

SACRAMENTO COUNTY ASSESSMENT PRACTICES SURVEY

JUNE 2005

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June 17, 2005

TO COUNTY ASSESSORS:

SACRAMENTO COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2005/037

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

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

Fieldwork for this survey was performed by the BOE's County Property Tax Division from September 2003 through _____. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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

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

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Sacramento County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Sacramento County that provided information relevant to the property tax assessment program.²

This survey also included an assessment sample of the 2003-04 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

² All rule references are to California Code of Regulations Title 18, Public Revenues.

EXECUTIVE SUMMARY

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

In our 2001 Sacramento County Assessment Practices Survey, we made 24 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented 14 of the recommended changes, 3 prior recommendations no longer apply, and 7 were not implemented. The recommendations that were not implemented are repeated in this report.

In the area of administration, we noted the following:

- The Assessor's website received the 2001 Public Information Program Award from the International Association of Assessing Officers. The website disseminates a wealth of information regarding assessments, exclusions, and exemptions.
- The assessor has consolidated all operations into one location.
- The assessor has implemented a document management system to image preliminary change of ownership reports, homeowners' exemption claim forms, business property statements, and change in address forms. In addition, 300,000 real property records have been converted from paper records to an electronic format.
- The assessor converted paper maps to a digital format in a Geographic Information System (GIS).
- The assessor implemented an on-line deed processing system that allows staff to access recently recorded deeds.
- Administrative elements of the assessor's office, including certification of his appraisal staff, assessment roll changes, and assessment appeals, conform to statutory requirements.
- The assessor successfully met the Property Tax Administration Program goals for every year since 1996-97.

Several administrative components of the assessor's programs have room for improvement:

- The assessor grants religious exemption for properties that are not exclusively used for religious purposes.
- The county's disaster relief ordinance is outdated.
- The assessor does not use the required BOE-prescribed forms and did not submit the final prints of the business property statements or the in-lieu tax forms for BOE review.

In real property assessment, the assessor has effective programs for supplemental assessment, declines in value, and historical properties. However, we noted the following deficiencies in his real property program:

- In the area of change in ownership, the assessor's website provides inaccurate information about transfers of base year value by persons over age 55, and the assessor adds the value of improvement bonds to sales prices of real property without developing the evidence required to support the addition.
- The assessor has not enrolled all new decks and patios as new construction at their full cash value; and he does not obtain copies of building permits from Sacramento County's Environmental Health Division.
- The assessor's California Land Conservation Act (CLCA) program has several shortcomings: (1) the assessor has not enrolled significant areas of taxable vineyards and nonliving improvements; (2) he does not use market-derived expense rates when valuing CLCA property; (3) he improperly classifies irrigation wells as unrestricted improvements on CLCA property; (4) has not consistently established base year values for trees or vines; (5) he does not treat restricted CLCA property as a separate appraisal unit; and (6) he inappropriately issues supplemental assessments on restricted land when there is a change in ownership.
- The assessor has not correctly identified and enrolled parcels of taxable government-owned land and has not completed the valuation of taxable government-owned properties for the current roll.
- The assessor should revise his possessory interest (PI) procedures in several areas: (1) he inappropriately reappraises month-to-month tenancies at the airports, marinas, and other public property as annual changes in ownership; (2) he has not followed rule 21 when assessing possessory interests created by written agreements with a stated term of possession; (3) he does not review all private uses at the fairgrounds that may qualify as PIs; and (4) he incorrectly assesses the possessory interests of a private concessionaire who provide banking services at a state university.
- The assessor does not send the *Right-of-Way Property Statement* (Form BOE-571-RW) to pipeline owners, and he does not maintain pipeline right-of-way assessment records in accordance with section 401.8.
- The assessor does not correctly determine the appraisal unit for mineral properties as required by rule 469.

In business property assessment, the assessor has an effective audit program and administers his racehorse in-lieu tax program correctly. However, we noted the following deficiencies:

- The assessor accepts business property statements that are not BOE-prescribed forms or that lack a proper signature, and he does not consistently apply the penalty for late filed statements.

- The assessor does not consistently identify and correctly classify taxable personal property in apartment complexes, personal property owned by one-way paging companies, or pollution control equipment financed by state bonds, and does not use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.
- The assessor does not review significant differences found in business property statements filed by leasing companies.
- In the area of vessel assessments, the assessor does not add a sales tax component to the suggested values in published vessel value guides, and accepts unsigned vessel property statements.
- The assessor's manufactured home assessment program has several areas of weakness: (1) he does not classify manufactured homes as personal property as required by section 5801; (2) in one year, he enrolled escape assessments for a group of manufactured homes based on an inappropriate edition of a published value guide; (3) he incorrectly issues supplemental assessments for manufactured homes voluntarily converted to local property taxation; and (4) he inappropriately adds sales tax to used manufactured home values derived from the NADA appraisal guide when they are resold or voluntarily converted to local property taxation.
- Some taxable animals have escaped assessment.

The Sacramento County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2003-04 assessment roll indicated an average assessment ratio of 99.45 percent, and the sum of the absolute differences from the required assessment level was 1.15 percent. Accordingly, the BOE certifies that Sacramento County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1:	Ensure that only qualifying properties are granted the religious exemption.....	16
RECOMMENDATION 2:	Request that the board of supervisors update the disaster relief ordinance to the current provisions of section 170.....	18
RECOMMENDATION 3:	Update the assessment forms procedures by: (1) using the correct assessment forms, (2) using only BOE-prescribed property statement forms, and (3) submitting the final prints of the property statements and in-lieu tax forms as required by rule 171.	20

RECOMMENDATION 4: Update change in ownership procedures by: (1) revising portions of the Proposition 60 information on the assessor's website, and (2) valuing properties subject to improvement bonds according to section 110(b).....28

RECOMMENDATION 5: Ensure that all qualifying new construction is assessed by (1) obtaining copies of building permits from the Environmental Health Division, and (2) including all deck and patio permits on the assessable new construction list.....31

RECOMMENDATION 6: Revise CLCA appraisal procedures by: (1) assessing all taxable vines and nonliving improvements, (2) using market-derived expense rates when valuing CLCA property, (3) classifying irrigation wells as land, (4) establishing base year values for trees and vines, (5) appraising each CLCA property as an appraisal unit, and (6) discontinuing the issuance of supplemental assessments on restricted land when there is a change in ownership.36

RECOMMENDATION 7: Revise taxable government owned property procedures by: (1) correctly identifying and enrolling all taxable government-owned property, and (2) completing the valuation of taxable government-owned properties for the current roll.40

RECOMMENDATION 8: Revise possessory interest procedures by: (1) valuing possessory interests that are month-to-month tenancies in accordance with section 61(b)(2), (2) valuing possessory interests created by written agreements with a stated term using the contract term of possession, (3) reviewing all private uses of the fairground to determine whether taxable possessory interests exist, and (4) exempting property used exclusively for public school purposes from a possessory interest assessment. .41

RECOMMENDATION 9: Update pipeline right-of-way procedures by: (1) maintaining pipeline right-of-way assessment records in accordance with section 401.8, and (2) requiring all pipeline owners to annually file a *Right-of-Way Property Statement*.....46

RECOMMENDATION 10: Determine the correct appraisal unit for mineral properties according to rule 469.47

RECOMMENDATION 11: Improve the business property statement program by: (1) accepting only properly signed business property statements, and (2) applying the section 463 penalty to all late filed business property statements.53

RECOMMENDATION 12: Revise business property valuation procedures by: (1) using the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended, (2) uniformly assessing personal property owned by one-way paging companies, (3) ensuring that pollution control devices financed by state bonds are assessed; and (4) properly classifying personal property in apartment properties.....55

RECOMMENDATION 13: Ensure that leased equipment continues to be assessed if retained by the lessee at the expiration of the lease.....57

RECOMMENDATION 14: Revise vessel appraisal procedures by: (1) adding sales tax as a component of the market value of vessels, and (2) accepting only *Vessel Property Statements* as authorized by rule 172(d) and applying the section 463 penalty to unsigned statements. ...60

RECOMMENDATION 15: Revise manufactured homes procedures by: (1) classifying and enrolling manufactured homes as personal property, (2) using the appropriate manufactured home value guide, (3) discontinuing supplemental assessments for manufactured homes voluntarily converted to local property taxation, and (4) discontinuing the sales tax adjustment to values of used manufactured homes derived from published value guides.....61

RECOMMENDATION 16: Assess horses as required by law.....63

RESULTS OF 2001 SURVEY

Change in Ownership

We recommended that the assessor timely apply the penalty to taxpayers who fail to file a change in ownership statement as prescribed in section 482(a) and that public information documents containing section 69.5 exclusion information conform to statutory provisions. Since the assessor has discontinued using the change in ownership statement, we do not repeat the first recommendation. However, the assessor's website includes incorrect information about the section 69.5 exclusion. Therefore, we are repeating the second recommendation.

Exemptions

We recommended that the assessor forward all welfare exemption claim forms to the BOE in a timely manner. Since this is no longer a statutory requirement, we are not repeating this recommendation.

Declines-In-Value

We recommended that the assessor correct assessment errors arising solely from real property declines-in-value within one year after enrolling the original assessment. The assessor has implemented this recommendation.

Disaster Relief

We recommended that the assessor change the *Notice of Application for Reassessment Due to Calamity* to reflect the current statutory time period for submitting an application for disaster relief. We found that the assessor has changed the application to comply with statutory requirements.

New Construction

We recommended that the assessor's staff enter all building permit information on the building records. All residential building permits that represent assessable new construction have been imaged and are linked to the parcel for which the permit was issued. The assessor has implemented this recommendation.

Possessory Interests

We recommended that the assessor value possessory interests that are month-to-month tenancies in accordance with section 61(b)(2). The assessor continues to annually revalue possessory interests resulting from month-to-month tenancies and, therefore, he has not implemented this recommendation.

California Land Conservation Act

We recommended that the assessor: (1) improve procedures for discovery of taxable trees, vines, and non-living improvements; (2) calculate and enroll the current estimate of value of property subject to the California Land Conservation Act (CLCA) as required by section 423; (3) use market derived expense rates when estimating the value of CLCA property; and (4) follow regulatory guidelines when classifying and assessing water wells on property subject to CLCA contract. The assessor has implemented the second recommendation. However, he has not implemented the other three recommendations; therefore, we are repeating them.

Taxable Government Owned Property

We recommended that taxable government-owned properties be enrolled at the lowest of: (1) the restricted value, (2) the factored base year value, or (3) the current market value. The assessor complied with our recommendation and now compares all three values before enrolling a value for taxable government-owned property.

Water Companies

We recommended that the assessor's staff obtain specific information from mutual water companies, including articles of incorporation, bylaws, lists of land, improvements, water distribution systems owned by a company, and listings of all parcels served by a company. The assessor has not implemented this recommendation. However, we did not find any evidence that property has been improperly assessed due to this practice. Therefore, we do not repeat this recommendation.

Audit Program

We recommended that the assessor: (1) include the value of personal property exempt under the welfare exemption when determining whether an account is subject to a mandatory audit, (2) develop a formal nonmandatory audit program, (3) require the use of an audit checklist in every audit, and (4) adhere to statutory requirements for the *Notice of Proposed Escape Assessment* Form BOE-66-A. We found that the assessor has fully implemented all of our recommendations.

Business Property Statement Processing

We recommended that the assessor use the BOE's equipment index factors as recommended in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). The assessor's practice is to use "average" factors for the various categories in the AH 581. Since the last survey, the BOE revised the AH 581 to use average factors for each category of business property. The assessor's factors conform to this revised method and we do not repeat this recommendation.

We also recommended that the assessor cross reference lessee and lessor files to ensure the continued assessment of leased equipment. The assessor has not implemented a procedure to ensure assessment of leased equipment retained by the lessee upon expiration of a lease; therefore, we repeat this recommendation.

Vessels

We recommended that the assessor require owners of vessels costing \$100,000 or more to file an annual BOE-prescribed vessel property statement. We also recommended that the assessor remove section 463 penalty language from the *Vessel Owner's Report* form. We found that the assessor has fully implemented both of our recommendations.

Manufactured Homes

We recommended that the assessor: (1) annually review manufactured home assessments for decline-in-value, (2) develop written policies and procedures for the assessment of manufactured homes, and (3) classify and enroll manufactured homes as personal property. The assessor has implemented the first two of these recommendations; however, we repeat the third recommendation, which has not been implemented.

OVERVIEW OF SACRAMENTO COUNTY AND THE ASSESSOR'S OFFICE

Sacramento County was incorporated in 1850 as one of the original 27 counties of the State of California. The county's largest city, the City of Sacramento, is the seat of government for the State of California and also serves as the county seat. Sacramento became the State Capital in 1854.

Sacramento County encompasses approximately 994 square miles in the middle of the 400-mile long Central Valley, which is California's prime agricultural region. The county is bordered by Contra Costa and San Joaquin counties on the south, Amador and El Dorado counties on the east, Placer and Sutter counties on the north, and Yolo and Solano counties on the west. Sacramento County extends from the low delta lands between the Sacramento and San Joaquin rivers north to about ten miles beyond the State Capitol and east to the foothills of the Sierra Nevada Mountains. The southernmost portion of Sacramento County has direct access to the San Francisco Bay.

Governed by a five-member board of supervisors, Sacramento County has a population of more than 1.2 million people, about 33 percent of whom reside in the City of Sacramento.

The following table displays information pertinent to the 2003-04 assessment roll:

	PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE	
Secured Roll	Residential	363,800	\$59,282,625,308	
	Commercial/Industrial	24,564	\$19,392,127,873	
	Rural	2,485	\$624,616,425	
	Manufactured Homes	5,374	\$114,510,803	
	Other Secured		\$2,042,760,667	
	Total Secured		396,223	\$81,456,641,076
Unsecured Roll	Personal Property & Fixtures	39,891	\$3,193,186,804	
	Aircraft	524	\$237,480,574	
	Vessels	11,568	\$194,358,996	
	Total Unsecured		51,983	\$3,625,026,374
	Total Assessment Roll		448,206	\$85,081,667,450

The next table illustrates the growth in assessed values during the past five years.

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2003-04	\$85,081,667,450	9.5%	7.3%
2002-03	\$77,723,045,414	9.7%	7.3%
2001-02	\$70,865,516,436	8.2%	9.4%
2000-01	\$65,492,664,146	7.9%	8.3%
1999-00	\$60,683,947,741		

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's staffing and budget, the State-County Property Tax Administration Program (PTAP), appraiser certification, assessment appeals, disaster relief, assessment roll changes, low-value property exemption, exemptions, and assessment forms.

Staffing

For the 2002-03 roll year, the assessor's office had 161 budgeted full time positions. There are six appraisal crews in the real property division, each headed by a supervising appraiser. Each supervisor is responsible for reviewing the work of the senior appraisers in his crew, while the senior appraisers review all valuations performed by the appraisers in the lower classifications. Similarly, the supervising auditor-appraisers who head the three crews in the business property division are responsible for reviewing work performed by the seniors within their crews, while the senior auditor-appraisers review the work of the auditors in the lower classifications.

Budget

As shown in the table below, on average, the assessor's budget increased about 6.6 percent per year between 1998-99 and 2002-03. On a budget of \$14,555,853, the assessor prepared the 2003-04 local roll:

YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED
2002-03	\$14,555,853	7.8%	161	\$1,554,245
2001-02	\$13,507,785	11.5%	164	\$1,554,245
2000-01	\$12,117,755	2.9%	165	\$1,554,245
1999-00	\$12,083,258	4.3%	156	\$1,554,245
1998-99	\$11,586,284		156	\$1,554,245

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.³ This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The Grant program operates in essentially the same manner as the loan program except

³ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

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

For most counties, the contract provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

Sacramento County first participated in PTAP in calendar year 1996 and currently is contracted to continue participation through December 31, 2003. The assessor's required base funding is \$8,844,392 and the required staffing level is 136 positions. The Sacramento County Department of Finance has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every year under contract.

The assessor has effectively used the annual loan amount of \$1,554,245 to reduce the backlog of appraisable changes in ownership, miscellaneous new construction, major new construction, and to reinstate the factored base year value of those parcels previously enrolled as decline-in-value assessments. Funds have also been used to purchase office furniture, digital cameras, new information technology hardware and software, and to provide related staff training. The Sacramento County Auditor-Controller's Office has verified the assessor's performance of the contract requirements.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. The assessor and his appraisal staff all possess the required appraiser's certificate, with 46 holding advanced certificates, 40 holding permanent certificates and one holding a temporary certificate. The assessor's auditor-appraisers performing mandatory audits also meet the additional requirements of section 670(d).

Appraisal Consultant Contracts

The County of Sacramento has contracted with a private consulting firm to provide services to the assessor in the appraisal of oil, gas, and aggregate rock mineral rights within the county. The most recent agreement contains the provisions required by section 674, including confidentiality and compensation. In addition, the persons who appraise the oil, gas, and aggregate rock mineral rights hold valid BOE appraiser's certificates.

Standards and Quality Control

Standards and quality control functions ensure the consistency and quality of the appraisal product or taxpayer services through the development and maintenance of appraisal and operating standards. Other duties of a standards and quality control unit may include training, legal interpretations, or data processing coordination.

In the late 1980's, the assessor's staff developed a comprehensive policies and procedures manual. The information in this manual is available to all staff members on the assessor's intranet. Changes in the policies or procedures, as well as legal updates, are circulated in a memo to the staff to ensure they are aware of the most current standards.

Communications

The assessor is proactive about taxpayer education and customer service. The assessor has published articles informing taxpayers of their rights and speaks publicly to homeowner, civic, and professional groups. The county's website covers most, if not all, of the assessor's office functions. The website has many informative links, including the California Revenue and Taxation Code, BOE-prescribed forms, the assessor's own assessment forms, the Assessors' Handbook, and a link encouraging e-mail communication.

Roll Changes

In the real property division, four members of the appraisal support staff are currently authorized to make changes to values on the roll. In the business property division, nine individuals may perform this function. Each week the two divisions print lists of the roll changes they have made. The assessment supervisor for the real property division and the chief auditor-appraiser in the business property division review these printouts before the new values are accepted for enrollment. In addition, the chief appraiser periodically reviews audits and randomly samples roll changes on the monthly assessment change reports.

Exemptions

Church and Religious Exemptions

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

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes, (2) it must be non-profit, and (3) no part of its net

earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The Sacramento County Assessor's Office has two administrative clerks who process the annual claims for welfare, church, and religious exemptions. When needed, appraisers conduct field inspections of properties for which the exemptions are claimed.

The following table represents the number of church and religious exemptions and assessed values for the last five years:

Year	CHURCH		RELIGIOUS	
	Amount of Exemptions	Number of Exemptions	Amount of Exemptions	Number of Exemptions
2003-04	\$98,781,777	152	\$393,175,310	910
2002-03	\$127,911,736	179	\$377,447,375	887
2001-02	\$127,809,632	201	\$363,732,169	884
2000-01	\$135,410,441	220	\$335,683,568	895
1999-00	\$108,399,744	152	\$307,285,743	777

Our review of the assessor's church exemption program showed no problems.

A sample of religious claims was reviewed in detail. We found the need for improvement in the assessor's administration of the religious exemption.

RECOMMENDATION 1: Ensure that only qualifying properties are granted the religious exemption.

We reviewed a group of religious exemption claims to analyze the effectiveness of the assessor's program. We discovered three properties where a full exemption was granted on property that contained living quarters. In addition, another claimant originally filed a church claim but was treated as having filed a religious claim in subsequent years, and another claimant was allowed a full exemption even though part of the property contained a cellular telephone tower located inside the church steeple.

Section 207 allows the religious exemption for church-owned property that is used for religious worship and church schools. The use of a portion of the property for other than religious purposes disqualifies that portion of the property from receiving an exemption from taxation.

The assessor should field check property for which the religious exemption has been claimed on a periodic basis to ensure that only qualified uses receive the exemption. Failure to periodically inspect the property may result in the inappropriate granting of the exemption for an unqualified use.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid Organizational Clearance Certificate issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table shows the assessor's welfare exemption workload and amounts exempted for the last five years:

	WELFARE	
Year	Amount of Exemptions	Number of Exemptions
2003-04	\$1,829,807,289	1,251
2002-03	\$1,710,071,995	1,200
2001-02	\$1,749,635,259	1,206
2000-01	\$1,612,768,420	1,214
1999-00	\$1,482,411,658	1,082

We found that the property uses were within the scope of the exemption. Where there were other users of real property, they, too had filed exemption claims that had been approved for portions of the property that was granted an exemption. Accordingly, we have no recommendations in this area.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance that provides property tax relief to assessees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any qualifying misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be a state of disaster by the Governor, or to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

To qualify for disaster relief, the property must suffer a misfortune or calamity in which the amount of damage exceeds \$10,000 (increased from \$5,000 effective January 1, 2002). To obtain disaster or calamity relief, the assessee must timely file a written application with the assessor requesting reassessment of the property.

The following table lists the number of claims granted by roll year for each of the last five years:

ROLL YEAR	CALAMITY APPLICATIONS GRANTED
2003-04	19
2002-03	34
2001-02	62
2000-01	50
1999-00	86

The Sacramento County Assessor does not receive fire reports from local fire departments, but does identify disasters through newspaper articles and building permits issued for fire damage repair. If the assessor denies a claim for disaster relief, he notifies the property owner in writing. We reviewed several claims that had been approved and processed and found that, in most, the assessor handled the claim properly; the two exceptions noted appear to be isolated incidents.

However, we found one area where improvement is needed.

RECOMMENDATION 2: Request that the board of supervisors update the disaster relief ordinance to the current provisions of section 170.

The board of supervisors approved a disaster relief ordinance dated January 8, 1985, in compliance with section 170. Section 170 was significantly amended in several aspects, effective January 1, 2002. The assessor has adjusted his disaster relief requirements to reflect the new

changes in section 170; however, the board of supervisors has yet to update the disaster relief ordinance. Without such changes, the county ordinance does not conform to current statutory provisions.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, 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 assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors has no authority to exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. The board of supervisors must adopt any such exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

On June 22, 1993, the Sacramento County Board of Supervisors adopted Resolution No. 93-0818, which implemented the provisions of section 155.20 for possessory interests and improvements on leased land with a full value of \$2,000 or less, commencing with fiscal year 1994-95. On December 12, 2000, Resolution No. 2000-1520 was passed to exempt personal property, including vessels, and trade fixtures with an assessed value of \$4,000 or less, commencing with fiscal year 2001-02. And, on July 29, 2003, the Board of Supervisors passed the following resolutions: Resolution No. 2003-0896, which exempts all inactive mineral rights with a full market value of \$100 or less; Resolution No. 2003-0897, which exempts possessory interests with an assessed value of \$5,000 or less; Resolution No. 2003-0898, which exempts transitory possessory interests at publicly owned fairgrounds or convention facilities with a full value of \$7,000 or less; and, commencing with fiscal year 2004-05, Resolution No. 2003-0899 exempts personal property, including vessels and trade fixtures, having an assessed value of \$5,000 or less.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. The BOE currently prescribes 78 forms for use by county assessors and one form for use by the county's assessment appeals board. Generally, the assessor has the option to change the size, color, etc. of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form provided the assessor submits that form for BOE approval.

Assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file such a form or questionnaire.

The BOE annually sends three checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, and return the property statements and miscellaneous forms

checklists by October 15, and the exemption forms checklist by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.

RECOMMENDATION 3: Update the assessment forms procedures by: (1) using the correct assessment forms, (2) using only BOE-prescribed property statement forms, and (3) submitting the final prints of the property statements and in-lieu tax forms as required by rule 171.

Use the correct assessment forms.

The assessor uses a variety of assessment forms, most of which are BOE-prescribed prototypes. He also uses several rearranged BOE prototype forms and several locally developed forms. We found the following problems with the assessor's forms: (1) the assessor includes his own requests for additional data in mailings of BOE-prescribed property statements and (2) the assessor uses several rearranged BOE-prescribed forms that have not been approved by the BOE.

Use only BOE-prescribed property statement forms.

The assessor accepts business property statements that are not BOE-prescribed forms. These forms are privately prepared business property statements that were created by the taxpayer.

Section 452 and rule 171 state that the BOE shall prescribe in detail the contents of the property statements including specific wording, to be used by all assessors. Section 441.5 allows the taxpayer to file attachments that contain the required information with a BOE-prescribed property statement.

Failure of the assessor to require that the assessee use BOE-prescribed property statement forms is contrary to the requirements of section 452 and rule 171.

Submit final prints of the property statements and in-lieu tax forms as required by rule 171.

For the 2003 lien date, the assessor did not submit the final print of the business property statements or the final print of the in-lieu tax forms for BOE review. Rule 171 requires the assessor to annually submit to the BOE a printed copy of each property statement for approval no later than February 10. By not submitting the final prints of the property statements and in-lieu tax forms, the assessor is not in full compliance with regulations.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute. All assessment roll changes are based on specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed on the original roll, for any reason. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes processed over the last four-year period:

ROLL YEAR	ROLL CHANGES
2002-03	19,807
2001-02	20,476
2000-01	28,257
1999-00	24,000

We found that roll corrections are made within the authorized period of time and *Notices of Proposed Escape Assessment* are mailed to taxpayers at least 10 days before the escaped assessment changes are entered on the roll, as required by statute. We have no recommendations in this area.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the functioning of the assessment appeal process.

The Sacramento County Board of Supervisors created three assessment appeals boards, each has three regular members and one alternate member. The appeals boards hear applications for reductions in assessment on the unsecured and secured assessment rolls. The appeals board clerk schedules assessment appeal board hearings. Hearings are usually scheduled for one day each month.

To appeal an assessment, the taxpayer must timely file an application with the appeals board clerk pursuant to section 1603. For supplemental assessments and other assessments made outside the regular assessment period, section 1605 requires that the application be filed with the clerk no later than 60 days after the date on which the assessee was notified of the assessment.

Applications are reviewed by the clerk and accepted if valid. A copy of each valid application is forwarded to the assessor and distributed to the appraisal crew responsible for the value being appealed. The appraiser who originally did the appraisal and his or her senior appraiser review the appraisal together and the appraiser then makes contact with the taxpayer. The assessor and taxpayer may stipulate to a mutually agreed upon value or the taxpayer may withdraw the application. If no agreement can be reached with the taxpayer, or the assessor and taxpayer

stipulate to a new value, a hearing is scheduled. The senior appraiser represents the assessor's office at the board hearing.

The following table illustrates the assessment appeals workload for the last five years as of July 1, 2003:

Year	Total Filed	Carry Over	Withdrawn	Stipulated	Appeals Board Decisions		
					Reduced	Upheld	Increased
2002-03	1,189	1,358	859	6	27	21	4
2001-02	945	1,077	606	47	29	16	7
2000-01	967	1,200	889	87	27	18	3
1999-00	1,347	1,484	1,354	18	35	6	3
1998-99	1,985	2,779	2,760	27	94	120	1

Overall, the assessor's assessment appeal program is well administered. The staff handling appeals is experienced and well prepared. We found no problems with the assessor's assessment appeals program.

ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

Change in Ownership

Section 50 requires the assessor to establish a base year value for real property upon a change in ownership. Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for reappraisal purposes.

Document Processing

The Sacramento County Assessor received approximately 90,500 recorded documents for the 2003-04 roll. These documents are pre-screened by the recorder for potential changes in ownership based on a list of document types provided by the assessor. Approximately 57 percent of these documents result in a reassessable event. Approximately 90 percent of the deeds received from the recorder have Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), attached. PCORs are available at no charge from the assessor and recorder, and are available to title companies online. The recorder charges \$20 when a deed is recorded without a PCOR.

At the time of our survey fieldwork, the backlog for processing documents was about two weeks, with a backlog of two to three months being typical for transfers in need of additional documentation.

A history of the number of reappraisals resulting from changes in ownership and their effect on the assessment roll over the last five years is as follows:

ROLL YEAR	UNITS APPRAISED
2003-04	51,190
2002-03	45,484
2001-02	43,991
2000-01	43,315
1999-00	39,527

The above information for 2003 is broken down by property type as follows:

CLASSIFICATION	TOTAL ASSESSED VALUE INCREASE
Land	\$1,720,534,362
Improvements	\$5,529,860,547
Personal Property	\$91,648,086
Fixtures	\$14,312,608

Daily, the recorder's office sends compact discs with current deed imagery and associated PCORs to the assessor's property transfer section. Deeds are printed and merged with hard copy documents. When deeds are not accompanied by PCORs or other pertinent data, a request is sent to the transferee. This usually yields approximately a 45 to 50 percent return. If there is no response, a second request is sent in the form of a ten-day notice, which explains that the subject property will be appraised for reassessment purposes. The second request has a response rate of around 85 percent.

The assessor's Property Transfer Section notes assessor's parcel numbers (APNs) on deeds from the recorder. (Although there is a county ordinance requiring the recorder to make such an annotation, the assessor's staff finds it more efficient to complete this task for transferred real property). Short legal descriptions are also noted on the deed, while more complicated legal descriptions are forwarded to mapping. These are deeds that may involve lot line adjustments, lot splits other newly created parcels, or other more specialized descriptions. After analysis, the mapping unit supplies the proper APNs and then sends the documents back to the Property Transfer Section. Homeowners' exemptions are automatically removed following a change in ownership. Deeds for properties with this exemption are directed to the exemptions division to determine if the exemption should be retained. Completed transfer packages are forwarded to deed analysts for processing into the following categories:

- Reappraisable transfers;
- Non-appraisable transfers;
- Intermediate level transfers (deeds that require additional analysis); and
- Death deeds.

Deeds are then separated into appraisable and non-appraisable events. The appraisable events are placed on the appraiser's Parcel Activity List, while the non-appraisable events are scanned and stored.

Direct Enrollment Program

Direct enrollment is a program used in many assessors' offices to streamline the processing of uncomplicated transfers of residential properties. In Sacramento County, the assessor's direct enrollment program is used only to enroll qualifying single-family residences and condominiums. For the 2003-04 roll year, approximately 28,000 transfers were enrolled through this program, which involves computer analysis of any residential transfers that conform to specific criteria. Among the parameters that a property must meet to qualify for direct enrollment are:

- The transfer must involve a 100 percent interest;
- First-time (new construction) and resales;
- Subject property's location is within a Direct Enrollment Neighborhood;
- The deed must show a transfer tax based on the sale price;
- The sale price must exceed the current assessed value; and
- The sale price must be within approximately one standard deviation above or below the subject's estimated selling price as determined by the assessor's computerized valuation program.

About 80 percent of the transfers that initially qualify are ultimately enrolled through this program. Direct enrollment neighborhoods have been identified throughout the county for their homogeneous qualities, such as lot size, design or style, type of materials, range of age for improvements, and also common amenities such as parks, schools, streets and shopping. Within these designated areas, sales comparables must be two years old or less and are adjusted by a factor that adjusts for time in the most pertinent neighborhoods specific to the subject. Baseline data for land and improvements are tracked for each neighborhood. Lot values are established for the entire neighborhood by analysis of the range paid for individual sites with consideration given to size, location, and additional external influences close in proximity. Improvement values are determined by analysis of previous sales minus the land values. Estimated sales prices are established through a statistical model based on multiple regression analysis. If a sold

property is not eligible for direct enrollment, it is assigned for review as part of the appraisal workload.

We found no problems with the assessor's direct enrollment program.

Section 69.5 Exclusion

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner is at least 55 years of age, has filed a timely claim, and the replacement residence is purchased or newly constructed within two years of the sale of the original property. The following table shows the number of section 69.5 claims processed for the last five years:

ROLL YEAR	CLAIMS
2002-03	231
2001-02	106
2000-01	133
1999-00	88
1998-99	107

Resident-Owned Mobilehome Parks

Sections 62.1 and 62.2 exclude certain transfers of manufactured home parks from change in ownership if the park is ultimately purchased by at least 51 percent of the tenants renting the individual spaces of the park. Qualifying conversion to resident ownership under these sections permits the residents of the park to retain the base year value of the previous park owner, rather than triggering a reassessment of the park to current market value. In some instances, prior to transfer to the residents directly or to an entity owned by the residents, there is an interim transfer of the park to a non-resident-owned entity. This entity helps facilitate the purchase and conversion to a resident-owned park.

Sections 62.1 and 62.2 create three change in ownership exclusions with respect to transfers of parks:

- Transfers to resident-owned entities;
- Transfers of rental spaces to the residents; and
- Transfers to non-resident-owned entities.

In Sacramento County, there are currently two resident-owned mobilehome parks where each owner has a fractional interest for their space and owns shared areas in the park in common. There are, in addition, three mobilehome parks where residents own their individual park spaces within the park boundaries and an undivided interests in their common areas.

The two resident-owned parks in Sacramento County met or exceeded the participation level in advance of the required deadline. Since neither park uses recorded deeds to transfer ownership interests, the assessor annually acquires a list of all recent changes in ownership from park management, including information set forth in section 62.1(b)(5).

Section 63.1 Exclusion

Section 63.1 excludes from the definition of change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first \$1 million of other real property between parents and children when a claim is filed timely. Subsequent amendments to section 63.1 also exclude certain transfers from grandparents to their grandchildren. These statutory provisions are commonly referred to as "Proposition 58."

Information regarding the provisions of section 63.1 is available at the public counter and on the assessor's website. The transfer staff also prepares the quarterly section 63.1 reports as required by section 63.1(f):

ROLL	SECTION 63.1 EXCLUSIONS
2002-03	4,121
2001-02	2,618
2000-01	2,302
1999-00	2,302
1998-99	2,201

We found that Proposition 58 applications are properly processed and that this program fully complies with section 63.1.

Section 408.1 Transfer Lists

Section 408.1 requires that the assessor maintain a list available to the public, showing property transfers that have occurred in the prior two years. The assessor updates this list the first Monday of every month. The list is indexed by assessor's parcel number (APN). Public viewing is available on microfiche and/or computer terminals during business hours. The list contains the following information: APN, neighborhood (geographical area), use code, zoning, transfer date, recording date and page, indicated sales price (converted from transfer stamp amount), stamp code, grantor/grantee, and situs address.

Section 408.1(f) provides that the assessor must not include information on the transfer list that was furnished by the transferee on Form BOE-502-AH, *Change Of Ownership Statement* (COS).

Additionally, section 481 states that all information furnished in the COS must be held secret by the assessor. This requirement extends to the *Preliminary Change Of Ownership Report* (PCOR) as well. These statements are not public documents and this confidential information is excluded from the public viewing by the assessor.

The county's two-year transfer list is in full compliance with section 408.1.

Valuation

We examined several changes in ownership processed by the assessor. We found that transfer files were well documented and most aspects of the program were in compliance, including the application of supplemental assessment, inflation indexing, document processing, tracking transfers to trusts, resident-owned manufactured home parks, and most aspects of excluded transfers. However, we found some areas that need improvement.

RECOMMENDATION 4: Update change in ownership procedures by: (1) revising portions of the Proposition 60 information on the assessor's website, and (2) valuing properties subject to improvement bonds according to section 110(b).

Revise portions of the Proposition 60 information on the assessor's website.

In our 2001 assessment practices survey, we recommended that the assessor ensure that public information containing section 69.5 exclusion information conform to current statutory provisions. At that time, the assessor's Proposition 60 pamphlet provided inaccurate information. We found that the assessor is still providing inaccurate information.

On the assessor's website there is a section specific to Proposition 60, which provides information in a question-and-answer format. Question #17 is obsolete in that it represents that the original property shall include only the residence and the land necessary for that residence. Question #18 is also obsolete in explaining that the replacement property shall include only the residence and the land necessary for that residence. Section 69.5 was revised in 1997 to provide that the residential land referred to as "area of reasonable size" includes all land if no portion of the property is used for commercial purposes. The information presented in these questions and answers is misleading to taxpayers. Although the assessor correctly applies the provisions of section 69.5, he should also provide accurate information to the public.

Value properties subject to improvement bonds according to section 110(b).

The assessor adds the value of improvement bonds to sale prices of real property. However, the assessor has not developed the evidence required to support the addition of bond amounts to the nominal sales price.

Section 110(b) provides that there is a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes, by a preponderance of the evidence, that all or a portion of the value of those improvements is not reflected in that consideration. The assessor has not provided evidence with which to overcome this presumption, therefore, this practice could result in overassessments.

New Construction

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

Rules 463 and 463.5 attempt to clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 73 through 74.7 address these exclusions.

Valuation

The staff typically values new residential construction using the market approach. If the replacement cost is considered when valuing new construction to an existing home, such as an addition, the staff usually depreciates the project's estimated replacement cost using a percent good that corresponds to the effective age of the residence following completion of the work. New construction that is not attached to the residence is often valued based on full replacement cost.

New commercial construction is usually valued by the market or income approaches. The cost approach is sometimes utilized to confirm the validity of the values indicated by the other two approaches. New construction on industrial or agricultural property is ordinarily valued using the cost approach.

Discovery

The assessor discovers most new construction activity from building permits. Permits are issued by building departments in the cities of Citrus Heights, Elk Grove, Folsom, Galt, Isleton and Sacramento, and by the Sacramento County Building Department, which is still issues building permits for the newly formed City of Rancho Cordova.

As indicated by the following table, the total number of building permits the assessor receives annually and the number of permits that generate changes in assessed valuations vary widely from year to year:

Assessment Roll	Total Number of Permits Received	Permits Resulting in a Value Change	Net Value Added
2002-03	22,534	6,678	\$ 844,415,205
2001-02	16,535	9,662	\$1,462,924,360
2000-01	44,300	6,565	\$1,054,290,575
1999-00	40,410	13,568	\$ 779,325,552
1998-99	39,070	6,068	\$ 313,363,016

The City of Elk Grove, the City of Sacramento, and the County of Sacramento electronically transmit to the assessor copies of all building permits they have issued. The other cities send paper copies of permits, details of which the staff enter into the computer system. The building departments assign an activity code to each permit, which indicates the type of construction and estimates a project cost.

The assessor's computer system automatically culls permits that contain activity codes that do not represent assessable new construction. The staff culls permits containing certain other activity codes if the building department's estimated construction cost falls below a threshold established by the assessor's staff. Permits that contain invalid parcel numbers are referred to the clerical staff to be researched, while those that pertain to personal property are referred to the business property division.

Building permits that may represent assessable new construction are transmitted to the appropriate appraiser's electronic work list, and the building plans are forwarded to the appraiser. When a permit is taken out on a single-family residence, the computer automatically generates a self-reporting form that is sent to the owner, requesting information about the project. Self-reporting forms are sent to owners of commercial and industrial properties at the appraiser's discretion. When the assessor receives notification from a building department that work on a given project has been completed, the phrase "work finalized" is entered on the appraiser's work list, signaling the appraiser that the new construction is ready to be valued.

In our 2001 survey, we recommended that the staff enter all building permit information on the building records. This recommendation is no longer pertinent, as the staff has scanned residential building records into the computer system and has discarded the paper files. Residential building permits that represent assessable new construction have also been imaged and are linked to the property's electronic file.

The paper files of commercial and industrial properties are still in use. We found that the files for these properties typically contain adequate documentation of building permits and construction activity.

Currently, the computer system retains information on only the five most recently issued permits for a property. In addition, culled permits are stored in permit number order only in a separate electronic file where they cannot be researched by parcel number or address.

Since we did not find any instances of new construction that escaped assessment due to the county's method of documenting and storing building permit information, we are not repeating our prior recommendation. However, we did note two new areas of concern.

RECOMMENDATION 5: Ensure that all qualifying new construction is assessed by (1) obtaining copies of building permits from the Environmental Health Division, and (2) including all deck and patio permits on the assessable new construction list.

Obtain copies of building permits from Sacramento County's Environmental Health Division.

Sacramento County's Environmental Health Division issues building permits for domestic and agricultural water wells. The assessor does not obtain copies of these permits.

Most of the permits for wells issued by the division are for new domestic wells drilled in conjunction with new residences. The assessor discovers these wells when he values the new homes. However, we found two irrigation wells that had escaped assessment even though the owners had obtained building permits from this county office.

Obtaining these permits would not only prevent these wells from escaping assessment, but may also lead to the discovery of land being newly developed for agricultural uses.

Include all deck and patio permits on the assessable new construction list.

The assessor inappropriately culls building permits for decks, patio covers, and patio enclosures with permit values of less than \$10,000. He believes that these improvements have relatively short lives and do not add significant market value to the property.

The assessor's culling of these permits is improper for several reasons. Section 70(a)(1) defines new construction as any addition to real property, whether land or improvements (including fixtures) since the last lien date. As the statute does not establish a minimum physical or economic life for new construction, new decks and patios should be treated as any other new construction.

Section 75.10(a) provides that whenever new construction is completed, the assessor shall appraise the new construction at its full cash value on the date the new construction is completed. Since the permits for decks and patios with a permit value of less than \$10,000 are automatically culled, the staff does not have the opportunity to appraise these improvements at their full cash value. In addition, the assessor has not performed a market study to support his contention that decks, patio covers, and enclosures costing less than \$10,000 do not add significant market value.

The assessor's staff should not be culling permits based on the cost estimate provided by the government agency issuing the permit. In the case of permits issued by the County of Sacramento, the building department's staff estimates the cost of a project based on a cost factor published by *Building Standards Magazine*. The cost factors in this resource are not specific to Sacramento County. Instead, the magazine divides California into three large zones; Southern California, the San Francisco Bay Area, and "All Other Regions." The magazine publishes a single cost per square foot for decks and patio covers built within each zone. Therefore, the building department's cost estimates cannot reflect the cost variations that result from differences in the square footage, quality, or complexity of proposed projects. For these reasons, the cost estimates on the permits are not likely to be accurate, and the assessor should not be culling permits based on these values.

Supplemental Assessments

Sections 75 et seq. require the assessor to appraise property at its full cash value on the date the property changed ownership or upon completion of new construction and issue a supplemental assessment. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated tax bill that covers the portion of the fiscal year remaining after the date of change in ownership or new construction (the supplemental assessment). Practical guidelines for supplemental assessments resulting from the completion of new construction are published in rule 463.500.

Supplemental Assessment Processing

The assessor processes approximately 45,000 supplemental assessments annually. Except for a slight increase during roll closing, the assessor's staff processes a fairly constant number of supplemental assessments on a daily basis.

The assessor's computer system allows appraisers to enter supplemental assessments and other roll change information directly on the *Value Transmittal* form. Other supplemental assessment activities must be performed manually. For instance, the assessor's notices to taxpayers advising of supplemental assessment are printed at another location, then delivered to the assessor's staff for mailing.

Staff mails the assessor's *Notice of Supplemental Assessment* letter within a day of delivery from the printer and transmits roll changes to the county auditor in 30 days. We examined the notice used in Sacramento County and found it contains all of the information required by section 75.31.

After preparing a supplemental assessment, appraisers send support staff a *Tax Change Worksheet* and the *Value Transmittal* cover sheet. The worksheet shows the date of value change, the old and new values, and reason for change. The assessor's support staff batches supplemental assessments and forwards them to the keypunch unit for data entry. After supplemental assessments have been entered in the assessor's computer system, support staff files the records for future reference.

The assessor's support staff generally processes supplemental assessments within one week of receipt from appraisers. However, a fairly large number of supplemental assessments appear to involve escaped assessments, so many are processed one year or more after the date of sale or completion of new construction. We examined several escaped assessments and found no supplemental assessments processed outside of the statute of limitations set by section 75.11 (d).

We examined several new construction and transfer events, and found that the assessor processes negative supplemental assessments, as required, when property loses value due to damage or the voluntary removal of improvements. The assessor correctly makes two supplemental assessments for events occurring between January 1 and May 31, and one supplemental assessment for events between June 1 and December 31. Additionally, the assessor properly issues builders' exclusions only to contractors turning in claim forms timely, properly applies the inflation factor for the following lien date when a supplemental assessment event occurs between January 1 and June 30, and properly enrolls supplemental assessments for small value changes.

The assessor properly makes supplemental assessments for leasehold improvements, manufactured homes, possessory interests, and, in some cases, the unrestricted portion (homesite) of property subject to California Land Conservation Act (CLCA) contracts. However, enrollment of supplemental assessments for CLCA homesites is inconsistent. This error is addressed in the CLCA portion of this survey.

We found no other problems with the assessor's supplemental assessment program.

Declines in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value, as defined in section 110. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.

In Sacramento County, the primary method of discovering declines in value is a taxpayer request for a value review. The assessor also discovers declines in value when a reappraisal of a residence in a homogeneous neighborhood indicates its market value has declined below its factored base year value. In this instance, the assessor will review the values of all residences in that neighborhood.

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor. This coding also flags each of these properties for annual review. Due to the strengthening of the local real estate market in recent years, the number of properties with decline-in-value assessments has decreased significantly, from 66,544 in 1999 to 2,218 for 2003. Because there is a relatively small number of properties receiving the benefit of a reduction under section 51, requests are reviewed on a case-by-case basis. After review, the taxpayer is notified by phone and by mail of the assessor's determination of value.

In recent years, the taxable values of many of the single-family residences have returned to the factored base year values. Presently, most of the properties with decline-in-value assessments are single-family homes suffering from deferred maintenance or external obsolescence, manufactured homes, and a small number of commercial and industrial properties. Where fixtures are included in the assessment of commercial or industrial properties, the fixtures are properly valued as a separate appraisal unit. The assessor consults with his contract mineral specialist for the annual market value of mining operations within the county, and any indicated declines in value are applied to the appropriate parcels and processed. When a property's value is partially or fully restored to its factored base year value, the assessor sends the taxpayer a notification card and a letter of explanation.

In our 2001 survey report, we noted that the assessor was using roll corrections to make decline-in-value reductions for property owners who had filed assessment appeals, usually resulting in the withdrawal of the appeal, and we recommended that he discontinue this inappropriate practice. Some of the roll values were corrected more than one year after the making of the assessment, which is in violation of section 4831(b)(2)(a). In our current review of withdrawn assessment appeals that also involved roll corrections, we found that the assessor is currently in compliance with section 4831(b)(2)(a) and that assessment corrections are made in a timely manner.

The assessor has an effective and thorough program of annually reviewing and adjusting real property assessments to reflect declines-in-value.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 govern the assessment of land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2003-04 tax roll, Sacramento County had approximately 178,000 acres encumbered by CLCA contracts. Nonrenewal acreage represented approximately 6,300 acres of the total restricted acreage. The total assessed value for CLCA land and living improvements for 2002-03 was approximately \$225,800,000.

Most of the rural property in Sacramento County consists of grazing lands, irrigated crops, and vineyards. The bulk of the agricultural revenue generated in Sacramento County is derived from wine grapes and milk.

Valuation of CLCA Property

The valuation of CLCA properties in Sacramento County is the responsibility of one real property appraiser. A computer program calculates restricted values for CLCA land. The capitalization rate is updated annually. Cash rents are updated in the computer system based on information reported on the CLCA questionnaires, which are mailed periodically. Homesites are valued according to section 428.

Section 423(a)(1) generally requires the assessor, when valuing CLCA property, to capitalize an annual income determined from market rents.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce and subtract the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross economic income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents, and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

Capitalization Rates

Section 423(b) provides very specific guidance concerning the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and

- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

The assessor has implemented our prior recommendation to annually calculate a section 423 value for CLCA properties. However, he did not implement three other recommendations in this program and we found several other areas where the assessor is not in compliance with applicable statutes.

RECOMMENDATION 6: Revise CLCA appraisal procedures by: (1) assessing all taxable vines and nonliving improvements, (2) using market-derived expense rates when valuing CLCA property, (3) classifying irrigation wells as land, (4) establishing base year values for trees and vines, (5) appraising each CLCA property as an appraisal unit, and (6) discontinuing the issuance of supplemental assessments on restricted land when there is a change in ownership.

Assess all taxable vines and nonliving improvements.

This recommendation was also made in our 2001 survey. After reviewing 58 files and four mapbook pages using Sacramento County's Geographic Information System (GIS), we found that numerous parcels of taxable property escaped assessment, including the following examples:

- Approximately \$102,000,000 of value for non-CLCA vineyards spanning four years and six vineyards.
- Approximately \$38,000,000 of value for CLCA vineyards spanning four years and four vineyards.
- Vineyards, drip irrigation systems, and trellises reported by property owners on agricultural production questionnaires have not been assessed.
- A 626-acre vineyard planted in 1997, which included irrigation improvements and trellises, had not been assessed as of the 2003-04 roll.

Our review included a field check of the southeast county area to verify the status of the two to three year old vines that we observed in 1999 during our fieldwork for the prior survey. The vines are still there, they are now approximately six to seven years old, are not subject to the statutory exemption period, and most still have not been assessed. The trellis and drip irrigation improvements are still not assessed.

Pursuant to section 401.3, the assessor shall assess all property subject to general property taxation on the lien date. Section 531 provides that if any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment.

We reviewed a very small portion of the county. In one day, we discovered over 4,000 acres of escaped vines, trellis improvements, and drip irrigation improvements, and approximately \$140,000,000 of escaped assessment value spanning four tax years. This indicates a much larger countywide escape. The current market value in Sacramento County for vines, trellis improvements, and drip irrigation improvements is approximately \$10,000/acre, not including the land value. Most of these escapes span four tax years of lost revenue to the county. Loss of revenue will continue every tax year into the future until the vines are assessed. Some escaped vine assessments are past the four-year statute of limitations for enrollment. This lost revenue can never be recaptured.

Use market-derived expense rates when valuing CLCA property.

We found that the assessor uses an unsupported 90 percent expense ratio in the income approach for all CLCA tree and vine properties. Our review of the income and expense questionnaires returned by property owners shows an average expense ratio ranging from 50 to 55 percent.

The assessor uses the owner-operator method of income analysis, including owner-reported income. AH 521 provides that when a number of properties of this type must be appraised, economic expenses should be determined through the analysis of several owner-operator statements representative of the entire group. It further provides that, due to the difficulty of this type of analysis, rental information and expenses from properties of similar use and capability may be obtained from other counties.

We reviewed the assessor's spreadsheet listing production, price, and expenses for 42 vineyard owner-operators. The average reported vineyard expenses were 50 – 55 percent. We reviewed surrounding counties vine income and expense reports and found counties are using a 20 – 30 percent share rent and approximately \$200/acre for expenses. The assessor provided no documentation or studies supporting his use of a 90 percent expense ratio.

Section 423(a)(3) provides that expenses must be those that are ordinary and necessary in the production and maintenance of the revenue. The assessor's continued use of an unsupported 90 percent expense ratio for all trees and vines results in a substantial understatement of net income and a resulting underassessment of CLCA properties.

Classify irrigation wells as land.

The assessor incorrectly classifies irrigation wells as unrestricted improvements on CLCA property, subject to supplemental assessment and an annual cost of living adjustment. The assessor's staff confirmed that irrigation wells are still classified as improvements.

Pursuant to rule 124, wells are properly classified as land. As such, they would not be subject to supplemental assessment or factoring on CLCA property and would instead be valued at the restricted section 423 value rather than the factored base year value.

The assessor's current practice has resulted in overassessment of some CLCA properties.

Establish base year values for trees and vines.

We found that the assessor does not always establish a base year value for trees or vines when they become taxable.

Section 423(d) provides that the valuation resulting from the capitalization of income as described in section 423 shall not exceed the lesser of either the valuation that would have resulted by calculation under section 110, or the valuation that would have resulted by calculation under section 110.1, as though the property was not subject to an enforceable restriction.

The assessor cannot make a valid comparison of the factored base year value to the restricted or market value if no base year value is established. This could result in overassessments. This could also result in incorrect nonrenewal valuations, which use the factored base year value in the calculation.

Appraise each CLCA property as an appraisal unit.

The assessor incorrectly enrolls the lowest of (1) the restricted value, (2) the factored base year value, or (3) the current market value for each component of the CLCA appraisal unit. Components of the appraisal unit are land, improvements, and living improvements such as orchards and vineyards.

Section 423(d) provides that the restricted value shall not exceed the lesser of either the current market value or the factored base year value. This limitation applies to the restricted appraisal unit of the property, which typically consists of land and/or living improvements such as trees or vines. AH 521 provides that the comparison is made on the basis of the restricted value of the appraisal unit and not on the basis of the value of each restricted component, such as land or trees.

Assessing each component of a CLCA appraisal unit at its lowest value may result in an assessed value lower than required by law.

Discontinue issuing supplemental assessments on restricted land when there is a change in ownership.

We found that the assessor's computer system does not separate restricted and unrestricted land when calculating supplemental assessments for homesites. This has resulted in supplemental assessments on the restricted land portion when there is a change in ownership. The appraisers try to manipulate the input values to avoid this; however, we found many instances where supplemental assessments were generated for restricted land.

Section 75.14 provides that a supplemental assessment shall not be made for any property not subject to the assessment limitations of article XIII A. Since section 52(a) excludes CLCA

property from assessment under article XIII A, the assessor has no authority to apply supplemental assessments to any restricted CLCA property.

This practice has resulted in overassessments of CLCA land.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11. Section 11 of article XIII of the California Constitution provides that land, and the improvements thereon, located outside a local government's or local government agency's boundaries are taxable if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable.

The assessor enrolled six taxable government-owned parcels for the 2002-03 roll with a total assessed value of \$5,761,171. One senior real property appraiser assesses and tracks changes to the county's taxable government-owned parcels.

Discovery

During our 2001 survey, we noted the assessor enrolled 11 taxable government-owned parcels. Currently, the assessor identifies six parcels as taxable government-owned property. According to the assessor, five parcels previously enrolled as taxable government-owned property were either annexed by the City of Sacramento, or transferred from another public agency where they were not taxable. The assessor's staff has identified no new taxable government-owned parcels.

Valuation

In our 2001 survey, we determined the assessor did not consider the factored base year value in his value comparisons to determine the correct taxable value of taxable government-owned property. The assessor is required to enroll the lowest of a property's current market value, the restricted formula value or the property's factored base year value. The assessor complied with our recommendation, starting with the 2001 roll, and now compares all three required elements before enrolling a value for taxable government-owned property.

In addition, the assessor's taxable government-owned property valuation worksheets indicate he correctly sets base year values for properties acquired *after* March 1, 1975, by comparing the property's fair market value on the date of acquisition and its 1967 assessed value multiplied by the BOE-announced factor applicable to the date of acquisition. He also correctly establishes base year values for properties acquired *prior* to March 1, 1975. His base year value is the 1975-76 roll value, obtained by selecting the lower of the March 1, 1975 fair market value or the value obtained by applying the appropriate factor to the 1967 assessed value. The assessor reconstructed the 1967 assessed value where necessary.

The assessor identified taxable improvements on one taxable government-owned property and has examined other properties for possible improvements. The assessor properly added no value for new construction, which was an addition to, not a replacement of, the existing improvement.

The assessor also values possessory interests according to the requirements of article XIII, section 11(f), in that he enrolls the lowest of the total possible possessory interest assessment or the difference between the fee value and restricted value of the taxable government-owned parcel used by the possessory interest.

The assessor has a good overall program for assessing taxable government-owned properties, with only two areas needing improvement.

RECOMMENDATION 7: Revise taxable government owned property procedures by: (1) correctly identifying and enrolling all taxable government-owned property, and (2) completing the valuation of taxable government-owned properties for the current roll.

Correctly identify and enroll all taxable government-owned property.

We examined a number of zero-valued, government-owned properties, looking for parcels located outside of an agency's boundaries. We found several parcels owned by local government agencies, but located in different tax rate areas. Of these, several were acquired from private individuals and were taxable when acquired. The assessor placed a zero value on all such parcels. The assessor also zero-valued numerous other parcels located outside the boundaries of the owning agency. We were unable to find previous ownership information for many of these properties, but it is possible some of these parcels were also taxable when acquired.

Article XIII, section 11 provides that lands owned by a local government that are outside its boundaries are taxable if they were taxable when acquired by the local government. In addition, improvements owned by a local government that are outside its boundaries are taxable if they were taxable when acquired or were constructed by the local government to replace improvements which were taxable when acquired. Revenue and Taxation Code section 52(d) states, "Notwithstanding the provisions of this division, property subject to valuation pursuant to Section 11 of Article XIII of the California Constitution shall be valued for property tax purposes in accordance with such section."

By not evaluating these zero-valued parcels owned by local government, located outside their boundaries, for possible section 11 valuation, the assessor may be allowing property to escape assessment.

Complete the valuation of taxable government-owned properties for the current roll.

The assessor has not valued his taxable government-owned properties for the 2003-04 assessment roll. Two of the six taxable government-owned parcels enrolled by Sacramento County show 2002-03 roll values on the 2003-04 roll which has already been sent to the county auditor. The remaining four properties show zero value.

In regard to lands owned by a local government that are located outside its boundaries, section 987 mandates the BOE to compute, for each assessment year, the ratio to be applied to land assessed as of the 1967 lien date, as specified in Article XIII, section 11(b). This ratio is to be

applied annually to taxable government-owned properties and compared with market value and factored base year value for proper assessment.

The assessor has not only failed to assess taxable government-owned properties, but has allowed values for some properties to be reduced to zero, enabling these properties to escape taxation.

Possessory Interests

A taxable possessory interest results from the possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest is based on the value of the rights actually held by the possessor.

Sacramento County assessed 1,920 possessory interests on the 2002-03 roll with a total enrolled value of \$389,601,340. Possessory interests in Sacramento County include commercial airline facilities, cable television rights-of-way, airport hangars and tie downs, marinas, and concessionaires at the California Exposition and State Fair (Cal Expo). Six real property appraisers spend approximately 50 percent of their time valuing possessory interests. The assessor has a comprehensive program for enrolling taxable possessory interests. However, we did note some incorrect procedures.

RECOMMENDATION 8: Revise possessory interest procedures by: (1) valuing possessory interests that are month-to-month tenancies in accordance with section 61(b)(2), (2) valuing possessory interests created by written agreements with a stated term using the contract term of possession, (3) reviewing all private uses of the fairground to determine whether taxable possessory interests exist, and (4) exempting property used exclusively for public school purposes from a possessory interest assessment.

Value possessory interests that are month-to-month tenancies in accordance with section 61(b)(2).

This recommendation was also made in our 2001 survey. The assessor values month-to-month tenancies at the Executive Airport, Sacramento Marina, and other month-to-month tenancies as annual changes in ownership. The assessed values of these possessory interests are not indexed by the inflation factor each year. These possessory interests are also not identified on the roll as experiencing declines in value. The assessor's staff stated that possessory interest assessments resulting from month-to-month tenancies were still being revalued each year. The assessor previously responded that he was, in effect, treating month-to-month tenancies as decline-in-value property. In our review of the computer program used to calculate the month-to-month tenancies, we found no comparison of the factored base year value of these interests to their current market value.

Section 61(b)(2) provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest does not result in a

change in ownership until the end of that reasonably anticipated term of possession. For example, if a taxable possessory interest is originally valued using a reasonably anticipated term of possession of five years, that interest, even though renewed monthly under a month-to-month tenancy, should not be reappraised as a change in ownership until the expiration of the five-year term originally used to value the interest.

The assessor's practice of annually revaluing month-to-month possessory interests as changes in ownership has resulted in incorrect assessments.

Value possessory interests created by written agreements with a stated term using the contract term of possession.

Our review of possessory interests with a stated term of possession indicates the assessor has not reappraised these interests for the 2003 lien date using the remaining term of possession; instead, he adjusted the base year values for inflation.

Effective July 11, 2002, rule 21 was amended, clarifying that "the stated term of possession" for a taxable possessory interest as of a specific date is the remaining period of possession as of that date, as stated in the lease. The assessor must value all possessory interests having stated terms of possession for the 2003-04 at the lower of current market value, using the remaining term of possession as stated in the lease, or the factored base year value. Failure to follow amended rule 21 has resulted in incorrect assessments of possessory interests.

Review all private uses of the fairground to determine whether taxable possessory interests exist.

We found that the assessor has made no possessory interest assessments for a number of concessionaires using the Sacramento County fairground at Cal Expo for several years during the annual county fair. The recurring use of fairground facilities by the same private person or entity over a number of years may constitute a durable, exclusive, and independent use, which, therefore, warrants assessment as a possessory interest. Since the Sacramento County Board of Supervisors, in July 2003, passed a resolution exempting fairground possessory interests with a value of \$7,000 or less, the assessor should enroll any possessory interests discovered having values in excess of \$7,000.

Exempt property used exclusively for public school purposes from a possessory interest assessment.

The assessor has assessed the interests of private banks that provide ATM service at a state university. The banks provide ATM service at a variety of locations on campus. The assessor has based the assessments on the terms of the written lease agreements.

The BOE has long held that property used exclusively for providing services to public schools, community colleges, state colleges, and state universities is exempt from property taxation under article XIII, section 3(d). This constitutional provision exempts property used exclusively for public school purposes. It does not require that the public school own the property; even

privately owned property used exclusively for such purposes may be exempted. Hence, the interests of banks are not taxable possessory interests.

The assessor has failed to apply the public school exemption and the banks are paying tax that they do not owe.

Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with a local government restricting the use of that property in exchange for preferential assessment treatment. Section 50280.1 provides that in order for a property to qualify for assessment as a historical property it must, among other requirements, be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method set forth in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized at a rate that is not derived from the market but is a summation of the four basic components described in section 439.2, subdivision (b), as follows:

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

For the 2003-04 roll, the assessor properly valued two qualifying historical properties at a taxable value of \$30,063,000, an amount equal to 83.49 percent of their factored base year values. The properties are utilized as commercial offices with limited retail space on the ground floor. Both of these locations are in downtown Sacramento. One of the properties went into historical property contract in 1984 and the other in 1993.

Program procedures and examples are depicted on the assessor's website. No deficiencies were found in the documentation, including the contract, property description, and annual valuation. The assessor annually enrolls properties of this classification at the lowest of their factored base year value, current market value, or restricted value. The county's valuation procedures are in full compliance with sections 439 through 439.4.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the lessee. Leasehold improvements include structure items and fixtures paid for by the lessee.

Improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

When real property is reported on the business property statement, coordination between the real property and business property divisions of the assessor's office is very important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor's office must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled. For these reasons, coordination between the real property and business property divisions of the assessor's office is very important.

Discovery

The assessor divides the responsibility for the assessment of leasehold improvements between the Real Property and Personal Property (business) divisions. The Real Property Division enrolls value for structural leasehold improvements and the Personal Property Division enrolls fixtures.

The assessor typically discovers leasehold improvements through building permits. The Real Property Division may also receive copies of Schedule B, of Form BOE-571-L, *Business Property Statement*, from the Personal Property Division, when tenants or owners report \$10,000 or more in structural improvements. In addition, the real property division discovers tenant improvements through a review of tenant lists provided by owners of large and small shopping malls, and through appraisers' field review. Appraisers make annual field visits to the larger malls to verify tenant lists and note any unreported changes. Upon receipt of a building permit, the real property division may send a *Request for Tenant Improvement Cost Information* letter to property owners.

The staff of the Personal Property Division discovers fixture leasehold improvements primarily when these items are reported on Schedule B of the property statements. However, the Real Property Division may send a "Discovery" memo to the personal property division when fixtures are noted on building permits.

Cell Tower Sites

Effective January 1, 2001, the BOE delegated assessment of leased cell tower sites to county assessors. Wireless communication tower sites used but not owned by state assessees are locally assessed if property taxes are paid by a local assessee.

We reviewed four known cell tower sites in Sacramento County that were formerly assessed by the BOE. The assessor contends he removed these sites from local assessment previous to the 2001 lien date by placing first a \$10 assessment, then a zero assessment, on the specific tower site. We could not clearly confirm that value was completely removed from these four tower sites, due to a lack of information in the property records. However, there is evidence the sites are now locally assessed. Therefore, we found no problems with the assessor's valuation of cell tower sites.

Valuation

The real property division assesses all leasehold improvements to owners of buildings or shopping malls unless owners request the assessor assess them to the tenant. All major shopping malls in Sacramento County have made this request.

The assessor uses historical cost to value most retail leasehold improvements. Appraisers change enrolled values for new tenancies only if a property is substantially upgraded by the new tenant. In most cases, the assessor values the new tenancy based on the basic historical cost applicable to that type of business. The assessor also makes supplemental assessments of leasehold improvements. We found no problem with the assessor's valuation of leasehold improvements.

Water Company Property

Water company property assessed on the local tax roll may include private water companies, mutual water companies, and portions of government-owned water systems. Each type presents different assessment problems.

Private Regulated Water Companies

Private, for-profit water companies are subject to rate base/rate of return regulation by the California Public Utilities Commission (CPUC). In brief, this form of regulation limits the rate a company may charge to the cost of service plus a fair return on rate base, or invested capital. For this reason, the market value of a regulated water company should correlate closely with the historical cost less depreciation (HCLD) of the assets.

Sacramento County has three water companies regulated by the CPUC. The assessor correctly values these properties based on their HCLD.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to land, improvement, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels. We were able to identify five mutual water companies in Sacramento County. We found no problems with the assessor's treatment of these properties.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42. The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, guiding county assessors in the valuation of intercounty pipeline lands and rights-of-way.

Sacramento County assessed four pipeline rights-of-way on the 2003-04 roll at an assessed value of \$1,733,897.

Our review indicates the assessor is combining all separate pipeline right-of-way segments into a single assessment per taxpayer, in accordance with section 401.8. However, we did note two instances where the assessor is not in compliance with applicable statutes.

RECOMMENDATION 9: Update pipeline right-of-way procedures by: (1) maintaining pipeline right-of-way assessment records in accordance with section 401.8, and (2) requiring all pipeline owners to annually file a *Right-of-Way Property Statement*.

Maintain pipeline right-of-way assessment records in accordance with section 401.8.

At the time of our review, the assessor could not locate the pipeline assessment records. He printed a duplicate top sheet which shows the last valuation date, the miles of pipeline, and a statement that the value is according to the provisions of section 401.10. However, on two of the four pipeline assessments, we were unable to duplicate the 2003-04 assessed value using the standard prescribed in section 401.10. Without the records, we were unable to determine how the assessor valued the pipeline rights-of-way.

Furthermore, we were unable to determine if the assessor is maintaining a separate base year value for each right-of-way segment of intercounty pipeline. Section 401.8 requires the assessor to maintain a separate base year value for each separate right-of-way segment, to combine all segments into a single, countywide assessment per taxpayer, and to maintain records for five calendar years. Without records, we could not determine if the pipelines were over or under assessed.

Require all pipeline owners to file an annual *Right-of-Way Property Statement*.

We found that the assessor does not send the *Right-of-Way Property Statement* (Form BOE-571-RW) to pipeline owners. Periodically, some of the pipeline companies send pipeline statements to the assessor without solicitation. We noted on one statement filed in 2002, that a pipeline company reported an increase in pipeline miles in Sacramento County. The assessor did not update his assessment to reflect the change. Since 1995, when section 401.8 became effective, some of the pipeline rights-of-way owners have merged, experienced changes in ownership, added a second pipeline, or abandoned rights-of-way.

Under the standard prescribed by section 401.10, if a taxpayer owns a second pipeline in a right-of-way, the value of the right-of-way for that taxpayer would increase by 50 percent over the value attributed to the right-of-way for the presence of the first pipeline. In addition, if a pipeline were blocked or abandoned, the assessment would decrease by at least 75 percent of the increase in assessed value that resulted from the application of section 401.10(a)(3)(A). Without regularly soliciting this information, the assessor cannot know if these assessments are made according to the standard prescribed by section 401.10.

Mineral Properties

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and general appraisal rules as all real property in the state. There are three mineral specific property tax rules that need to be reviewed and followed when appraising mineral properties. They are rule 468—Oil and Gas Producing Properties, rule 469—Mining Properties, and rule 473—Geothermal Properties. The rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties and specific to mineral properties only.

Petroleum Properties

Sacramento County ranks as the third largest gas-producing county in the state. The county produces four percent of the gas in the state. The assessor contracts the appraisal of mineral properties to a mineral consultant. The mineral consultant recommends what additional information to request from taxpayers not specifically requested on the various annual production reports. After reviewing the petroleum appraisals there are no recommendations.

Mining Properties

The same mineral consultant also appraises the mineral rights for the sand and gravel operations in the county. These mineral rights are valued using the royalty method.

RECOMMENDATION 10: Determine the correct appraisal unit for mineral properties according to rule 469.

In the Sacramento County Assessor's office, the enrolled value of a mineral property is the summation of separate appraisals of the mineral rights and fixtures and equipment. The mineral appraisal consultant estimates the value of the mineral rights and the Real Property Division estimates the value of the fixtures and equipment associated with the mineral operations. The individual values are then combined into a single assessment of the mineral property.

Rule 469(e)(2)(C) defines the appraisal unit of a mineral property as the land, improvements including fixtures and reserves, excluding leach pads, tailings facility, or settling pond. The rule requires that the lower value of the total appraisal unit, either factored base year value (FBYV) or current market value (CMV), be enrolled. Once this value has been determined, the assessor can allocate the value to the individual assessments comprising the mineral property.

Because the assessor enrolls the fixture and equipment value at CMV, as a separate appraisal unit, and enrolls mineral rights at FBV, he has not treated mineral properties as a total appraisal unit as required by the rule. The result is an incorrect taxable value.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

Audit Program

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

The assessor's total audit production, including both mandatory and nonmandatory accounts, for the last five years can be summarized as follows:

FISCAL YEAR	TOTAL AUDITS COMPLETED	NET VALUE CHANGE
2002-03	244	\$130,120,362
2001-02	261	\$197,506,656
2000-01	241	\$205,803,194
1999-00	240	\$104,573,695
1998-99	279	\$50,427,395
TOTAL	1,265	\$688,431,302

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

The assessor has a total workload of approximately 1,200 mandatory audit accounts. Mandatory audit production for the last five years can be summarized as follows:

FISCAL YEAR	MANDATORY AUDITS COMPLETED
2002-03	233
2001-02	249
2000-01	227
1999-00	226
1998-99	254
TOTAL	1,189

The assessor has not completed all mandatory audits within the required time periods. However, for those audits that have not been completed timely, a signed waiver of the statute of limitations is on file with the assessor. In our prior survey, we recommended that the assessor improve the audit program by requiring the use of an audit checklist in every audit. Our review of completed audits indicates that the assessor has implemented such a consistent policy, and we saw no evidence that any audits were completed without an audit checklist.

We also recommended that the assessor adhere to statutory format requirements for the *Notice of Proposed Escape Assessment*. We found that the assessor has modified his notice to comply with the statutory format requirement of section 531.8 and prominently displays "Notice of Proposed Escape Assessment" on the notice to the taxpayer.

In our 2001 survey, we also recommended that the assessor include the value of personal property exempt under the welfare exemption when determining whether an account is subject to a mandatory audit. We found that the assessor now routinely includes these welfare exempt accounts in his mandatory audit workload. While we did find one entity that had not been timely audited, the assessor has it scheduled for audit this fiscal year.

Nonmandatory Audits

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

In our 2001 survey, we recommended that the assessor develop a formal nonmandatory audit program. We found that the assessor has completed some nonmandatory audits, as shown in the following table:

FISCAL YEAR	NONMANDATORY AUDITS COMPLETED
2002-03	11
2001-02	12
2000-01	14
1999-00	14
1998-99	25
TOTAL	76

The assessor has implemented our recommendation.

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor requests waivers whenever a mandatory audit cannot be completed within the required time limits. Should a taxpayer refuse to sign a waiver, that account is immediately scheduled for audit.

Audit Quality

Rule 191 states that the purpose of the audit is to collect data relevant to the determination of taxability, situs, and value of property. An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the business property.

In our 2001 survey report, we recommended that the assessor require the use of an audit checklist in every audit to ensure that relevant property tax issues are reviewed. We found that the assessor now routinely requires every audit to include an audit checklist. We found the audit forms, format, and checklists were uniform and well designed. The assessor's research and approach to the audit were consistent, reasonable, professional, and complete for all audits that we reviewed.

Business Property Statement Program

Section 441 requires each person owning taxable personal property (other than manufactured homes) having an aggregate cost of \$100,000 or more to annually file a business property statement with the assessor; any other person must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including commercial, industrial, agricultural, boats, and aircraft.

We reviewed the assessor's business property statement program, including written procedures, methods of discovery, use of BOE-prescribed forms, processing by non-certified staff, taxpayer interactions, completeness of the property statements, application of penalties, Real Property Division coordination, direct billing, record storage, and retention.

Workload

The following table shows the assessor's workload of property statements for businesses, leased equipment, vessels, aircraft, and other property types for the 2003-04 assessment roll:

TYPE OF PROPERTY STATEMENTS	COUNT	SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
Agriculture	261	\$18,604,319	\$14,874,309	\$33,478,628
Apartments	139	\$15,579,627	0	\$15,579,627
Financial	371	\$7,068,605	\$29,457,753	\$36,526,358
General Business (Active Accounts)	12,657	\$1,784,060,035	\$2,177,040,352	\$3,961,100,387
General Business (Direct Billing)	6,296	\$10,427,111	\$101,619,562	\$112,046,673
Leased Equipment	7,369	0	\$383,925,866	\$383,925,866
Service Stations	176	\$31,954,724	\$15,993,599	\$47,948,323
Boats, Aircraft & Other	12,112	0	\$854,391,258	\$854,391,258
Totals	39,381	\$1,867,694,421	\$3,577,302,700	\$5,444,997,121

Discovery

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate, up-to-date listings of assessable business properties. The assessor's sources of discovery are building permits, business licenses, business directories, phone directories, BOE Valuation Division Form 600B, and tenant information from landlords.

The assessor also maintains a list of taxpayers that have multiple penal assessments due to chronic failure to file the business property statements. These taxpayers are contacted as part of staff's fieldwork assignments.

We found the discovery process used by the assessor to be adequate.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

In Sacramento County, there were nearly 6,000 direct billing accounts on the 2003-04 assessment roll. This represents nearly 23 percent of the more than 27,000 business property accounts processed and enrolled for that year.

The assessor's guidelines for direct billing are (1) the cost of assets must be under \$75,000, (2) the account has a history of asset stability, and (3) the taxpayer is scheduled to receive a property statement every four years. Taxpayers are removed from this program if they fail to file in the fourth year, if the cost of assets exceeds \$75,000 or if, in the opinion of the auditor-appraiser, it is warranted.

We reviewed a sample of direct billing accounts and found that the program is properly administered. However, we found some problems with the assessor's property statement processing program.

RECOMMENDATION 11: Improve the business property statement program by: (1) accepting only properly signed business property statements, and (2) applying the section 463 penalty to all late filed business property statements.

Accept only properly signed business property statements.

A review of the business property statements indicated that the assessor accepts property statements that lack a proper signature. Many of the signatures on the statements do not identify the relationship of the persons signing the statements for the assessee.

A correct property statement filing includes a proper signature as stated in rule 172. The acceptable signature on the property statement is the signature that is identified as 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 on behalf of the assessee shall be filed with the assessor.

The assessor's practice of accepting property statements bearing unauthorized signatures may result in invalid filings. A proper signature on the property statement is required because the statement must be declared to be true and correct under penalty of perjury. Without a proper signature, the property statement does not constitute a valid filing.

Apply the section 463 penalty to all late filed business property statements.

The assessor does not apply the section 463 penalty to all late filed business property statements. Statements that were received and scanned into the system using a bar code after the May 7 filing deadline did not receive the penalty. The assessor only applied the penalty to those statements that were date stamped as late and manually entered into the system; the penalty was never applied.

Section 441(b) provides that a property statement is considered late if it is not filed by May 7. This section also requires that the penalty prescribed by section 463 be applied to statements not filed by May 7 or amended statements filed after May 31. Section 463 prescribes a penalty of 10 percent of the assessed value be added to the assessment on the current roll.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors' offices use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that, in the judgment of the BOE, will promote uniformity in appraisal practices and in assessed values throughout the state. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

Price index factors are developed for use in mass appraisal and are used for converting original cost to estimates of reproduction cost or replacement cost new. Percent good factors are used in conjunction with the index factors to estimate reproduction cost new less normal depreciation. Valuation factors are the product of price index factors and the percent-good factors. A value indicator or estimate of market value is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor. The proper choice and application of price index and percent good factors to original cost produces an estimate of market value.

The assessor's use of full value factors, as well as three other aspects of his business equipment valuation procedures, should be revised, as described in the following recommendation.

RECOMMENDATION 12: Revise business property valuation procedures by: (1) using the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended, (2) uniformly assessing personal property owned by one-way paging companies, (3) ensuring that pollution control devices financed by state bonds are assessed; and (4) properly classifying personal property in apartment properties.

Use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The Sacramento County Assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The percent good factors parallel the factors in the AH 581 with the exception that the CAA factors provide a minimum percent good factor for older equipment. Because the assessor uses the CAA tables, he employs arbitrary minimum percent good factors for older equipment.

Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner.⁴ The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good. The assessor has no supporting evidence for using such minimum factors; hence, the factors do not meet the requirements of section 401.16.

Uniformly assess personal property owned by one-way paging companies.

Effective with the 1996 lien date and thereafter, the machinery and equipment of one-way paging service companies that are licensed by the Federal Communications Commission (FCC) are assessable by county assessors. The deregulation of the telecommunication industry prompted an amendment to section 234 of the Public Utilities Code.

Prior to this deregulation, these companies were assessed by the BOE. Assessors now have jurisdiction over the one-way paging companies, while the BOE continues to have assessment jurisdiction over the radio telephone companies regulated by the CPUC.

We reviewed three of the several one-way paging companies operating in the county and found that some of their equipment is being assessed differently from one company to the next, although the equipment is basically the same type.

This valuation practice runs contrary to generally accepted assessment practices and to the statutes that require similar equipment be assessed using the same valuation methodology. Section 1 of article XIII of the California Constitution requires that all property in the state be taxed in proportion to its value. Applying different economic lives to similar equipment results in inconsistent assessed values.

⁴ AB 2714, Ch. 299, Stats. 2002, adding section 401.16 to the Revenue and Taxation Code.

Ensure that pollution control devices financed by state bonds are assessed.

Division 27, chapter 1 of the Health and Safety Code (commencing with section 44500) authorizes the California Pollution Control Financing Authority (CPCFA) to either acquire or finance the acquisition of devices or facilities necessary to mitigate air and water pollution caused by private industrial operations. If the CPCFA acquires the device or facility and leases it to a private company, then section 201.5 provides that a possessory interest in this type of equipment or facility owned by the CPCFA, whether in real or personal property, is taxable.

To help identify such equipment or facility, the BOE 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*. The CAO 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.

CAO 99/22, dated November 29, 1999, stated that CPCFA issued a pollution control bond in excess of \$21 million for the acquisition of pollution control equipment by one industrial business entity located in Sacramento and 10 other counties. On July 10, 2000, the BOE issued CAO 2000/011, informing county assessors of a pollution control bond exceeding \$4 million for a different business entity in Sacramento County. And CAO 2002/004, issued on May 9, 2002, indicated a pollution control bond of more than \$1 million for yet another entity in the county.

The assessor received these three advisory letters from the BOE. However, there is nothing in the audits completed for these entities to indicate an awareness of this equipment; it appears to have escaped assessment.

Properly classify personal property in apartment properties.

The current policy of the assessor regarding business property in apartments is to assess apartment appliances, furniture, equipment, and other furniture as personal property. We found many 2003 apartment house property statements processed correctly. However, we also found several large apartment complexes that were assessed on the 2003-04 roll with land and improvements values only; no value was allocated to personal property. This is incorrect, since apartments in California, whether furnished and unfurnished, will usually include some amount of personal property that should be recognized and assessed.

Landlord-owned personal property in apartment complexes is assessable and reportable on the *Apartment House Property Statement*, Form BOE-571-R. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, gym equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, and common area furniture.

Section 224 and rules 121 through 124 call for the proper classification of property. Proper classification of property is important since personal property, unlike real property, is appraised annually at market value. Misclassifying personal property in apartment appraisals as improvements overstates the real property assessments while understating the personal property assessment. In general, the taxable value of real property increases annually due to application of

the article XIII A inflation factor, while personal property generally depreciates in value over time.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computers and related equipment. In AH 581 (Table 6: Computer Valuation Factors), the BOE provides valuation factors for use when valuing computers and related equipment.

The assessor has properly used the composite valuation factors provided by the BOE in his valuation of non-production computers and related equipment.

Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include taxable situs, reporting errors by lessees and lessors, taxability, valuation (whether the cost of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments due to how the equipment is reported by the lessor and lessee. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

In our 2001 survey, we recommended that the assessor cross-reference the lessor and lessee business property statements to ensure the continued assessment of leased equipment upon expiration of a lease. We are repeating this recommendation, since the assessor still has not developed a procedure to ensure the assessment of leased equipment retained by the lessee upon expiration of a lease.

RECOMMENDATION 13: Ensure that leased equipment continues to be assessed if retained by the lessee at the expiration of the lease.

We found significant differences between the lessors' current and prior year's business property statement filings, yet the assessor did not review these statements to determine whether the leased equipment was retained by the lessee. The assessor does not have a procedure to ensure that a lessee who acquires ownership of equipment at lease expiration reports it.

Given the assessor's lack of review, if a lessee acquires ownership of formerly leased equipment but fails to report it on the property statement, the equipment will escape assessment.

We recommend that the assessor cross-reference leased equipment reported by the lessor with leased property reported by the lessee, so that, upon expiration of a lease, all leased equipment is discovered and properly assessed.

Aircraft

General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Bluebook*.

We found the assessor discovers aircraft from listings obtained from the Federal Aviation Agency (FAA), airport operators reporting on the Form BOE-577-B, *List of Aircraft*, and referrals from other county assessors' offices.

The Sacramento County Assessor's office assessed 524 general aircraft for the 2003-04 tax roll with a total value of \$237,480,574. The aircraft are assessed using the appropriate guidelines prescribed by section 5364 and explained in Letter To Assessors (LTA) 97/03. The data on the annual *Aircraft Owner's Report* are inputted into the electronic Aircraft Bluebook-Price Digest CD program and a value as prescribed by the BOE is obtained. Sales tax is added to that value.

We have no recommendations in this area.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers and air taxis that are operated in scheduled air taxi operations. Unlike general aircraft, which are normally assessed 100 percent at the place where they are habitually located as of the January 1 lien date, the assessment of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and arrivals and departures during a representative period designated by the BOE. Certificated aircraft are valued pursuant to the methodologies described in section 401.15.

The assessor correctly assesses the certificated aircraft owned by the 16 commercial airline companies serving Sacramento County. The total assessed value of the certificated aircraft is \$414,393,015. The aircraft are assessed using the appropriate allocation formula provided in section 1152, which considers flight and ground time as well as arrivals and departures. This information, critical in determining the aircraft assessments, is routinely gathered from owners of certificated aircraft in the course of the assessor's audits.

We have no recommendations in this area.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

There are 23 historical aircraft in Sacramento County with a total value of \$878,543. We found the assessor’s procedure compliant with law and therefore have no recommendations in this area.

Vessels

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. As part of the assessment of taxable properties in his jurisdiction, the assessor assesses those vessels permanently located within his county.

The following table shows the vessels assessed in Sacramento County for the last five years:

YEAR	VESSELS	ASSESSED VALUE
2003-04	11,568	\$194,358,996
2002-03	11,391	\$179,678,612
2001-02	11,893	\$169,590,754
2000-01	16,291	\$162,740,915
1999-00	16,730	\$158,302,867

Vessel Forms

In our 2001 survey, we recommended that the assessor require owners of vessels costing \$100,000 or more to annually file Form BOE-576-D, *Vessel Property Statement*. We also recommended that the assessor remove the section 463 penalty language from the *Vessel Owner's Report* form. Subsequently, the assessor has implemented both of our recommendations. Accordingly we do not repeat the recommendations. However, we found two additional issues that should be addressed by the assessor.

RECOMMENDATION 14: Revise vessel appraisal procedures by: (1) adding sales tax as a component of the market value of vessels, and (2) accepting only *Vessel Property Statements* as authorized by rule 172(d) and applying the section 463 penalty to unsigned statements.

Add sales tax as a component of the market value of vessels.

The assessor values vessels by referring to the *N.A.D.A. Marine Appraisal Guide* (NADA). Because this boat guide is intended for use on a nationwide basis, it does not include the sales and use tax in the values it lists. Although the assessor selects the proper values listed in the *NADA* value guide, he fails to add a sales tax component.

Sales tax is a recognized component of market value and must be added to the values listed in the *NADA* price guide when determining market values (*Xerox Corp. vs. Orange County* (1977) 66 Cal.App.3d 746). Since sales tax has not been included in the vessel appraisals, vessels are underassessed in Sacramento County.

Accept only *Vessel Property Statements* as authorized by rule 172(d) and apply the section 463 penalty to unsigned statements.

We found several vessels assessed at over \$100,000 where the *Vessel Property Statement*, Form BOE-576-D, was submitted unsigned and was accepted by the assessor.

Rule 172(a) requires that all property statements prescribed by the BOE and filed with the assessee, be signed by the assessee, a duly appointed fiduciary or an agent. Rule 172(d) prohibits the assessor from knowingly accepting property statements that are not executed in accordance with the requirements of this section. Rule 172(e) further explains that an unsigned property statement does not constitute a valid filing and that the penalty imposed by section 463 for failure to file shall be applicable to unsigned property statements. Accepting unsigned *Vessel Property Statements* is contrary to an official regulation.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Most manufactured homes are classified as personal property and enrolled on the secured roll.

The assessor enrolled 5,521 manufactured homes on the 2003-04 secured roll, with an approximate value of \$86.6 million. In Sacramento County, one real property appraiser appraises all manufactured homes. The appraiser uses the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide* (NADA) to value all transfers of manufactured homes. Using the NADA value guide ensures that no site value is included in the manufactured home value.

The assessor discovers new and transferred manufactured homes primarily through lists routinely provided by the California Department of Housing and Community Development (HCD). These lists include manufactured homes voluntarily converted from vehicle license fee status to local property taxation. In addition, the assessor obtains information through dealers' reports of sale, building permits, and field inspections.

In our 2001 survey, we recommended the assessor classify manufactured homes as personal property, develop written policies and procedures for the assessment of manufactured homes, and annually review manufactured home assessments for declines in value. The assessor implemented the second and third recommendations, but we repeat the first recommendation in this report because the assessor has not implemented it. In addition, we noted three additional areas for improvement in the assessor's manufactured home assessment practices.

RECOMMENDATION 15: Revise manufactured homes procedures by: (1) classifying and enrolling manufactured homes as personal property, (2) using the appropriate manufactured home value guide, (3) discontinuing supplemental assessments for manufactured homes voluntarily converted to local property taxation, and (4) discontinuing the sales tax adjustment to values of used manufactured homes derived from published value guides.

Classify and enroll manufactured homes as personal property.

The assessor currently enrolls all manufactured homes as improvements. That procedure does not conform to section 5801, which requires that manufactured homes be classified as personal property.

A manufactured home that is classified as personal property is exempt from property taxation when owned:

- By a dealer who holds it for sale or lease,
- By out-of-state military personnel on active duty in California,
- By a bank, insurance company, or financial corporation, or
- By a government agency, but used by a person or legal entity.

Incorrect classification may affect the application of the above personal property exemptions.

Regardless of exemption status, incorrect classification may also affect the amount of property tax levied, since certain special assessments are not levied against personal property, such as the "Base 2" portion of the Sacramento County tax rate.

Use the appropriate manufactured home value guide.

In 2003, the assessor enrolled a backlog of manufactured homes via escape assessments. He valued these escaped manufactured homes using the current January-April 2003 NADA guide, even though many of the escaped manufactured home sales occurred in 2000, 2001, and 2002. The assessor also enrolled the value determined from the 2003 value guide for each of the escaped tax years and factored the base year value for 2003. The assessor did not perform decline-in-value reviews for any of the escaped tax years or for the current roll year.

Section 5813 states in part that the taxable value of a manufactured home should be the lesser of its factored base year value or its full cash value as of lien date, considering reductions in value due to damage, destruction, depreciation or other factors causing a decline in value. The assessor's practice of using inappropriate editions of value guides and not performing decline-in-value reviews could result in overassessments for several tax years. In future tax years, the computer program will automatically review manufactured home assessments for declines in value.

Discontinue issuing supplemental assessments for manufactured homes voluntarily converted to local property taxation.

We found the assessor issues supplemental assessments for manufactured homes that were voluntarily converted to local property taxation.

In Letter To Assessors (LTA) 2003/025, dated March 24, 2003, we advised assessors that taxable manufactured homes are not subject to supplemental assessment when voluntarily converted to local property taxation, since there has been no change in ownership.

The assessor's practice of issuing supplemental assessments when manufactured homes are voluntarily converted to local property taxation has resulted in inappropriate assessments.

Discontinue adding sales tax to values of used manufactured homes derived from published value guides.

We found the assessor adds sales tax to used manufactured home values derived from the NADA value guide when they are resold or voluntarily converted to local property taxation.

Title 18 of the California Code of Regulations, section 1610.2(b), provides that neither sales tax nor use tax applies to the sale or use of used mobilehomes which are subject to property tax pursuant to Part 13 (commencing with section 5800) of Division 1 of the Revenue and Taxation Code at the time of sale.

For manufactured housing not subject to local property taxation, sales tax applies to the retail sales price. The NADA values do not include sales tax and represent retail value. By adding sales tax to the NADA value, the assessor is overassessing used manufactured homes.

Animals

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and by rule 133.

Our review of the assessor's animal assessment program showed that the assessor properly assesses horses used for breeding, and exempts boarding horses in stables owned by private individuals. The assessor also correctly exempts animals held for sale or lease or for the production of food and fiber. However, should also assess horses kept for rent or hire.

RECOMMENDATION 16: Assess horses as required by law.

The assessor has not assessed riding horses at an equestrian center that has a number of horses available for riding lessons and trail rides.

Rule 133(e)(1) excludes from the business inventory exemption animals held by an owner or lessee principally for sport, recreation, or pleasure such as show animals, horses kept for racing, or horses and other animals kept as pets. Thus, horses kept for rent are taxable.

The assessor has allowed taxable personal property to escape assessment.

Racehorses

Racehorses domiciled in California are subject to an annual in-lieu tax rather than an ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

Racehorses within the state are registered with the California Horse Racing Board. "Racehorse" means a horse that is or will be eligible to participate in a horseracing contest in California where pari-mutuel racing is permitted. Qualifying horses include stallions, mares, geldings, ridgelings, colts, fillies, and foals. Racehorses also include any horse that may produce foals that will be eligible to participate in a horse racing contest.

Our cursory review of the assessor's racehorse assessment program showed that the assessor is in compliance with statutory requirements. The assessor sends Form BOE-571-J, *Annual Racehorse Tax Return*, in the first week of December (the deadline for mailing forms is December 15) with the county tax collector's name on the form and that office's address on the return envelope.

The tax collector processes and collects the taxes due from the racehorse owner. After processing, the annual racehorse tax returns are returned to the assessor's office, where they are retained for the statutory five-year period or longer.

The assessor is required to audit any racehorse owner who had a gross tax liability that exceeds \$4,000 for each of four consecutive years. The assessor is aware of this mandatory requirement; however, no racehorse domiciled within Sacramento County has exceeded the audit threshold.

The assessor has established a program that meets the statutory requirements.

APPENDICES

A. County Property Tax Division Survey Group

Sacramento County Assessment Practices Survey

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Zella Cunningham

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Dave Barbeiro

Associate Property Auditor-Appraiser

Manny Garcia

Associate Property Auditor-Appraiser

Larry Gee

Associate Property Auditor-Appraiser

Mike Shannon

Associate Property Auditor-Appraiser

Kim Trotto

Assistant Property Appraiser

Erica Fisher

Office Technician

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁵ 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 one 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 BOE, 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 BOE'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 BOE's County Property Tax Division (CPTD) conducts the assessment sampling program 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 counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁶
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **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.

⁵ 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.

⁶ 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.

- b) **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) **New construction.** 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) **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) **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 that 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. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; 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.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



COUNTY OF SACRAMENTO

Office of the Assessor

KENNETH D. STIEGER, ASSESSOR
KATHLEEN KELLEHER, ASSISTANT ASSESSOR

May 2, 2005

Ms. Mickie Stuckey, Chief
County Property Tax Division
The State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0062

Dear Mr. Gaffney:

Enclosed is our response to the Board's recent Assessment Practices Survey of our office and its sixteen recommendations. This response is made pursuant to section 15645 of the Revenue & Taxation Code for inclusion with the final published survey report.

We would like to acknowledge the very professional and considerate manner in which the Board Survey Crew conducted itself while surveying the office and interviewing our staff. We believe this function of the Board is a very important and necessary element of ensuring that our property tax system is kept uniform and in compliance with current laws.

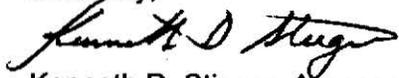
We welcome the examination of our work and processes. Your constructive recommendations provide us the opportunity to correct deficiencies that might have detracted from the accomplishment of our mission to provide accurate, timely and fair assessments, while giving the highest level of benefit to the taxpayers and customers we serve. Some of the recommendations made by your staff are already contributing to the improvement of our office.

As you are well aware, Sacramento County has experienced significant growth over the last several years. That growth has placed a great strain on our resources. We continue to explore new ways of doing more with less. However, the lack of commensurate staffing level growth continues to threaten our ability to complete our legal mandates despite our desire to do otherwise.

In this survey, your sample indicated an average assessment accuracy ratio of 99.45 percent and you make sixteen recommendations. These are both improvements over our 2001 survey.

The results of this audit are a tribute to my staff's resilience. I compliment them for their dedication, hard work and professionalism in the face of an ever-increasing workload and limited resources. I continue to receive compliments from our customers on a regular basis about the outstanding service they provide. I am honored to serve with them and believe they are the reason we are able to achieve our goals.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth D. Stieger". The signature is written in a cursive style with a large, sweeping initial "K".

Kenneth D. Stieger, Assessor

Attachment

The Sacramento County Assessor's Office

Assessor's Responses to State Board of Equalization Assessment Practices Survey Recommendations and Suggestions

RECOMMENDATION 1:

Ensure that only qualifying properties are granted the religious exemption.

RESPONSE:

We agree that only qualifying properties should be granted the religious exemption and believe we are applying it properly. The religious exemption is only allowed for properties that are used exclusively for religious purposes. The term used exclusively allows for incidental uses, provided they are directly connected with the exempt purpose. We consider housing for security purposes to fit within this definition.

RECOMMENDATION 2:

Request that the board of supervisors update the disaster relief ordinance to the current provisions of section 170

RESPONSE:

The disaster relief ordinance was updated on May 11, 2004 in accordance with the current provisions of section 170.

RECOMMENDATION 3:

Update the assessment forms procedures by: (1) using the correct assessment forms, (2) using only BOE-prescribed property statement forms, and (3) submitting the final prints of the property statements and in-lieu tax forms as required by rule 171.

RESPONSE:

We agree with the Board's recommendation and will consider alternate methods as resources are available.

Our practice, regarding BOE prescribed forms, is to send all rearranged forms to BOE for approval by October 15th and final prints of all forms by February 10th.

RECOMMENDATION 4:

Update change in ownership procedures by: (1) revising portions of the Proposition 60 information on the assessor's website, and (2) valuing properties subject to improvement bonds according to section 110(b)

RESPONSE:

(1) We appreciate the Board's recommendation regarding the Proposition 60 information on our website and have updated it as suggested.

(2) We agree and are now in compliance with section 110(b).

RECOMMENDATION 5:

Ensure that all qualifying new construction is assessed by (1) obtaining copies of building permits from the Environmental Health Division, and (2) including all deck and patio permits on the assessable new construction list.

RESPONSE:

(1) We agree and will attempt to obtain permits from the Environmental Health Division as resources allow.

(2) We agree. As resources become available, we will review lower value permits although we doubt that significant value is being lost.

RECOMMENDATION 6:

Revise CLCA appraisal procedures by: (1) assessing all taxable vines and non-living improvements, (2) using market-derived expense rates when valuing CLCA property, (3) classifying irrigation wells as land, (4) establishing base year values for trees and vines, (5) appraising each CLCA property as an appraisal unit, and (6) discontinuing the issuance of supplemental assessments on restricted land when there is a change in ownership.

RESPONSE:

(1) We agree and are currently utilizing GIS and aerial photography to discover vineyards. This project should be completed by July 2005.

(2) We disagree. The response to our annual questionnaires show reported expenses ranging from 50% to 250%. It is our belief that this is due to the fact that individuals filling out the questionnaire are uncertain as to which expenses to include. This inconsistency in expense reporting makes it difficult to apply these figures in a

meaningful manner when preparing the Williamson Act portion of the roll for living improvements. For that reason, we have come to rely on data supplied by the University of California Davis Cooperative Extension service. Recent pamphlets titled "Sample Costs to Establish a Pear Orchard and Produce Pears" indicate a cost per acre of 88.8% for an established orchard. We have generally assigned a 90% expense ratio. We also contacted local experts in the pear industry in Sacramento County, who supported the 90% figure. This figure is further supported by the University of California Davis Cooperative Extension pamphlet on "Sample Costs to Establish a Vineyard and Produce Vines".

(3) We disagree. Wells, pumps and pressure systems are one appraisal unit; one part simply cannot function without the others. Additionally, their cost is normally reported to us as a single unit.

(4) It is our practice to establish base year values for trees and vines.

(5) We agree and will comply.

(6) It is not our practice to issue supplemental assessments on restricted land.

RECOMMENDATION 7:

Revise taxable government owned property procedures by: (1) correctly identifying and enrolling all taxable government-owned property, and (2) completing the valuation of taxable government-owned properties for the current roll.

RESPONSE:

(1) We agree that all section 11 properties should be on the roll and have recently completed a project to accomplish this.

(2) We agree and have complied.

RECOMMENDATION 8:

Revise possessory interest procedures by: (1) valuing possessory interests that are month-to-month tenancies in accordance with section 61(b)(2), (2) valuing possessory interests created by written agreements with a stated term using the contract term of possession, (3) reviewing all private uses of the fairground to determine whether taxable possessory interests exist, and (4) exempting property used exclusively for public school purposes from a possessory interest assessment.

RESPONSE:

(1) We disagree and believe our methodology is equitable and time efficient. As resources allow we will explore alternative methods.

(2) We agree. As resources allow we will explore ways to improve our methodology.

(3) We agree; however, in light of our \$7,000 minimum value ordinance for the fairgrounds, we doubt that any of the short term tenants at the County Fair are assessable.

(4) We agree and are canceling the possessory interests on property used exclusively for public school purposes.

RECOMMENDATION 9:

Update pipeline right-of-way procedures by: (1) maintaining pipeline right-of-way assessment records in accordance with section 401.8, and (2) requiring all pipeline owners to annually file a *Right-of-Way Property Statement*.

RESPONSE:

We agree with the Board's recommendation and will send out the 571-RW's and as resources allow we will re-create the one missing record.

RECOMMENDATION 10:

Determine the correct appraisal unit for mineral properties according to rule 469.

RESPONSE:

We agree with the Board's recommendation and as resources allow we will review our methodology.

RECOMMENDATION 11:

Improve the business property statement program by: (1) accepting only properly signed business property statements, and (2) applying the section 463 penalty to all late-filed business property statements.

RESPONSE:

Our current practice of accepting signed statements that appear to be a proper signature is an attempt to treat the taxpayer fairly and work effectively within the limitations of our resources.

Instructions are explicit to check for and apply the 463 penalty when applicable and we will continue to enforce this policy.

RECOMMENDATION 12:

Revise business property valuation procedures: (1) using the Assessors' Handbook Section 581, *Equipment Index: and Percent Good factors*, as intended, (2) uniformly assessing personal property owned by one-way paging companies, (3) ensuring that pollution control devices financed by state bonds are assessed; and (4) properly classifying personal property in apartment properties.

RESPONSE:

(1) We disagree with the Board's recommendation. We use both the Assessors' Handbook Section 581 and recommendations made by the California Assessors' Association (CAA). The CAA Business Property Subcommittee and Business Division Chiefs meet in order to review audit results, assessment appeal information, and any other data to determine the appropriateness of property lives, replacement cost data and percent good factors for consistent use throughout the state.

(2-4) We agree with the Board's recommendations and will comply.

RECOMMENDATION 13:

Ensure that leased equipment continues to be assessed if retained by the lessee at the expiration of the lease

RESPONSE:

We disagree with this recommendation. Theoretically it may seem appropriate but we believe it is impractical. It is not always a responsible expenditure of resources to cross-reference previously leased equipment with future statements to ensure previously leased equipment is now reported as owned.

RECOMMENDATION 14:

Revise vessel appraisal procedures by: (1) adding sales tax as a component of the market value of vessels, and (2) accepting only *Vessel Property Statements* as authorized by rule 172(d) and applying the section 463 penalty to unsigned statements.

RESPONSE:

Our procedure includes sales tax as part of the calculated market value. This was an isolated training problem.

RECOMMENDATION 15:

Revise manufactured homes procedures by (1) classifying and enrolling manufactured homes as personal property, (2) using the appropriate manufactured home value guide, (3) discontinuing supplemental assessments for manufactured homes voluntarily converted to local property taxation, and (4) discontinuing the sales tax adjustment to value used manufactured homes derived from published value guides.

RESPONSE:

(1) We agree. When our new enrollment system is developed, we will implement this suggestion.

(2) We agree. As noted in the survey, this was a one-time event to eliminate a huge backlog. We do not anticipate doing this again. It should be noted that the methodology used did not result in a significant value difference.

(3) We agree with this recommendation. It is not, and has never been, our policy to issue supplemental assessments on voluntary conversions. Those identified in the survey were done in error. We have retrained staff on the appropriate handling of voluntary conversions.

(4) We agree.

RECOMMENDATION 16:

Assess horses as required by law

RESPONSE:

We agree with the Boards' recommendation and will review our procedures to ensure compliance.