this list, the appraiser determines a value for the subject manufactured home.

A valuation grid sheet has also been developed specifically for determining values for manufactured homes on leased land. The grid sheet takes only the manufactured home value into consideration. The grid reflects manufactured home values arrayed by age, shown horizontally along the top, and square footage, written vertically along the left side. The appraiser simply matches subject's square footage and age with those on the grid and tracks each to their point of intersection where a single value is ascertained.

The valuation grid was developed by the principal appraiser using sales information from dealer reported sale prices, sale information from the Housing and Community Development Agency (HCD), and returned change in ownership questionnaires. The grid sheet is also used for checking manufactured home declines in value.

Manufactured homes in rental parks may sell for a premium price due to their location and available amenities. As a result, most original purchase prices and resales of manufactured homes located in manufactured home parks include consideration for the value of the site. Section 5803(b) of the Revenue and Taxation Code requires that the value attributable to the rented site be excluded from the purchase price. This code section requires the assessor to consider values provided in a recognized manufactured home value guide as a way to exclude site influence.

Our review indicates that the county staff does not consistently reference a required value guide when valuing those manufactured homes located on leased land. The value guide book available in Riverside County is the Kelley Blue Book, both the hard copy and a computerized form. But, it is the opinion of the appraisal staff that the grid sheet is a better indicator of value. The Kelley Blue Book is used only when a value cannot otherwise be derived from the valuation grid sheet or comparative sales data base.

We recommend that the manufactured home appraisers comply with code requirements and consistently consider and document use of the Kelley Blue Book Guide in the valuation of all manufactured homes located on leased land.

2. California Land Conservation Act Properties

Riverside County had 2,208 parcels (65,749.84 acres) encumbered by California Land Conservation Act (CLCA) contracts as of the 1996-97 lien date. Pursuant to the California Land Conservation Act of l965 (Williamson Act), an agricultural preserve is established by contract between a landowner and the county. Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting). The assessed value is the lesser of this restricted value, the current market value, or the factored base year value.

Our current review found the Riverside County Assessor's CLCA program to be well administered, computer assisted, and able to recalculate all CLCA values annually. Since our last review, improvements have been made to the program. For example: (1) rent surveys for vineyards are now sent out annually while other CLCA rent surveys remain on a two-year cycle; and (2) a declining income stream for trees and vines has been added to the CLCA valuation procedure. Previously, the assessor calculated an inclining production in the early years and level production at maturity but did not include a short period of straight-line declining income for orchards or vineyards.

We commend the assessor for making these changes to the CLCA program. Incorporating these changes ensures that the assessor is in compliance with current property tax law and that orchard and vineyard owners are receiving equitable treatment under the law.

The current improved CLCA program appears to function quite well, however, there are two areas that need to be addressed.

RECOMMENDATION 9 : Revise the procedures for valuing California Land Conservation Act (CLCA) properties by: (1) recognizing the income generated by compatible uses; and (2) using appropriate base year values for newly created homesites.

Recognize the Income Generated by Compatible Uses

The assessor's staff makes no effort to determine if CLCA properties have additional income from compatible uses such as hunting rights, mineral or gas exploration rights, microwave antenna, or radio tower site leases. The assessor's rent and production questionnaire for CLCA properties is not a standard form; instead, it is a personalized letter/questionnaire specific to the subject that does not include questions about compatible uses of the property.

When income is generated by a compatible use of CLCA lands, it must be capitalized in the manner specified for restricted properties in accordance with Revenue and Taxation Code section 423. Ignoring compatible use income results in an underassessment.

We recommend that an effort be made to discover and include all compatible use income in the income to be capitalized when determining the value of CLCA properties.

Use Appropriate Base Year Values for Newly Created Homesites

In Riverside County when new construction created a previously nonexistent homesite on CLCA land, the valuation procedure used varies depending upon which branch office is assigned the appraisal. Either (1) the factored base year value (FBYV) of the existing farmland, plus new construction for the home is enrolled, or (2) a new current market value (CMV) is enrolled.

The creation of a previously nonexistent homesite on land subject to a CLCA contract does not change the established base year for the land. Therefore, when a homesite is established, it must be valued based on market data relevant to its base year without regard to the date the homesite is created.

The correct procedure is made clear in Assessors' Handbook section 521A (AH 521A), The Valuation of Open-Space Property, page 66:

> "A special base year problem is created when a new homesite is developed on restricted property. In this instance, the base year of the site will be the same as the base year of the larger parcel on which the site is located. A change in use alone is not grounds for reappraisal."

We encourage the assessor to implement both parts of this recommendation in an effort to comply with current property tax law and to improve an otherwise well administered CLCA program.

3. Possessory Interests

A taxable possessory interest is established when a right to exclusive use and possession is created in government owned real property. The elements necessary for a possessory interest assessment program are the ability to identify government agencies granting possessory interests, the holder of the possessory interest, terms of possession, and economic rents. The assessor, under section 107 of the Revenue and Taxation Code, is responsible for identifying the existence of possessory interests and valuing those possessory interests upon their creation, change in ownership, renewal, or renegotiation of the lease, and upon the construction of new improvements subject to the lease agreement.

Most possessory interests in Riverside County, except for those under the jurisdiction of the Temecula regional office, are monitored and valued by a principal appraiser in charge of possessory interest assessments. The supervising appraiser in the Temecula office handles the possessory interests for that regional office.

The primary source of discovery for possessory interests is through annual questionnaires filed by the various government agencies reporting possessory interests in Riverside County. A list of these agencies is maintained by the assessor's office. Each lien date, questionnaires are mailed out to each of the government agencies leasing government properties to private parties within the county. Questionnaire responses are compared to responses received in previous years to determine any changes that would affect the property assessment.

If a transfer has taken place or a lease renegotiated, information pertaining to sales price, lease payments, lease terms, and options are requested from the government agency. While this method of discovery works well with agencies that readily provide information, it is the assessor's experience that many government agencies do not regularly provide complete and accurate information.

RECOMMENDATION 10: Improve the possessory interest assessment program by: (1) improving discovery techniques; (2) providing better documentation on possessory interest records; and (3) developing a file management system capable of tracking all possessory interests.

Improve Discovery Techniques

Because Riverside County's possessory interest appraisal program relies almost exclusively on information reported in response to the annual questionnaires, it is crucial that enough information be provided to accurately discover and assess all existing possessory interests. It has been the experience of the assessor's staff that a significant portion of the responses received are inadequate, meaning that the quality and reliability of the reported information does not always provide enough information to keep assessments current. Without current and complete information, the assessment of possessory interests is negatively impacted.

Probably the best example of a good response is the City of Palm Springs. The report returned to the assessor's office annually by the City of Palm Springs is arranged by lease agreement number and provides the lessee, contact person, term, options, annual rent, and a variety of reference data in a well organized report. But the assessor's staff has difficulty obtaining this information from other agencies.

A random review of files at the Riverside and Palm Springs offices indicates that the necessary lease, term, and market information is not being kept at a level that allows for proper assessment. No evidence was found to suggest that possessory interests are being regularly reviewed and assessed as required by the Revenue and Taxation Code.

Without accurate and reliable information from the reporting agencies, the assessor's staff must look for other methods of discovering changes in ownership. We suggest that a staff member be assigned to follow up on inadequate agency responses, either by letter or telephone. When information cannot be obtained from government entities, we suggest field canvassing and contacting lessees.

Examination of the fairground and airport possessory interest files at the Riverside County Assessor's Office indicate that better discovery techniques are needed to keep these assessments current. These types of possessory interests can be discovered by obtaining vendor lists and event calendars directly from the operators.

Provide Better Documentation

Our review of possessory interest records indicates a need for increased documentation. The assessed value for possessory interest parcels can be found by assessment number in the computer data banks; however, there is little indication of how the value was derived. Very few files contained remarks on rate, term, direct capitalization, and similar notations.

In addition to the physical description of the property required for all property appraisal records, the individual record for each possessory interest parcel should include information on the lease, rent, term, and renewal options. The method used to derive the possessory interest assessment should be shown in a way that the assessment calculations can be confirmed. It is also important that lease expiration and renewal dates be clearly indicated and keyed into the database so that the property can be identified as it nears the end of its term. The County Property Tax Division's "Possessory Interest Appraisal Record" (Form R-886) provides an example of a format that includes all the necessary information for a possessory interest appraisal record.

Develop a File Management System

The current organization of the possessory interest files makes it very difficult to keep possessory interest assessments current. There is no centralized filing system. While possessory interests are being worked, the most active accounts are being kept at the desk of the principal appraiser in charge of possessory interest assessments. The remainder of the possessory interest files can be found in file drawers at the Riverside office and at the Palm Springs and Temecula regional offices.

Master files that contain the lease agreements and responses to the annual questionnaires are intended to be organized by government agency. Our examination of the filing system found that relevant information necessary for the appraisal of possessory interests was not organized in a manner that made a coherent review possible. In most cases, the assessment conclusions for individual parcels could not clearly be traced to the corresponding source documents. In addition, there is no system for tracking lease expirations.

Because file management and documentation are such important elements in managing possessory interest assessments, the current filing system for these properties is in urgent need of reorganization. A functional possessory interest file management system should have the capability of alerting appraisers to term expirations and other information indicating that a reappraisal is required. We recommend that the filing system for possessory interest assessments be improved to enable monitoring of those possessory interests that require periodic reappraisal and to allow for the documentation of the important elements necessary for possessory interest appraisals.

4. Water Companies

a. General

Water company properties assessed on local tax rolls may be either municipal systems on taxable government-owned land, private water companies regulated by the California Public Utilities Commission (CPUC), private water companies not regulated by the CPUC, or mutual water associations. Each type presents different appraisal problems.

RECOMMENDATION 11 : Annually review county and state water inspection reports to discover assessable water company properties.

To determine whether the assessor had properly assessed the various types of water companies and water-related properties within Riverside County, we obtained a listing of all water supply sources annually inspected by the county's Department of Environmental Health, the State Department of Health Services' branch of Drinking Water Field Operations, and the California Public Utilities Commission (CPUC). Water sources, such as wells with less than 200 users, are monitored by the county. Those with 200 or more users are monitored by the state. We noted some problems in each of these water company categories.

Those properties listed as water supply sources receiving annual inspections include mobilehome parks, camp grounds, lodges, country clubs, mutual water companies, private water companies, and many more. This listing is very useful for locating assessable wells, pumps, and pressure systems.

The assessor's staff had no idea how many municipally owned (inside or outside the municipality's boundaries), mutually owned , or privately owned water companies exist within Riverside County. The county's Department of Environmental Health listed 294 water system companies mutually or privately owned (servicing 5 to less than 200 users each). The State Department of Health Services' Drinking Water Field Operations Branch listed 70 water system agencies (servicing 200 or more users each). In addition, the state's CPUC listed a total of 195 water companies.

There is no ongoing program to monitor or maintain the assessment of water company properties. We recommend that the assessor contact the Riverside County Department of Public Health, Division of Environmental Health, the State Department of Health Services' Drinking Water Field Operations Branch, and the California Public Utilities Commission (CPUC) to obtain lists of tested water systems. Once this information is obtained, we encourage the assessor's staff to contact all municipally owned, mutually owned, and privately owned water companies. All applicable records should be checked to determine if all listed properties have been assessed for wells, pumps, and pressure systems. Those not currently assessed should be promptly enrolled and escape assessments levied as appropriate.

b. Municipal Water Systems

Publicly owned water system property located outside city limits or district boundaries is taxable if it was taxable at the time it was acquired by the city or district. The assessable status of parcels owned by municipal water departments or water districts located outside the agencies' boundaries is discussed elsewhere in this report in the "Taxable Government-Owned Properties" section.

The assessor should request each public water district and city to annually report any private uses of this taxable government-owned land. Such uses are defined in section 21 (b) of Title 18 of the California Code of Regulations (Property Tax Rule 21 (b)) as taxable possessory interests and must be identified and assessed.

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

RECOMMENDATION 12 : Revise private regulated water company assessment procedures by: (1) considering the sales comparison and income approaches to value when valuing private water companies; and (2) requiring that each water company provide a copy of its annual report to the assessor.

Consider the Sales Comparison and Income Approaches to Value

Private water companies, both regulated and unregulated, are privately owned utilities in business to earn a profit from the sale of water. The regulated companies must annually submit financial reports to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return based on the companies' outstanding investment. Because the assessed values of these properties are tied directly to regulated rates, current market value may be less than a water company's factored base year value, making it necessary to annually determine its taxable value as of the lien date.

We recommend that the Riverside County appraisers use the sales comparison and income approaches to value, in addition to the cost approach (historical or otherwise). Although there may be few sales of similar properties, income and cost data can be obtained from the financial report. Using all three approaches when meaningful data is available will provide the best indicator of the property's value.

Require Water Companies to Provide a Copy of Their Annual Report

The assessor is not receiving copies of the annual financial statement required by the CPUC for water companies regulated by the CPUC. It would be a simple matter for the taxpayer to submit a copy of the CPUC report to the assessor. We recommend that the assessor require that a copy of the CPUC annual report be submitted to the assessor's office by each regulated water company.

d. Private Water Companies Not Regulated by the California Public Utilities Commission (CPUC)

Unregulated water companies are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated for profit.

RECOMMENDATION 13: Review the status of private unregulated water companies for possible assessment.

As previously mentioned, there are 294 properties listed by the Riverside County Environmental Health Department as mutually or privately owned water companies in Riverside County. We recommend that the assessor investigate the status of these water companies and assess and enroll them if assessable (and not currently assessed). These unregulated companies should be assessed according to Article XIII A, until such time as the CPUC imposes its regulations. If that occurs, the companies should then be assessed as regulated water companies.

e. Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost, to be used by its stockholders or members. The association, when incorporated, can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can only do these things in the names of all its members. Corporations organized for mutual purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than stockholders and members.

When mutual water shares are appurtenant to the land, the value of the mutual water company equity is included (at least in part) in the sales prices of the property served and to which the shares attach. Conversely, when shares are not appurtenant to the land and must be purchased separately, or customers are served outside the mutual service area, the value of the mutual water company's property is not included.

A mutual water company's articles of incorporation contain much information that must be considered by an appraiser in valuing the company's property, such as:

- How the stock is held
- Whether the mutual water company is profit or nonprofit
- The area served by the water system
- Lands and improvements owned by the mutual water company
- Water sources purchases, wells, and water rights
- The method of dissolving the association or corporation.

We were unable to find copies of the articles of incorporation or bylaws in the assessor's files for any of the mutual water companies. Because of incomplete or non-existent files, we could not determine where or what improvements or lands were owned or what parcels were being served by the companies. There was no list of water companies of any kind maintained by the assessor's staff, which makes it difficult to determine whether a property is

assessed. Each one of the 364 water systems that we identified from the lists we obtained from the Department of Environmental Health and the State Department of Health Services' Office of Drinking Water must be checked against the assessment roll for appropriate parcel numbers and verification of assessment.

RECOMMENDATION 14 : Revise assessment procedures for mutual water companies by: (1) obtaining the articles of incorporation and bylaws of all mutual water companies; and (2) reviewing all assessments of mutual water companies.

We recommend that, on a time available basis, the assessor obtain the following from each mutual water company:

- Articles of incorporation and amendments to them
- Bylaws and amendments to them
- Lists of lands, improvements, and water distribution systems owned by each mutual water company, showing location and identity of each item
- A listing of all assessor's parcels served by each mutual water company.

When this information has been obtained, we recommend reviewing all mutual water company parcels for accessibility.

5. Historical Properties

Qualified historical properties are to be valued by the method provided in Revenue and Taxation Code section 439.2. This method requires the assessor to limit the assessed value to reflect the restrictions placed on the property. Owners of qualified historic properties enter into a preservation contract with the local government agreeing to restore the property if necessary, maintain its historic character, and use it in a manner that is consistent with its historical characteristics.

Pursuant to section 439.2 (d) of the Revenue and Taxation Code, when valuing an enforceably restricted historical property, the taxable value must be the lowest of the value of the capitalized income, the current market value, or the unrestricted factored base year value. The income to be capitalized shall be the fair rent which can be imputed to the restricted historical property based on actual income received by the owner and upon rents received from similar properties with similar use where the owner pays the property tax. If the restricted historical property is encumbered by a lease, the fair rent shall be the expected rental payment to be renegotiated in the light of current conditions, including applicable provisions under which the property is enforceably restricted.

There are three properties in Riverside County that qualify as historical properties as defined in section 50280.1 of the Government Code. We reviewed the county's historical property assessments, which utilizes an in-house designed worksheet that follows state guidelines. We found their valuation procedures to be in compliance with sections 439 thru 439.4 of the Revenue and Taxation Code.

6. Taxable Government-Owned Properties

The Constitution of the State of California exempts from taxation property owned by a local government, except lands and the improvements thereon, that are located outside its boundaries and that were subject to taxation at the time of acquisition (article XIII, sections 3 and 11).

Taxable government-owned lands should be assessed at the lowest of (1) the 1966 or l967 assessed value adjusted by a factor supplied annually by the State Board of Equalization; (2) current fair market value; or (3) the factored base year value. Taxable government-owned property is frequently referred to as section 11 property because it must be assessed in accordance with the above mentioned section 11.

Improvements subject to assessment under section 11, that were taxable when acquired by the government agency, or their replacements, must be assessed at the lowest of (1) current market value; (2) full cash value as defined by article XIII of the California Constitution; or (3) the highest value ever used for taxation for the replaced improvements. Improvements newly constructed subsequent to acquisition are exempt.

RECOMMENDATION 15 : Revise the assessment and valuation procedures for section 11 properties by: (1) reviewing the non-taxable properties list for property owned by government agencies but located outside their boundaries; and (2) reviewing and correcting the assessments of improvements located on taxable government-owned lands.

Review the Non-Taxable Properties List

The non-taxable properties list contains parcels that are tax exempt and usually owned by government agencies. By comparing ownership and tax rate area codes we noted many parcels owned by government agencies that seemed to be located outside their boundaries. Since this would make them taxable government-owned property and assessable in accordance with section 11, some properties may be escaping assessment.

As we did in our previous assessment practices survey, we recommend that the assessor's staff review this non-taxable properties list as a means of discovering taxable government-owned property.

Review and Correct the Assessments of Improvements Located on Taxable Government-Owned Lands

Our previous assessment practices survey noted that the assessor's appraisal staff removed assessed improvement values and enrolled erroneous improvement values on some section 11 properties without properly documenting the appraisal records. For example: one property had a 1975 base year improvement value of $320; when factored to 3/1/96 it should be $470, yet the assessed value is enrolled at $300. Another had a 1975 base year improvement

value of $320 that was dropped to a zero (0) value, and remains at a zero value as of 3/1/96, with no supporting documentation.

Section 11 implicitly requires that any new construction of improvements be compared with those improvements existing at the time of acquisition by a government entity. Because of statutory differences in valuation procedures for the assessment of replacement versus newly constructed improvements, it is necessary to accurately keep track of all improvements on appraisal records.

We again recommend that when the assessor's appraisal staff make value changes to improvements on section 11 properties, that it be done accurately with the reason for any changes documented on the appraisal record.

SUGGESTION 5 : Consolidate the responsibility for valuing section 11 properties.

As was noted in our previous assessment practices survey, responsibility for assessing section 11 properties is spread geographically over all seven district offices; meaning, that if a section 11 property is located within a district office's jurisdiction, it is appraised by staff in that office.

The specific methodology required to value and assess taxable government-owned property is complex and differs significantly from the valuation requirements under article XIII A of the California Constitution. Spreading assessment responsibilities for these specialized properties over seven district offices and numerous appraisers continues to make uniformity of assessment difficult.

We again suggest that responsibility for the assessment of section 11 properties be consolidated under one staff appraiser in the special properties unit as a way to ensure assessment uniformity.

7. Timeshares

Timesharing is a system of sharing ownership in a vacation home, condominium, camp ground, et cetera, in which each of the purchasers may occupy the unit during a specified time interval. Most of the timeshares in Riverside County are located in the Palm Springs area.

Typically, when a timeshare is purchased many non-real property items are included in the selling price. Such items include personal property (furniture, linen, kitchenware, household items), vacation exchange rights, club memberships, selling and promotional expenses, and any prepaid expense, such as a maintenance fee for the upcoming year. These items are considered non-taxable and should not be included in the assessed value.

A major factor to be considered in the valuation of a timeshare is the season or specified week purchased. In Palm Springs, there are basically three seasons: high, swing, and low. High season is the peak season, i.e., winter in Palm Springs. Low season is the least desirable time of the year, i.e., summer in Palm Springs. Swing seasons are everything in

between. Sale prices of timeshares can vary dramatically from season to season and it is important to confirm that all comparable sales are in the same season as the subject property.

In Riverside County, seasons are identified by assessment number. Each assessment number corresponds to a particular weekly interval, enabling and ensuring that only timeshare intervals from like seasons are compared to one another.

When construction of a timeshared resort is complete and timeshares are ready to sell, an appraiser from the county will meet with the management and staff of the resort to determine the cost breakdown of each sale price per week. Costs of all improvements and non-assessable items are allocated on a price per square foot basis and then assigned to each unit. Percentages are derived from these allocations, combined, and then deducted from the selling price. This information is contained in a master file for the timeshare property.

While the basic procedures for valuing timeshares are reasonable, and the county appears to have done an adequate job of assessing them, our review indicated one area in need of improvement.

RECOMMENDATION 16 : Revise the timeshare data bank to include more information.

Our review found several assessments in which the valuation procedures, the percentage of non-assessable items deducted from selling prices, or "Prop 8" values, could not be determined.

Individual timeshare records are kept only in the computer data bank. Very few "hard copy" files exist. Although the county maintains master files for each timeshare project, very little information could be found on individual timeshare assessments. What information is found in the computer data bank is limited to the date of the last transfer, the recorded document number, and the value of that transfer (value indicated from the documentary transfer tax stamps).

Master files, although somewhat helpful, often contained outdated information with little documentation on how current roll values were derived. We understand that creating a paper file for each timeshare assessment would not be cost effective; however, current assessment information for each timeshare interval should be available in the computer data bank. In addition to basic transfer information, the following data should be added for each assessment:

- The factored base year value
- The current market value
- The size of the unit
- The assessment number and corresponding season
- The percentages of non-assessable items and any other adjustments that are made to the sale price.

This information is necessary for reappraisals, appraisal review, and addressing taxpayer inquiries.

In the past, timeshares were worked by several different appraisers, causing inconsistency in assessments. Recently, responsibility for all timeshare property valuations was assigned to one real property appraiser. We commend the assessor for this action, and we hope it alleviates the problem of inconsistent value estimates and assessments.

IV. BUSINESS/PERSONAL PROPERTY ASSESSMENT

A. INTRODUCTION

1. General

The annual assessment of 33,000 business property accounts 4,000 boats, and 2,000 aircraft are managed by the business property division of the Riverside County Assessor's Office. The business property division has a staff of 26 personnel, not including one vacant supervising auditor-appraiser position. The division is managed by one principal auditor-appraiser who reports to the chief of valuation.

The business property division is divided into two teams, identified as Team 1 and Team 2, each supervised by one supervising auditor-appraiser. Team 1 responsibilities include handling public service calls, processing property statements, performing field canvasses, and representing the business division in appeals of property values. Team 2 responsibilities include performing mandatory and special audits (non-mandatory audits).

Significant changes in the composition and size of the business property division have occurred since our last assessment practices survey, published February 1996. Monies borrowed through the State-County Property Tax Administration Program allowed the assessor to increase staff positions and improve and modify process systems. As a result of this loan, nine auditor-appraisers were hired in February 1996. Currently there are 19 total auditor-appraiser positions, or seven more positions than during 1993-1994. The additional auditor-appraisers have increased audit production and decreased the large backlog of audits.

2. Management Controls

Organizations, whether private or government, are well managed when operations of the organization are properly planned, organized, directed, and controlled. Effective control requires that management establish a means of control, or internal control, to ensure the organization:

- Complies with federal, state, and other laws or regulations; and internal policies and procedures
- Accomplishes management objectives
- Maintains the reliability and integrity of data
- Uses resources effectively and efficiently.

The Riverside County Assessor has established a well defined organizational structure. A hierarchy of supervisors within the organizational structure provide the necessary planning and directing or supervision of operations. Additional direction is provided through written policy and procedures manuals which delineate procedures for performing duties within the organization, as well as management expectations.

In the business division, employees have on-line computer access to an Audit Manual, Operations Manual, and a manual which specifies procedures for processing property statements. Daily operations are supervised by the two team supervisors, including the review of completed audits. Overall operations are supervised by the principal auditor-appraiser. Thus, the Riverside County Assessor has established a means of properly managing the business division.

Our examination addressed the effectiveness of the controls established by the assessor's office, particularly concerning whether the business division complies with laws, regulations, or internal policies and procedures, since much of what the assessor's office does must comply with California constitutional and statutory tax law.

3. CPTD Sampling Results

CPTD's sampling of the 1996-97 Riverside County Assessor's local assessment roll included 17 unsecured accounts containing assessable personal property or fixtures. In 12 of these sampled items, CPTD values were higher than enrolled values, while in 4 cases CPTD values were lower. Statistically expanded to represent the total assessment roll, these sample items indicate that approximately 29,732 accounts were underassessed on the 1996-97 roll by a total of nearly $630,674,161 million, while nearly 772 accounts were overassessed by a total of approximately $15,152,116 million.

B. AUDITS

1. Mandatory Audit Program

Section 469 of the Revenue and Taxation Code requires an audit at least once each four years of the books and records of businesses owning, claiming, possessing, or controlling locally assessable trade fixtures and business tangible personal property with a full value of $300,000 or more. Section 532 of the Revenue and Taxation Code requires assessments to be made within four years or six years after July 1 of the assessment year in which the property escaped taxation, or was underassessed. If the audit cannot be completed within the prescribed time, an extension is available under the provisions of section 532.1.

In addition to the requirements of the Revenue and Taxation Code sections concerning mandatory audits, the Riverside County Assessor has also contractually agreed with the State of California Department of Finance for specific audit production requirements. The current requirements are specified in the most recent annual State-County Property Tax Administration Program agreement, executed November 6, 1996. Terms of this agreement require the reduction of an existing backlog of mandatory audits. They also require the establishment of a non-mandatory audit program. Fulfillment of these terms, as well as other terms of the contract not mentioned here, constitute payment of the loan, or portions thereof, depending on the extent to which the requirements have been met.

Our review of the Riverside County Assessor's business division indicated that the audit program produces high quality audits. The business division has increased the number of completed mandatory audits; however, the audit program still has a significant backlog of uncompleted audits and is the focus of the following two recommendations:

RECOMMENDATION 17 : Bring the mandatory audit program to current status.

The prior CPTD survey noted that the audit program was well managed and produced high quality audits. It also noted that only 43 percent of the mandatory audits were completed, and recommended that the assessor allocate sufficient staff resources to bring the mandatory audit program up to current status. Since then, nine additional auditor-appraisers were added in February 1996, which due to staff turnover, resulted in a net staff increase of seven auditor-appraisers.

As a result of these staff increases, the number of mandatory audits completed has increased. It appears the number of completed audits will continue to increase as the new auditor-appraisers become more experienced and require less supervision. However, even with the increased number of completed audits, the backlog of mandatory audits is estimated to be 629 for 1996-97, and 599 for 1997-98. For 1996-97, this represents 43 percent of the 1458 business and agricultural accounts that meet mandatory audit requirements as defined in section 469 of the Revenue and Taxation Code. The percentage drops to 41 percent in 1997-98. Completing audits at the current rate, which is estimated to be 426 mandatory audits for 1996-97, will eliminate the backlog of audits in the next three to four years, depending on the annual completion rate.

We strongly recommend that the assessor continue to allocate sufficient staff resources to bring the mandatory audit program up to current status.

2. Waivers

Section 532 of the Revenue and Taxation Code requires that an escape assessment must be made within four or six years after July 1 of the assessment year during which the property escaped assessment or was underassessed. If the assessor cannot complete an audit (or any other audit) within the prescribed time limit, the assessor may request from the taxpayer an extension of time to avoid possible loss of revenue. This can be accomplished by having the taxpayer sign a waiver of the statute of limitations, as authorized by section 532.1 of the Revenue and Taxation Code.

RECOMMENDATION 18: Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time.

The assessor's staff does not regularly obtain signed waivers of the statute of limitations. As discussed in our prior recommendation, there still remains a mandatory account audit backlog of over 43 percent. Waivers protect the legal rights of both the assessor and the taxpayer. Without a waiver, the county and the taxpayer lose their legal recourse to correct any assessment errors beyond the four year statute of limitations.

Typically, most audit programs result in the discovery of taxable property escaping assessment. Without a waiver of the statute of limitations, the tax dollars from any escape assessments beyond the statute of limitations are lost to the county. Similarly, the taxpayer's interest in correcting a prior year overassessment cannot be addressed unless it is within the statute of limitations, or if a signed waiver from the taxpayer has extended the time period.

We strongly recommend the assessor's staff obtain waivers of the statute of limitations for all situations where mandatory audits will not be completed on time.

C. VALUATION

1. Equipment Index Factors and Depreciation Factors

Taxable values for machinery and equipment are typically computed from historical costs through the use of combined valuation factors. The combined valuation factors are the product of the price index and percent good factor. Accurate assessments depend on the proper choice and application of these price indexes and percent good factors.

RECOMMENDATION 19: Revise the equipment index factors and depreciation factors used to appraise business property and fixtures.

The Board's Planning, Policy, and Standards Division (PPSD) annually publishes price index factors and percent good factors which are used to compute current reproduction costs from historical costs for valuation purposes. Assessors' Handbook section 581 (AH 581), Equipment Index Factors, contains 12 index factor categories for commercial equipment, and six index factor categories for industrial equipment. It also contains percent good factors based on a constant terminal income stream adjusted for declining income.

The business property division uses the Quarterly Cost Indexes from Marshall Valuation Service, Section 98, to develop its valuation factors. The county's valuation factors, described as "composite commercial factors," are a combination of the "Average Of All, Equipment, National Average" index column in Section 98, and percent good factors. These valuation factors are used to value personal property and fixtures for all business property regardless of industry type. PPSD also uses Marshall Valuation Service as the source index data, but utilizes the index by industry types, such as those for banking operations or retail operations, versus the average of all these industries.

While overall totals may show only a small difference, the accuracy of specific categories will be materially distorted. Average indexes sacrifice accuracy for convenience, which results in inequitable treatment of taxpayers. Some classifications of equipment will be overassessed, some will be underassessed, and some will be properly assessed.

In the prior two assessment practices surveys, CPTD recommended the assessor discontinue the exclusive use of straight-line depreciation in the valuation of machinery and equipment. We commend the assessor for implementing the use of percent good factors listed in the AH 581 for manufacturing and commercial equipment with lives of 15 years or more. However, the assessor continues to use straight-line depreciation for percent good factors on commercial operations of 12 years or less.

The percent good factors listed in AH 581 are based on sound appraisal principles. Business and industrial equipment is purchased for the production of income. The percent good factors are a ratio of the net worth of the remaining income stream (net operating income that will be produced by the equipment during its remaining economic life) to the net worth of the income stream of a new replacement. The percent good factors account for normal physical deterioration and functional obsolescence but do not account for unusual deterioration or unusual functional obsolescence.

We urge the assessor to reconsider the use of the arbitrary straight-line depreciation premise as compared to the appraisal-based premise employed in AH 581.

D. BUSINESS PROPERTY STATEMENTS

Business property assessments are based upon data submitted by taxpayers on the annual business property statements. The Riverside County Assessor's business property division has a well designed procedures manual detailing methods for receiving, reviewing, and processing property statements. This manual clearly specifies organizational goals and guidelines for processing property statements. It also specifies the duties of auditor-appraisers and clerical staff for processing property statements, and their responsibilities for coordination with the real property division.

1. Authorized Signatures

Section 172 of Title 18 of the California Code of Regulations (Property Tax Rule 172) requires that the property statements and mineral production report forms be signed by the assessee, a partner, a duly appointed fiduciary, or an agent. When signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization of the agent or employee to sign the statement shall, according to Property Tax Rule 172, be filed with the assessor.

In the case of a corporate assessee, the rule further states that property statements and mineral production reports shall be signed by an officer, or by an employee or agent whom the board of directors has designated in writing, unless signed by a member of the bar, certified public accountant, or duly appointed fiduciary.

Property Tax Rule 172 (d) also states:

Neither the assessor nor the Board shall knowingly accept any signed property statement . . . that is not executed in accordance with the requirements of this section.

RECOMMENDATION 20: Closely screen business property statements for proper signatures. Reject those that do not meet regulatory requirements.

From our sampling of business property statements processed for lien date 1996, we found property statements signed by persons without the apparent authority to sign them. These signatures were not supported by letters of authorization. It does not appear as though the procedures manual addresses this issue.

By ensuring property statements are properly signed or a written authorization filed, the assessor will be in full compliance with property tax laws. Likewise, it will also increase the accountability of whoever signs and files the annual property statement. The corporate assessee will realize that the filing employee or agent is charged by the corporation with the important duty of accurately and fully reporting all business property to the assessor. The written authorization calls attention to the fact that the corporate assessee is liable for any consequences of the employee's or agent's errors in reporting.

We recommend that staff screen all property statements for proper signatures and reject those without proper authorization. To implement this recommendation, the business property division should consider maintaining a central file of signature authorizations with an alphabetical table of contents. This would provide a quick reference file for verifying questionable signatures, rather than the current system of pulling each individual property file. Pulling each individual file is time consuming and discourages signature verification.

In addition, the business property division supervisor should review a sampling of business property statements prior to processing to ensure that signatures are properly authorized. Periodic checks of incoming business property statements would assure management that their directives are being followed.

E. LEASED EQUIPMENT

Leasing companies' business property statements are processed and valued in conjunction with all other business property statements. While some counties assign specific staff members to concentrate on leasing companies, the practice in Riverside County is to spread this work among the entire staff. This ensures that there are people trained to work the leased properties at all times, regardless of changes in personnel. We found adequate controls in place for the mailing and processing of leased equipment property statements.

The valuation of leased equipment sometimes involves a trade level issue. Trade level is an adjustment to reported cost which is often necessary when leasing companies hold for lease equipment that they have manufactured or have been able to purchase at less than retail. If the county is aware of a trade level issue, it is addressed during the valuation process, or when leasing companies are audited.

Previously, leased property had to be reported and assessed at the location where it was used. That requirement was changed by the enactment of Revenue and Taxation Code section 623. Now leased property may be reported by the lessor at his principal office in the county, or the location within the county where the lessor has most of the equipment. Although they are no longer required by law to do so, the staff of the Riverside County Assessor's Office attempts to distribute the values of leased property as equitably as possible throughout the affected tax rate areas. We commend them for this effort.

Section 19 of article XIII of the California Constitution provides that the Board shall assess all property owned or used by public utilities. Section 19 also provides for the Board to delegate to county assessors the assessment of properties used but not owned by state assessees. This is leased equipment not included in the utility's unitary or nonunitary value assessed by the Board.

The property to be assessed locally is reported to the Board on the Board's Form V-600B as part of the public utility's annual property statement. Each year copies of the Form V-600B are sent to the applicable county assessor's offices to be used as a discovery document. It is accompanied by a cover letter stating that the Board's staff will not include the listed equipment in the Board's assessment of the public utility. This equipment should be assessed by the local county assessor.

RECOMMENDATION 21: Utilize the Board Form V-600 B to discover and assess taxable leased property.

The information on Form V-600 B is currently being reviewed only sporadically by the business division staff as a part of their discovery program for leased equipment. We recommend that staff be assigned to review this information and to assess items that have not already been assessed.

F. QUALIFYING WELFARE EXEMPT ORGANIZATIONS

The welfare exemption is applicable to land, improvements, and personal property owned by a qualifying nonprofit organization and used exclusively for religious, hospital, scientific, or charitable purposes. All applications for these exemptions, as well as exempt aircraft, are received and reviewed for accuracy and timeliness by staff in the exemptions section of the assessor's office.

When the business property division receives the business property statements for exempt properties, the reported amounts are first valued and assessed as though they are taxable, and these values are entered into the computer and onto the roll. If no further steps are taken, they will be assessed as any other business property. After the exemptions section staff receives the exemption applications and approves it, a special code is entered into the computer identifying the value as being exempt. This procedure ensures that exempt organizations will be assessed should they not file the appropriate application or file late.

It was also noted that hospitals who report over $299,000 in value on their business property statement are included in the mandatory audit listing. Consequently, they are routinely audited, further ensuring that the values entered onto the roll are correct.

G. POLLUTION CONTROL EQUIPMENT

Division 27 of the Health and Safety Code (commencing with section 44500) authorizes the California Pollution Control Financing Authority (CPCFA) to acquire devices or facilities necessary to mitigate air and water pollution caused by private industrial operations in California. The CPCFA issues bonds for the purchase amount and the private companies pay for the equipment by paying a monthly lease amount to the CPCFA.

Revenue and Taxation Code section 201.5 (b) provides in part that possessory interests in this type of equipment owned by the CPCFA, whether in real or personal property, are taxable. To help identify such bond financed equipment, the Board's PPSD furnishes all assessors with a yearly Letter to County Assessors Only (CAO) entitled Listing of Companies Entering Into Contract With the Pollution Control Financing Authority. It lists the pollution control financing bonds issued during the previous year, with project location by county, the name of the lessee, and the amount of each bond.

The assessor of each county where such bonds have been issued must investigate the conditions of each contract. Based upon the findings, an assessment is made to the lessee in one of two ways. If it is found that the CPCFA is in fact leasing the equipment to the private company, then the company's interest in the equipment should be assessed as a possessory interest. But, many of these leases indicate that legal title to the facility remains with the CPCFA until expiration of the agreement, at which time title is transferred upon payment of a nominal fee ($1 or $100). This arrangement suggests the lease is actually a purchase agreement and the lessee should be considered the owner of the pollution control equipment. In these cases, the cost of the pollution control equipment should be reported on the company's business property statement and assessed as equipment. However, some assessees do not report the costs of the equipment because they consider the state to be the legal owner.

The assessor's staff must make a determination whether the equipment should be assessed as a possessory interest or assessed as equipment owned by the assessee. For either assessment the full cash value of the property is the taxable value as required by Revenue and Taxation Code section 201.5 (b).

RECOMMENDATION 22: Assess all pollution control devices financed by state bond issues as either possessory interests or equipment.

As stated in Board notifications to county assessors from 1990 to the present time, two industrial business entities in Riverside County have been issued pollution control bonds by the CPCFA. One was listed in October 1995 for $6,385,000. It had not been assessed by the assessor's staff. A review of the business property statement for this company showed that amounts reported for equipment in 1995 and 1996, as of March 1, 1996, were

comparatively small and could not have included the cost of pollution control equipment. In this case the equipment could escape assessment.

Staff members in the possessory interest and business sections were not aware that the Board sends this notice to the assessor. A cursory review was also made concerning bonds issued to another company in 1990 in the amounts of $40,000,000, $17,000,000, and $54,800,000. This was a cogeneration plant that was almost entirely financed by the pollution control bonds. An audit was performed by the Riverside County Assessor's Office and a stipulated value agreed to after completion of the audit. Part of the assets are being reported and taxed by the business division and there is also a possessory interest assessment. No underreporting or underassessing was discovered.

We recommend that the assessor establish procedures to ensure that copies of the Board's yearly Listing of Companies Entering Into Contract With the Pollution Control Financing Authority are made a part of the valuation procedures for the possessory interest and business property appraisers. A system for tracking and verifying bond amounts should be established between the two groups to insure that the proper assessment is made for equipment financed by the CPCFA. It is also recommended that a copy of the CAO letter be placed in the company's business property statement file and that investigations of this matter become a part of the audit program for such business entities.

These pollution control bonds often represent significant amounts. Initiation of a program to ensure that they are assessed would prevent escapes from occurring and would provide Riverside County with a more equalized tax base.

H. VESSELS/BOATS

Pursuant to Revenue and Taxation Code section 228, assessors in California are required by law to annually assess certain vessels with a market value above $400. If the county has a low-valued property exemption, the exemption level is that of the county resolution. Riverside County had a low value property exemption resolution of $2,000 as of lien date 1996.

RECOMMENDATION 23: Revise boat assessment procedures by: (1) assessing all taxable pleasure boats; and (2) annually assessing boats at current market value.

Assess All Taxable Pleasure Boats

Currently the Riverside County Assessor's staff enrolls only those boats brought into the county, or newly acquired since the last lien date, having values of $10,000 or above. Boats valued at less than $10,000 by the Department of Motor Vehicles (DMV) are not entered on the roll at all. This procedure was adopted in 1991 and is still being followed in 1996.

When this procedure was initiated, boats on the roll remained on the roll as long as their value did not fall below the $2,000 low-valued property exemption amount. Those boats added to the roll because of an initial value of $10,000 or more remain on the roll and are valued each year by reducing their enrolled values by 5 percent.

Since this assessment practice was adopted in 1991, all boats with a value of less than $10,000 (per DMV) when they were purchased new or were first brought into the county, have escaped assessment entirely. In 1996 there were 1,388 boats with an average value of $7,981 that were not assessed. This represents a total escape in excess of $11,000,000.

We recommend that all boats in Riverside County whose market value is $2,000 or more be assessed. Making this recommended change would prevent the loss of revenue now occurring, ensure that all boat owners in Riverside County are taxed equitably, and ensure that the legal requirement to assess all boats whose value equals or exceeds the county's low-valued exemption is met.

Annually Assess Boats At Current Market Value

All boats enrolled since 1991 have been valued solely on the basis of the DMV listed price. In order to allow for the normal reduction in value due to age and depreciation, the enrolled value of all boats is arbitrarily depreciated by 5 percent of its current value each year, as long as the boat remains in the same ownership or until it is depreciated below the $2,000 minimum value threshold. Values derived from this procedure approximate market value only if, by coincidence, the resale value of a boat follows this specific pattern.

We recommend that the valuation procedures for boats be changed to include the use of retail price guides such as the BUC book, the ABOS price guide, or the NADA price guide for boats. These books most often list different values than the DMV value and allow for adjustments such as location and condition, thereby more closely approximating market value.

It is preferable to value the boats annually to ensure that the enrolled value reflects true market value. However, if this is not done, we reiterate our previous recommendation that any fixed depreciation percentage be selected as the result of a review of the price guides mentioned above, and reflect current market trends.

Using information extracted from the recommended boat price guides to determine value will more correctly reflect market value.

I. AIRCRAFT

Section 5363 of the Revenue and Taxation Code states that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft prescribed by the Board.

Previous to the 1997 lien date, the Board had published aircraft valuation data each year in Assessors' Handbook section 587 (AH 587), Aircraft Valuation Data. The Board no longer publishes this book and recommends instead that counties determine market value by referring to a commercially published aircraft price guide.

On January 8, 1997, the Board approved the Aircraft Bluebook Price Digest as the primary guide for valuing general aircraft. In cases where aircraft are not listed in this price guide, the Board approved the use of the Vref Aircraft Value Reference.

The Board further directed in its Letter to Assessors 97/03, General Aircraft Value Guide, that the listed retail value shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. An adjustment for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since the last overhaul must also be made to book prices to determine correct market value. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

RECOMMENDATION 24 : Revise aircraft assessment procedures by: (1) mailing out the annual aircraft questionnaire to all aircraft owners and making adjustments for information obtained; and (2) annually appraising aircraft.

Mail Out the Annual Aircraft Questionnaire and Make Adjustments for Information Obtained

The business property staff does not mail out an annual aircraft questionnaire to aircraft owners requesting engine hours since the last major overhaul and other information needed to estimate market value. Without the aircraft questionnaire, engine hour adjustments are made only when the aircraft owner voluntarily sends in the necessary information and requests a revaluation. Adjustments for engine hours can have a substantial impact on the value of aircraft.

We recommend that the assessor's staff annually mail a questionnaire to the owners of private aircraft requesting the number of engine hours since the last major overhaul, as well as other changes in equipment, condition, situs, and ownership. We recommend that the assessor's staff use this information when making annual market value determinations.

Annually Appraise Aircraft

The assessor's appraisal records reflect that when an aircraft is initially valued, it has been done primarily through reference to AH 587. However, none of the private aircraft were appraised for the 1996 lien date. Values from the previous year were simply carried over. Private aircraft tend to appreciate in value and should be valued each year to prevent any loss of revenues. Because of this appreciation, the aircraft were undervalued in 1996.

A sample of 24 aircraft files were drawn. Of the 24, only eight had sufficient data in the file to make a comparison. Of the eight, two were overassessed, one was correctly assessed, and five were underassessed. This sampling indicated that the aircraft were underassessed in 1996 by 17 percent.

We recommend that the assessor delegate resources and staff to annually reappraise the private aircraft at current market value. The base price of each aircraft should be determined through the use of an accepted price guide and adjusted for engine condition, added equipment, and general condition. When aircraft appraisals are done yearly, it ensures that values entered on the roll reflect market value.

J. RACEHORSES

All property, unless specifically exempted, is taxable under mandate of article XIII of the California Constitution. Several categories of horses have been exempted from taxation as stated in the Revenue and Taxation Code. Pets are exempted under section 224; horses held as business inventory are exempted under sections 129 and 219; and, section 133 of Title 18 of the California Code of Regulations (Property Tax Rule 133) interprets section 129 to extend the inventory exemption to animals used for the management of livestock. Thus, property taxation does not impact persons who use their horses to work with livestock or who have pet horses used solely for personal use and enjoyment.

Racehorses and show horses are the two main categories of horses, used in a trade or business, that are subject to property taxation. Each category includes the associated breeding stock. Racehorses are taxed at a lower rate than other taxable horses. The tax is based on the racing category for which the horse qualifies, and not on the horse's value. Show horses (and other horses used in a trade or business that are not exempt) are taxed as personal property in the same way as any other item of personal property would be taxed.

Since 1973 racehorses domiciled in California have been subject to an annual tax in lieu of the ad valorem property tax. The provisions of this tax are contained in sections 5701-5790 of the Revenue and Taxation Code.

In order to meet the racehorse definition as stated in section 5703:

- A horse must have actually raced.
- A horse must be registered or eligible to be registered as a race horse in one of the five "eligible to race" breeds stated in section 1046 of Title 18 of the California Code of Regulations, (Property Tax Rule 1046): thoroughbreds, quarter horses, standard breds, Appaloosa horses, and Arabians.
- If the horse is over four years old in the case of Arabians (three years for all others) and never raced, the horse must have been used for breeding purposes in order to produce racehorses during the preceding two years.

RECOMMENDATION 25: <u>Establish procedures to discover racehorse owners and annually mail a racehorse tax return to the owners of racehorses.</u>

In our previous assessment practices survey we recognized that racehorses were not being taxed in Riverside County. Section 1045 of Title 18 of the California Code of Regulations requires the assessor to maintain a list of known racehorse owners and to annually

mail each a racehorse reporting form. This is still not being done in Riverside County. Consequently, racehorses have not been taxed in Riverside County for several years.

We recommend that procedures be initiated to discover all racehorse owners in the county, and to mail them a racehorse reporting form each year. Racehorse owners are required to return the completed forms to the tax collector, who is responsible for assessing the tax. We suggest that a check procedure be established between the assessor's staff and the tax collector's staff to assure that all returns are completed properly and returned.

K. COMPUTERS

1. Software

Revenue and Taxation Code sections 995 and 995.2 govern the assessability of computer software. Section 995, enacted in 1972, states, in part:

> Storage media for computer programs shall be valued as if there were no computer programs on such media except basic operational programs. Otherwise, computer programs shall not be valued for the purpose of property taxation.

In other words, computer programs are exempt, except for basic operational programs. Revenue and Taxation Code section 995.2, enacted in 1973, defines "basic operational program." According to section 995.2:

> The term "basic operational program," as used in Section 995 and for purposes of Section 995.1 means a computer program which is fundamental and necessary to the functioning of a computer. A basic operational program is that part of an operating system including supervisors, monitors, executives and control or master programs which consist of the control program elements of that system.

Section 152 of Title 18 of the California Code of Regulations, (Property Tax Rule 152), adopted in 1974, and amended in 1996, provides guidance in properly implementing these statutes. Following a scheduled public hearing on July 24, 1996, the Board adopted amendments to Property Tax Rule 152, Computer Program Storage Media.

The rule as amended became effective November 3, 1996, states, in part:

> (a) Computer programs shall not be valued for purposes of property taxation, except with respect to the valuation of storage media as provided in section 995 of the Revenue and Taxation Code. A licenser of a computer program who does not own, claim, possess or control the storage media on which the program is embodied or stored shall not be subject to assessment with respect

> to the value of the licenser's copyright interest in the computer program, or with respect to the value of the license fees charged for the use of the computer programs.
> (b) Storage media for computer programs, as defined in section 995 of the Revenue and Taxation Code, shall be valued as if there were no computer program on such media except basic operational programs.
> (f) A person claiming that a single-price sale or lease includes charges for nontaxable programs and services should be required to identify the nontaxable property and services and supply sale prices, costs or other information that will enable the assessor to make an informed judgment concerning the proper value to be ascribed to taxable and nontaxable components of the contract.

The amended rule more restrictively defines basic operational programs to include only the basic input output system (BIOS):

> (h.1) Included in the price of every IBM and IBM compatible personal computer and every Apple and every Apple compatible personal computer is a basic input output system (BIOS). BIOS is a copyrighted computer program that controls basic hardware operations, such as interactions with diskette drives, hard disk drives and the keyboard, and that facilitates the transfer of data and control instructions between the computer and peripherals. The operation of other computer programs, such as the various versions of Disk Operating Systems (DOS), Windows, OS/2, UNIX and similar programs, is possible only through the facilities provided by BIOS, but operational programs other than BIOS are not in themselves fundamental and necessary to the functioning of the computer.

For the 1996 lien date, the assessor followed Board guidelines concerning computer software. However, given the changes made to Property Tax Rule 152, the assessor's staff plans to review their procedures for assessing computer software for the 1997 lien date, if a problem comes to their attention. At the time of this survey, they were unsure as to what procedures would be used.

Although the assessment of computer software continues to be a contested issue involving the assessor, industry, and the Board, we suggest that the assessor implement the newly amended Property Tax Rule 152.

2. Hardware

The valuation of computers and related equipment (herein referred to as computers) has been a contested issue between taxpayers and assessors for the last few years. In its continuing effort to maintain proper, equitable, and uniform property tax assessment, the Board, in Letter to Assessors (LTA) 96/27 dated April 3, 1996, expanded two previously

recommended computer valuation tables into three valuation tables, i.e., personal computers ($25,000 or less), mid-range computers ($25,000 to $499,000), and mainframe computers ($500,000 or more).

The 1996 factors were developed after extensive data-gathering, analysis, and consultation with the computer industry and assessors. Data for mid-range computers was limited and resulted in less consistent findings. In recognition of the assessors' concerns over the mid-range factors, the Board has directed its staff to acquire additional information for mid-range computers; and, if such additional information indicates other factors to be more appropriate, the Board will issue new guidelines. Absent such data and revised factors, LTA 97/18 reflects the Board's current recommendation for the valuation of computers.

RECOMMENDATION 26 : Assess computers using the Board's recommended factors as intended.

For the 1996 lien date, the assessor appropriately valued personal computers ($25,000 or less) by using the Board-recommended factors per LTA 96/27. However, in assessing the mid-range ($25,000 to $499,000) and mainframe ($500,000 or more) computers, the assessor's staff incorrectly used the personal computer ($25,000 or less) factors. The assessor's current procedures call for this approach to be used for 1997 lien date. Use of the same factors to value all computers, regardless of size, is not supported by the Board's research, nor by current Board guidelines.

It is the Board's position that the proper identification of computer category and application of the recommended factors per computer category will yield a reasonable estimate of current market value. We recommend the assessor assess computers using the Board's recommended factors as intended.

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing[4] activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

The assessment sampling program is conducted by the Board's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as-needed basis for the other 47 counties. This sampling program is described as follows:

(1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the county to be sampled.

(2) These assessments are stratified into 18 value strata (nine secured and nine unsecured).[5]

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

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

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

(4) For purposes of analysis, the items will be identified and placed into one of five categories after the sample is drawn:

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

b. “T” (transferred) properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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

d. “N” (non-Proposition 13) properties. Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.

e. “U” (unsecured) properties. Those properties on the unsecured roll.

(5) From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others.

This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum.

Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

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

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

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

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

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

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

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

(8) The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the County Property Tax Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

ASSESSOR’S

RESPONSE

TO

BOARD’S

RECOMMENDATIONS

COUNTY OF RIVERSIDE
OFFICE OF THE ASSESSOR

COUNTY ADMINISTRATIVE CENTER
4080 Lemon Street, 6th Floor
P.O. Box 12004
Riverside, CA 92502-2204
(909) 275-6250

December 22, 1997

Claudia M. Tendal
Supervising Property Appraiser
State Board of Equalization
140 S. Flower Street, Suite 101
Orange, CA 92868-3467

RE: Response to Final Survey Draft

Dear Ms. Tendal:

Enclosed is our revised response to the final draft of the assessment survey. We have adjusted our responses to match changes from the previous draft.

The only addition is to our response for Recommendation 11. If you have any comments or questions, you may reach me at the telephone number listed below.

Very truly yours,

GARY L. ORSO
Assessor

James N. Hansson
Chief Appraiser
Valuation Division
(909) 275-6276

JNH:blg

Enclosure

Gary L. Orso, Assessor

Rex L. Jackson, Assistant

Riverside County Assessor

Response
to the
Assessment Practices Survey
conducted by the
State Board of Equalization

The Riverside County Assessor is pleased to respond to the State Board of Equalization's Assessment Practices Survey of this County. We appreciate the cooperation and professional attitude shown by the Board's Survey team.

RECOMMENDATION 1

Adjust the selling price of real property by the cash equivalent amount of outstanding improvement bonds.

Response:

We are currently working on an information discovery program to request the items mentioned in Section 163 of the Revenue and Taxation Code. All agencies that may have 1911 or 1915 Act improvement bonds will be contacted. If possible all parcels with outstanding bonds will be flagged, and bond values will be considered when valuing changes in ownership.

RECOMMENDATION 2

Require documentation on appraisal record for: (1) comparable data relied upon in arriving at the value of new construction by the sales comparison approach; (2) corroboration of historical costs; and, (3) accurate diagrams and descriptions of improvements.

Response:

(1)(2) Because of the infusion of funds from the State-County Property Tax Administration Program (AB 818), it has been possible to hire a number of new appraisers. It is anticipated that this additional staff will allow for more thorough documentation with regard to added new construction. The appraisal staff will be directed to emphasize more detailed worksheet documentation. (3) The assessor is currently testing an electronic software program called Winsketch. This program will allow for more accurate as well as more consistent treatment of new construction diagrams. This program will enable the appraisers to document on the building record the source of the valuation conclusion, by inputting information directly into the computer. This information can then be saved to an imaging file. Once the building record has been imaged, it can then be recalled for

updating of any further action taken on the property. Information with regard to the diagram and property description will be based on actual field inspection.

Additional software currently under development for use on commercial and apartments will provide the means to sort the database for comparables, make adjustments, correlate the three approaches to value, and provide for electronic storage of this data. It is our expectation to have similar capabilities in place in the future for residential property as well.

RECOMMENDATION 3

Include the value of fire sprinklers when valuing new structures by the cost approach.

Response:

The result of a misunderstanding of the Revenue and Taxation Code Section 74(e) resulted in the removal of the cost of fire sprinklers from the valuation of new construction. The commercial staff has been informed of this error. Programing modifications are being made now to correct the commercial databases that are used to value new construction.

RECOMMENDATION 4

Ensure equitable and consistent treatment of tenant improvements by: (1) clarifying existing procedures; and (2) generating supplemental bills where appropriate.

Response:

The Commercial Division and Business Division are currently in the process of clarifying procedures to ensure consistent application of taxability and valuation of tenant improvements. The SBE review found several instances where the Business Division failed to generate supplemental billings for structural improvements reported on business property statements; these were oversights on the part of the appraiser. It is our policy to create supplemental assessments where appropriate.

RECOMMENDATION 5

Revise the decline in value program by properly noting comparable properties used in the valuation of a decline in value.

Response:

The Systems section of the Assessor's office is now in the process of designing a new computer program that will allow for clearer documentation of appraisals of properties that have suffered a decline in value. Not only will this program be able to analyze all transfers of ownership within a geographic neighborhood, it will also indicate the specific sales that were used to arrive at a value for each property size and class. Appraisers will then be able to pull up any given property, view and make a computerized printout of those sales. For those properties that do not lend themselves to computerized analysis, appraisers will be directed to produce a printout from our sales program of sales used to determine the valuation to insert into the property jacket.

RECOMMENDATION 6

Request that the board of supervisors revise the county's low-valued property exemption resolutions in conformance with Revenue and Taxation Code § 155.20.

Response:

A revised resolution has been drafted; however, it must be reviewed in light of uniform application to classes of property and a decision made as to whether it is cost effective for the assessor to exempt the assessments in a given class.

RECOMMENDATION 7

Discontinue the practice of canceling small supplemental assessments without authorization from the board of supervisors.

Response:

Although it appears that Revenue and Taxation Code §2611.4 allows without an ordinance "any county department, officer or employee" to refrain from collecting any tax or assessment where the amount to be collected is twenty dollars ($20) or less, such an ordinance will be drafted for Board of Supervisors approval limiting the authority to the $20 statutory amount.

In the meantime, staff will be directed that in no case should a tax of up to $100 be canceled without further authority.

RECOMMENDATION 8

Discontinue the negative supplemental assessment of trees and vines when they are removed.

Response:

We are no longer processing negative supplementals on removed trees and vines per Section 463.5 (c) (9) of Title 18 of the California Code of Regulations.

RECOMMENDATION 9

Revise the procedures for valuing California Land Conservation Act (CLCA). properties by: (1) recognizing the income generated by compatible uses; and (2) using appropriate base year values for newly created homesites.

Response:

In the future we will look for CLCA properties with compatible uses, and value the compatible use in addition to valuing the agricultural lease income in determining CLCA land values.

We will standardize the procedures for valuing CLCA homesites by utilizing factored base year value (FBYV) as the basis for valuing homesites. We have reviewed this method with the agricultural appraisers.

RECOMMENDATION 10

Improve the possessory interest assessment program by: (1) improving discovery techniques; (2) providing better documentation on possessory interest records; and (3) developing a file management system capable of tracking all possessory interests.

Response:

(1) We believe our current procedure of an initial request letter to all reportable agencies, followed up with a "Second Request" letter to those not responding within a reasonable time, to be an effective discovery tool. If necessary, we contact by telephone or FAX those agencies who remain silent.

As for the suggestion that we conduct a field canvass and contact lessees, we believe this to be cost ineffective due to limited staffing as well as the uncertainty of the results. It is our position that the information discovered through our existing program cannot be completely assured, but is within reasonable expectations.

(2) Since January 1, 1997, all commercial possessory interests have been consolidated in the Riverside office and assigned to a Supervising Appraiser. He has made efforts to complete the necessary documentation on possessory interest properties. It has been the observation of this "new" appraiser that the prior appraisals were sufficiently described to provide, in the majority of instances, an understanding of the appraisal logic used by the previous appraiser. We do agree, though, that many records are difficult to interpret and for the benefit of all concerned, efforts should be made to standardize our recordation of the data collected.

(3) A database will be constructed to track possessory interests. In previous years, we have relied on the reporting agencies to provide us with "any new agreements ... or any changes in prior agreements." A manual review was made of every assessment for possible needed changes. The tracking system will act as "insurance" that necessary changes will not be missed.

RECOMMENDATION 11

Annually review county and state water inspection reports to discover assessable water company properties.

Response:

We have obtained lists of tested water systems from the Riverside County Department of Public Health, Division of Environmental Health, the State Department of Health Services' Drinking Water Field Operations Branch, and the California Public Utilities Commission. We will review these reports for any missed assessable items and process escapes where necessary.

A cursory review of the lists does not give the indication of any massive loss of value from missed assessable items. A review of the state's CPUC list revealed that of the 195 water companies listed, only 6 are located in Riverside County. These are small and located in rural areas.

RECOMMENDATION 12

Revise private regulated water company assessment procedures by: (1) considering the sales comparison and income approaches to value when valuing private water companies; and (2) requiring that each water company provide a copy of its annual report to the assessor.

Response:

Resources permitting, we will request copies of annual reports for all private, regulated water companies. These will be reviewed along with any applicable market data to determine how the current indicated market values of the companies compare to their factored base year values.

RECOMMENDATION 13

Review the status of private unregulated water companies for possible assessment.

Response:

Resources permitting, we will review the assessment status of all identified private unregulated water companies and update as necessary.

RECOMMENDATION 14

Revise assessment procedures for mutual water companies by: (1) obtaining the articles of incorporation, and bylaws of all mutual water companies; and (2) reviewing all assessments of mutual water companies.

Response:

Resources permitting, we will request articles of incorporation, bylaws, and other descriptive information for all mutual water companies. This information will be reviewed to identify the assessability of mutual water company parcels.

RECOMMENDATION 15

Revise the assessment and valuation procedures for section 11 properties by: (1) reviewing the non-taxable properties list for property owned by government agencies but located outside their boundaries: and (2) reviewing and correcting the assessments of improvements located on taxable government-owned lands.

Response:

(1) It is our intent to properly assess all government-owned properties located outside their boundaries. We will compare our non-taxable property's list with tax rate areas to identify any properties located outside their boundaries. Any properties found to be escaping assessment will be valued in accordance with section 11 of Article XIII. (2) The Assessor's office will initiate additional training with regard to the proper procedures to be used when valuing improvements on section 11 properties. The possibility of consolidating the appraisal of section 11 properties will also be investigated. It is also recommended that the assessor create a central file of section 11 properties to be maintained on the central file server in the Riverside office.

RECOMMENDATION 16

Revise the timeshare data bank to include more information.

Response:

The assessor currently has a program called "inqtishr", which contains information regarding interval season, unit number, and ownership information. Resources permitting, the assessor will investigate the feasibility of adding values, both factored and current market, and percentage adjustments for each interval to this inquiry program. As indicated in the State survey, the assessor has consolidated the valuation of timeshares under one appraiser. It is anticipated that this will lead to more consistency in the treatment of timeshare interests, as well as clearer documentation in the central project files.

RECOMMENDATION 17

Bring the mandatory audit program to current status.

Response:

By the end of fiscal year 97-98, all mandatory audits will be current.

RECOMMENDATION 18

Obtain a signed waiver of the statue of limitations when a mandatory audit will not be completed on time.

Response:

As long as the Business Division retains sufficient staff to complete the mandatory audit workload, the Business Division intends to obtain a signed waiver of the statute of limitations if an audit can not be completed timely.

RECOMMENDATION 19

Revise the equipment index factors and depreciation factors used to appraise business property and fixtures.

Response:

The Business Division intends to review the index and depreciation factors by the 1/1/99 lien date.

RECOMMENDATION 20

Closely screen business property statements for proper signatures. Reject those that do not meet regulatory requirements.

Response:

Property Tax Rule 172(d) states: "Neither the assessor nor the Board shall knowingly accept any signed property statement...that is not executed in accordance with the requirements of this section." The Business Division does not *knowingly* accept improperly signed property statements. The SBE recommends the Business Division maintain a central file of signature authorizations for verification. Having to review approximately 30,000 signatures with a central file would neither be cost effective nor feasible.

RECOMMENDATION 21

Utilize the Board Form V-600B to discover and assess taxable leased property.

Response:

We believe there is a misunderstanding on this issue. The Business Division does in fact utilize the Board Form V-600 to discover and assess taxable leased property. The Business Division is usually unable to process the information by the close of the roll; however, it is reviewed and processed subsequently.

RECOMMENDATION 22

Assess all pollution control devices financed by state bond issues as either possessory interests or equipment.

Response:

The Business Division is establishing an annual procedure for reviewing the Board's yearly Listing of Companies Entering Into Contract With the Pollution Control Financing Authority to insure the property is being assessed. With regard to the subject property mentioned on page 100 (first paragraph) that was listed in October 1995 for $6,385,000 - the SBE states "It had not been assessed by the assessor's staff." The project began in 2/96 and was not completed until 10/96. There was a small amount of Construction in Progress assessed for 3/1/96 but the majority of the construction occurred after the lien date and was therefore not assessable for 3/1/96. It was fully assessed for 1/1/97.

RECOMMENDATION 23

Revise boat appraisal procedures by: (1) assessing all taxable pleasure boats; and (2) annually assessing boats at current market value.

Response:

We accept the technical accuracy of the Board's position, but must weigh both its cost effectiveness and feasibility against workloads and available resources.

RECOMMENDATION 24

Revise aircraft assessment procedures by: (1) mailing out the annual aircraft questionnaire to all aircraft owners and making adjustments for information obtained; and (2) annually appraising aircraft.

Response:

We accept the technical accuracy of the Board's position, but must weigh both its cost effectiveness and feasibility against workloads and available resources.

RECOMMENDATION 25

Establish procedures to discover racehorse owners and annually mail a racehorse tax return to the owners of racehorses.

Response:

Riverside County began mailing annual racehorse forms for 1/1/97.

RECOMMENDATION 26

Assess computers using the Board's recommended factors as intended.

Response:

The Business Division had been using the Board's factors for valuing personal computers ($25,000 or less) for the 3/1/96 lien date. For the 1/1/97 lien date, the Business Division also began using the mainframe computer ($500,000 or more) schedule. The Business Division has not used the factors for the mid-range computers ($25,000 to $499,000) because (1) the limited data available; and (2) our computer system is not designed for multiple computer tables. We will consider using a mid-range computer schedule for the future depending on future Board findings and the ability of our computer system.