

# **SAN DIEGO COUNTY ASSESSMENT PRACTICES SURVEY**

**JULY 2016**

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## **CALIFORNIA STATE BOARD OF EQUALIZATION**

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DAVID J. GAU, EXECUTIVE DIRECTOR





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No. 2016/024

July 13, 2016

TO COUNTY ASSESSORS:

**SAN DIEGO COUNTY  
ASSESSMENT PRACTICES SURVEY**

A copy of the San Diego 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 specific counties to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from July through August 2014. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee  
Deputy Director  
Property Tax Department

DRK:dcl  
Enclosure

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## **INTRODUCTION**

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of selected county assessors' offices. This report reflects the BOE's findings in its current survey of the San Diego County Assessor/Recorder/Clerk's Office<sup>1</sup>.

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

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<sup>1</sup> This review covers only the assessment functions of the office.

## OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."<sup>2</sup> The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

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

## SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code<sup>3</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey included an assessment sample of the 2013-14 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

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<sup>2</sup> Government Code section 15642.

<sup>3</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.<sup>4</sup>

Our survey methodology of the San Diego County Assessor/Recorder/Clerk's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in San Diego County that provided information relevant to the property tax assessment program.

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

We conducted reviews of the following areas:

- Administration

We reviewed the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, staff property and activities, assessment appeals, disaster relief, and exemptions.

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as California Land Conservation Act (CLCA) property, taxable possessory interests, restricted historical property, leasehold improvements, and timeshares.

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, aircraft assessments, and vessel assessments.

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<sup>4</sup> For a detailed description of the scope of our sampling program, please refer to the document entitled *Assessment Sampling Program*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

## **EXECUTIVE SUMMARY**

We examined the assessment practices of the San Diego County Assessor's Office for the 2013-14 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit – the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

In the area of administration we reviewed the assessor's budget, staffing, and workload and programs for the assessment of staff owned properties and monitoring of activities, assessment appeals, disaster relief, and exemptions. We found the assessor was properly managing all of his administrative programs.

In the area of real property assessment we reviewed the assessor's programs for change in ownership, new construction, declines in value, California Land Conservation Act assessment, taxable possessory interests, restricted historical property, leasehold improvements, and timeshares. The assessor has effective programs for the assessment of taxable possessory interests and restricted historical property. We did find areas where programs for change in ownership, new construction, declines in value, California Land Conservation Act property, treatment of leasehold improvements, and the assessment of timeshares could be improved.

We reviewed the assessor's programs for the audit of personal property, business property statements, business equipment valuation, manufactured homes, and the discovery and valuation of aircraft and vessels. While we found the assessor's programs for audits and for the assessment of manufactured homes and aircraft to be effective, we did make recommendations for improvement of the assessor's business property statement program, business equipment valuation, and assessment of vessels.

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

The San Diego County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2013-14 assessment roll indicated an average assessment ratio of 99.74 percent, and the sum of the absolute differences from the required assessment level was 0.35 percent. Accordingly, the BOE certifies that San Diego County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

## **OVERVIEW OF SAN DIEGO COUNTY**

San Diego County is located in southern California, has 4,206.63 square miles of land area, and a 2013 estimated population of 3,211,252. San Diego County is bounded on the north by Orange and Riverside Counties, on the east by Imperial County, on the south by Mexico, and on the west by the Pacific Ocean.



San Diego County was one of California's original 27 counties founded on February 18, 1850. At that time, the county covered much of the Colorado and Mojave deserts, extending from the Pacific Ocean to the Colorado River and including all of present-day Imperial County and much of San Bernardino and Riverside counties.

San Diego is the county seat, is one of 18 incorporated cities within San Diego County, and is the second largest city within California. Renowned for its idyllic climate, it has become a major tourist destination. With 70 miles of coastline, it supports year-round outdoor recreation such as surfing, boating, sailing and swimming.



## FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the San Diego County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

<b>RECOMMENDATION 1:</b>	Maintain a public transfer list that: (1) includes all required information pursuant to section 408.1(c); and (2) does not include confidential information provided on the <i>Preliminary Change of Ownership Report</i> (PCOR) or <i>Change in Ownership Statement</i> (COS). .....	8
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## ASSESSMENT OF REAL PROPERTY

### ***Change in Ownership***

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.<sup>5</sup>

The assessor maintains detailed policies and procedures for staff in processing changes in ownership. We examined several recorded documents and found the assessor has an effective program for the discovery of changes in ownership and determination of reappraisable events. However, we found areas where improvement is needed.

### **Transfer Lists**

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The assessor's main office location has computers and microfiche available in the lobby for the public to access transfer information. The public can also access property sales information from the assessor's website. As required by section 408.1(b), the information provided on the computers, microfiche, and website are divided into geographical areas by book number or address and updated accordingly. Pursuant to section 408.1(c), the information provided describes the assessor's parcel number (APN), address of the property, date of recording, recording reference number, and consideration paid. Although the assessor meets most requirements of sections 408.1(a), (b), and (c), some required information is not included on the list provided on the computers and website, and confidential information is inappropriately disclosed on the microfiche.

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<sup>5</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/cio\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

**RECOMMENDATION 1:** Maintain a public transfer list that: (1) includes all required information pursuant to section 408.1(c); and (2) does not include confidential information provided on the *Preliminary Change of Ownership Report (PCOR)* or *Change in Ownership Statement (COS)*.

**Include all required information pursuant to section 408.1(c).**

We discovered that the transfer information available to the public on the computers in the assessor's lobby of the main office, as well as the Property Sales Search information on the assessor's website, incorrectly excludes the names of the transferor and the transferee.

Section 408.1(c) sets forth the specific items of information that must be included on the two-year transfer list. Section 408.1(c)(1) states that the list shall contain the transferor and the transferee, if available. Since the assessor provides the transferee information on microfiche, it appears the required information is available to provide to the public on the computers as well as the assessor's website. Without including all required items on the transfer list, the public does not have access to all the information that must be made available.

**Do not include confidential information provided on the *Preliminary Change of Ownership Report (PCOR)* or *Change in Ownership Statement (COS)*.**

The microfiche available to the public lists the confirmed sales price of a property rather than the documentary transfer stamp value. Therefore, the transfer list incorrectly provides confidential sales information to the public furnished in the PCOR or COS.

Section 481 requires a county assessor to hold secret all information furnished on either the PCOR or COS. Section 408.1(f) mandates a county assessor include on the transfer list only information that is otherwise public information. In this context, public information means any information concerning a real property transfer available from documents accessible by the public.

As a PCOR and a COS are not public documents, the assessor should not include the confirmed sales price obtained from either of these documents on the transfer list.

We recommend the assessor provide only public, non-confidential information on the public sales index in compliance with sections 408.1(f) and 481.

***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.<sup>6</sup>

We reviewed several residential and commercial property record files involving recent new construction and found the assessor's program for the discovery and assessment of new construction to be generally well administered. The assessor has written procedures, policies, and forms dealing with new construction. Property records were well documented, and completion of new construction is confirmed through field inspections, information provided by permit-issuing agencies and *Declarations of New Construction* questionnaires. However, we found two areas where improvement is needed.

**RECOMMENDATION 2:** Improve the new construction program by: (1) obtaining copies of building permits from all issuing agencies; and (2) enrolling all assessable new construction.

### **Obtain copies of building permits from all issuing agencies**

The Environmental Health Department issues permits for septic systems and water wells used for both agricultural and domestic purposes. Those permits generally represent assessable new construction. We found new construction on a number of new wells that escaped assessment. This is due primarily to the San Diego Environmental Health Land and Water Quality Division not forwarding well permits to the assessor. To ensure the timely discovery of all qualifying new construction, the assessor must receive copies of all approved building permits and must verify the status of that permit. Obtaining these permits would not only prevent wells and septic systems from escaping assessment, but may also lead to the discovery of land being newly developed for agricultural uses or of new construction activity. We recommend that the assessor obtain permits from all issuing agencies.

By not obtaining these permits from the environmental health department, the assessor may be missing potential new construction, which may result in escape assessments.

### **Enroll all assessable new construction.**

The assessor is erroneously exempting new construction with an assessed value of \$2,000 or less. Section 155.20(b)(1) provides that a county board of supervisors shall not exempt property from taxation with a total base year value or full value of more than \$10,000 including new construction, or of more than \$50,000 in the case of certain taxable possessory interests. The board of supervisors must adopt a low-value property tax exemption ordinance 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. The San Diego County Board of Supervisors adopted its current low-value property tax exemption on March 6, 1990. The ordinance exempts from property tax all personal property, mining claims, and taxable possessory interests with a full value of \$5,000 or less. The assessor incorrectly

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<sup>6</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/newconstruction\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/newconstruction_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

applies the tax exemption to all real property, not limiting the application to just mining claims and taxable possessory interests.

By applying the exemption to a class of property not excluded by the low-value property tax exemption ordinance, the assessor is allowing property to escape assessment.

### ***Declines in Value***

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.<sup>7</sup>

The assessor properly reviews and adjusts parcels receiving decline-in-value assessments pursuant to section 51. Our review found the records are well documented and the values are reasonable. However, we found one area in need of improvement.

**RECOMMENDATION 3:** Include factored base year values on the decline-in-value notice as required by section 619(c).

We found that the decline-in-value notice used by the assessor fails to inform assesseees of the factored base year values of their properties as required by section 619. Section 619(c) requires that the notification include the base year values compounded annually to the current year by the appropriate inflation factors. Thus, the notices sent to assesseees do not conform to statutory provisions. Failure to include the factored base year value will not provide assesseees with the information they need to compare the current market value with the factored base year value. We recommend the assessor include the factored base year value when notifying assesseees of a change in a property's assessed value.

By not including all required information on the decline-in-value notice, the assessor is not in compliance with current statute and taxpayers are not being provided with all the information they are entitled to receive.

### ***California Land Conservation Act Property***

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon

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<sup>7</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Declines in Value*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/declinesinvalue\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/declinesinvalue_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

agricultural income-producing ability (including income derived from compatible uses, for example, hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.<sup>8</sup>

For the 2013-14 roll, San Diego County had a total of 61,614 acres comprised of 967 parcels under CLCA contract, including 632 acres in nonrenewal status. The total assessed value for land and living improvements for all CLCA properties was \$141,300,622. The floral and nursery segment of San Diego County's total agricultural product remains between 65 and 70 percent, with avocados at 10 to 13 percent, and citrus at 2 to 4 percent. Vegetable crops contribute approximately 10 to 12 percent. One staff appraiser is responsible for the assessment of all CLCA properties.

### Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate 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 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.

In our review of the assessor's CLCA program, we found an area in need of improvement.

**RECOMMENDATION 4:** Send CLCA questionnaires to property owners.

We found that the assessor no longer sends CLCA questionnaires to property owners. Accurate assessment of lands under CLCA contracts depends on an accurate estimate of land rents and

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<sup>8</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/clca\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/clca_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

expenses. Section 423(a)(1) provides that the annual income to be capitalized shall be determined, where sufficient rental information is available, by using the fair rent which can be imputed to the land being valued based upon rent actually received for the land by the owner and upon typical rentals received in the area for similar land in similar use. The crop report is a useful tool for developing income information when no actual rents are available, but the assessor has not attempted to determine actual rents. Additionally, without the questionnaire, the assessor may fail to discover valuable compatible uses of CLCA lands. To aid in the discovery of current rental and compatible use income, we recommend the assessor send questionnaires to the owners of CLCA property.

By not utilizing CLCA questionnaires, current market rent information will not be available to the assessor when estimating land rents, and when discovering compatible uses of CLCA lands.

### ***Leasehold Improvements***

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.<sup>9</sup>

#### Valuation

We reviewed leasehold improvement records and found that, generally, there is coordination between the real property and business property divisions in the assessment of leasehold improvements. However, we noted areas in need of improvement.

**RECOMMENDATION 5:** Improve the assessment of leasehold improvements by: (1) ensuring leasehold improvements are investigated by referring all reported structural and land improvement costs from Schedule B of the BPS to the real property division; and (2) consistently documenting the investigation of leasehold improvements on the appraisal record.

### **Ensure leasehold improvements are investigated by referring all reported structural and land improvement costs from Schedule B of the BPS to the real property division.**

When there are newly reported costs of less than \$100,000 for structures, fixtures, or land improvements on Schedule B of the annual business property statement, the assessor does not forward these schedules to the real property division for review.

Article XIII, section 1(a) of the California Constitution states, in relevant part, "All property is taxable and shall be assessed at the same percentage of fair market value...." Further, section 201 states, "All property in this State, not exempt under the laws of the United States or of this State, is subject to taxation under this code." To prevent assessable leasehold improvements from

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<sup>9</sup>For a detailed description of the scope of our review of this topic, please refer to the document entitled *Leasehold Improvements*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/leasehold\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/leasehold_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

escaping assessment, information provided by the property owner should be transferred between the real property and business property divisions within an assessor's office. When assessable new construction occurs without a building permit having been issued, for example, and costs for that new construction are reported on the BPS Schedule B, the real property appraiser may remain unaware of the new construction for the leasehold improvements unless the reported information is transmitted to the real property division.

If all of the costs reported for structures, fixtures, or land improvements are not investigated, property may escape assessment.

**Consistently document the investigation of leasehold improvements on the appraisal record.**

We reviewed leasehold improvement records and found evidence of coordination between real property and business property divisions in the assessment of leasehold improvements, but only on those properties with \$100,000 or more in reported costs, as noted above. However, in some instances we found no documentation in the real property records describing the leasehold improvements for properties with \$100,000 or more in reported costs, nor was there indication of how the assessor determined that reported costs were for repair and maintenance, structural improvements, or business fixtures. In other cases, there was no documentation in the property records regarding the determination of the appropriate assessee or which parcel received the assessment.

Business owners can report costs for both structural improvements and business fixtures on their BPS. Records management for accurate tracking of base year values and ownership of leasehold improvements may be complex and tedious, but is extremely important to ensure correct valuation and assessment. Proper notes on real property appraisal records concerning the establishment of value are an important step in the appraisal process. Appraisal notes should include information regarding the existence of leasehold improvements, a description of the improvements, and the basis for valuation. If the improvements involve more than one account the appraisal records should indicate in what manner the improvements are assessed (namely to whom, secured or unsecured roll, and the assessor's parcel number or business property account number).

Notes regarding the leasehold improvement in both the real property appraisal records and in the business property files will not only help appraisers and auditor-appraisers who work on the subject parcel or related business accounts in the future, but will also help to avoid duplicate or escape assessments.

***Timeshares***

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable non-real-property items. Examples of



non-real-property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.<sup>10</sup>

We found market values were properly evaluated and enrolled upon a change in ownership. We did, however, find one area in need of improvement.

**RECOMMENDATION 6:** Assess timeshares at the lesser of factored base year value or current market value.

We reviewed several records and found, for assessment years subsequent to enrollment of the change in ownership, the base year value was not factored for inflation by the California Consumer Price Index pursuant to article XIII A of the California Constitution. The assessor re-enrolled the original base year value every year despite evidence that the market value of these properties had changed significantly. The original, unadjusted base year value was maintained until the property sold again. Section 51 states that the taxable value of real property shall be the lesser of its base year value factored annually for inflation, or its full cash value, as defined in Section 110, on lien date.

By failing to annually adjust the base year value for timeshare estate properties, and to consider the factored base year values in comparison to market values each year, the assessor may have underassessed or overassessed some of these properties.

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<sup>10</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Timeshares*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/timeshares\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/timeshares_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

### ***Business Property Statement Program***

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program.<sup>11</sup>

We reviewed the assessor's practices and files relevant to the BPS program to ensure that the assessor complies with statutory guidelines. We reviewed a sampling of business property statements to verify that the assessor uses BOE-prescribed forms and utilizes certified staff for processing property statements, to ensure that property statements are properly completed, that appropriate penalties are applied, that real property and business property staff coordinate assessment of trade fixtures, leasehold improvements and structures, and to verify adherence to an appropriate record retention policy.

While the assessor's business property statement program is generally managed well, we found one area in need of change.

**RECOMMENDATION 7:** Ensure that business property statements contain authorized signatures in accordance with Property Tax Rule 172.

Our review found several property statements that were not signed by a qualified person and the required assessee's written authorization was either not on file with the assessor or if one was on file with the assessor, it had expired.

According to Rule 172, property statements and mineral production report forms prescribed by the BOE and filed with the assessor or the BOE shall be signed by the assessee, a partner, a duly appointed fiduciary, or an agent. When signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization allowing the agent or employee to sign the statement on behalf of the assessee must be filed with the assessor. A property statement or a mineral production report that is unsigned does not constitute a valid filing. Rule 172(d) prohibits the assessor from knowingly accepting any signed property statements that are not executed in accordance with the requirements of this section.

Written authorization calls attention to the fact that corporate assesseees are liable for any consequences of reporting errors by an employee or agent. It also assures that the assessor may

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<sup>11</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Property Statement Program*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/businesspropstatement\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

rely upon that statement. By requiring such written authorization, the assessor will ensure that the property statement was the taxpayer's official response.

### ***Business Equipment Valuation***

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.<sup>12</sup>

We reviewed the assessor's valuation procedures as well as the assessor's application of percent good and trend factors to ensure that they were accurate and applied consistently. Business account valuations were analyzed to verify that the assessor was applying the correct factors to various business and equipment type, estimating supplies when not reported, making appropriate trade-level adjustments when necessary, appropriately assessing fixtures and correctly assessing mobile construction and agricultural accounts.

Overall the assessor's business equipment valuation program is comprehensive and well managed. However, we found an area in need of change.

**RECOMMENDATION 8:** Ensure that pollution control equipment financed by state bonds does not escape assessment.

We found that the assessor is not investigating the assessability of pollution control equipment financed by state bonds. During calendar years 2010 and 2012, two businesses were identified as having entered into a multi-million dollar contract with the California Pollution Control Financing Authority (CPCFA) that have interests in San Diego County. Information about these contracts was furnished to the assessor in Letter To County Assessors Only (CAO) Nos. 2011/007 and 2013/004. We reviewed the assessor's records and did not find a copy of the contract with CPCFA or any evidence that an effort was made to procure the contract. We learned that assessor's staff did not act on CAO Nos. 2011/007 and 2013/004, by requesting contracts from the companies identified in the letters as having procured a contract with activity in San Diego County.

Division 27, chapter 1 of the Health and Safety Code (commencing with section 44500) authorized the CPCFA to finance the acquisition of devices or facilities necessary to mitigate air and water pollution caused by private industrial operations. A bond financed project can involve acquisition of land, construction of a new facility, expansion of an existing facility, rehabilitation or replacement of all or part of an existing facility, or acquisition and installation of new equipment owned or controlled by these businesses/companies. To help assessors discover assessable property financed through the CPCFA, the BOE's County Assessed Properties Division furnishes all assessors with a yearly CAO entitled *Listing of Companies Entering Into*

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<sup>12</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/businessequipval\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

*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.

We recommend that the assessor establish a procedure to ensure that these yearly CAO letters are routed to appropriate personnel. We further recommend that the assessor follow up on these yearly CAO letters by contacting the businesses and requesting information or records regarding property acquired or newly constructed, to determine that all assessable property associated with the contracts is enrolled. By failing to determine the assessability of pollution control equipment financed by state bonds, the assessor may be allowing property to escape assessment.

## **Vessels**

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbor masters' reports, and field canvassing.<sup>13</sup>

San Diego County is a coastal community with an active pleasure vessel and commercial fishing industry. Two auditor-appraisers, assisted by an assessor's technician, administer the assessor's vessel program.

### **Vessels Qualifying For The 96 Percent Exemption**

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

For the 2013-14 roll year, there were 129 commercial vessels qualified for the 96 percent exemption provided in section 227. We reviewed files for several exempt vessels and found that the exemption forms were filed and exemptions appropriately granted.

Overall the assessor's vessel assessment program is well administered. However, we found one area in need of improvement.

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<sup>13</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Vessels*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/vessels\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/vessels_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

**RECOMMENDATION 9:** Require a current certificate of inspection for certain documented vessels.

We reviewed the files of two commercial passenger fishing vessels and in both instances the assessor granted a 4 percent preferential assessment without the required United States Coast Guard current certificate of inspection. Section 227(c) requires a current certificate of inspection from the United States Coast Guard to be eligible for the exemption. The assessor's failure to require a current inspection certificate does not comply with statutory eligibility requirements.

## APPENDIX A: STATISTICAL DATA

**Table 1: Assessment Roll**

The following table displays information pertinent to the 2013-14 assessment roll:<sup>14</sup>

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$179,141,514,969
	Improvements	\$212,034,736,915
	Personal Property	\$2,111,201,333
	Total Secured	\$393,287,453,217
<b>Unsecured Roll</b>	Land	\$0
	Improvements	\$3,600,051,771
	Personal Property	\$12,426,185,594
	Total Unsecured	\$16,026,237,365
<b>Exemptions<sup>15</sup></b>		(\$13,868,207,942)
	<b>Total Assessment Roll</b>	\$395,445,482,640

**Table 2: Change in Assessed Values**

The next table summarizes the change in assessed values over recent years:<sup>16</sup>

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2013-14	\$395,445,483,000	3.4%	4.3%
2012-13	\$382,510,636,000	-0.3%	1.4%
2011-12	\$383,538,936,000	0.2%	0.1%
2010-11	\$382,651,886,000	-1.7%	-1.9%
2009-10	\$389,455,139,000	-2.5%	-2.4%

<sup>14</sup> Roll values are from BOE 822 Report.

<sup>15</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>16</sup> Roll Values and Statewide changes are from the California State Board of Equalization Annual Reports, Table 7.

**Table 3: Gross Budget and Staffing**

As of the date of our survey, the assessor had 287 budgeted permanent staff. This included the assessor, 17 Managers, 90 real property appraisers, 38 business property auditor-appraisers, 17 cadastral draftspersons, 2 computer programmers-analysts-technicians, and 122 support staff.

The following table shows the assessor's total budget and staffing over recent years<sup>17</sup>:

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>PERCENT CHANGE</b>	<b>PERMANENT STAFF</b>
2013-14	\$37,289,698	-5.7%	287
2012-13	\$39,554,593	15.3%	292
2011-12	\$34,319,247	40.5%	282
2010-11	\$24,430,583	-24.0%	282
2009-10	\$32,145,190	-5.3%	295

**Table 4: Assessment Appeals**

The following table shows the number of assessment appeals filed in recent years:<sup>18</sup>

<b>YEAR</b>	<b>ASSESSMENT APPEALS FILED</b>
2013-14	7,407
2012-13	14,551
2011-12	19,216
2010-11	15,745
2009-10	21,768

<sup>17</sup> Gross Budget and staffing numbers retrieved from Table A and Table B of *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

<sup>18</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

**Table 5: Exemptions – Welfare**

The following table shows welfare exemption data for recent years:<sup>19</sup>

<b>YEAR</b>	<b>WELFARE EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2013-14	4,517	\$10,541,279,743
2012-13	4,587	\$9,932,773,650
2011-12	4,560	\$9,476,135,181
2010-11	4,405	\$8,867,116,382
2009-10	4,294	\$8,423,313,072

**Table 6: Change in Ownership**

The following table shows the total number of reappraisable transfers in San Diego County in recent years.<sup>20</sup>

<b>YEAR</b>	<b>REAPPRAISABLE TRANSFERS</b>
2013-14	62,596
2012-13	64,969
2011-12	60,629
2010-11	59,085
2009-10	61,914

<sup>19</sup> Statistics provided by BOE-802, *Report on Exemptions*.

<sup>20</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.



**Table 7: New Construction**

The following table shows the number of new construction assessments for recent years.<sup>21</sup>

YEAR	NEW CONSTRUCTION ASSESSMENTS
2013-14	9,886
2012-13	9,208
2011-12	8,768
2010-11	8,347
2009-10	8,842

**Table 8: Declines In Value**

The following table illustrates the decline-in-value workload from recent years:

YEAR	
2013-14	201,171
2012-13	275,083
2011-12	273,211
2010-11	206,932
2009-10	219,648

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<sup>21</sup> New Construction and Declines-in-Value statistics provided by Table F of *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

## APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

### *San Diego County*

*Chief*

David Yeung

*Survey Team Director:*

Diane Yasui

Manager, Property Tax

*Survey Team Supervisor:*

David Dodson

Supervisor, Property Tax

*Survey Team:*

Tammy Aguiar

Senior Specialist Property Appraiser

Isaac Cruz

Senior Specialist Property Auditor-Appraiser

Michael Ash

Associate Property Appraiser

Cheron Burns

Associate Property Appraiser

Jennifer Prince

Associate Property Appraiser

Brian Salmon

Associate Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

Evan Becker

Staff Services Analyst

## APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	
<i>Government Code</i>	
§15640	<b>Survey by board of county assessment procedures.</b>
§15641	<b>Audit of records; appraisal data not public.</b>
§15642	<b>Research by board employees.</b>
§15643	<b>When surveys to be made.</b>
§15644	<b>Recommendations by board.</b>
§15645	<b>Survey report; final survey report; assessor's report.</b>
§15646	<b>Copies of final survey reports to be filed with local officials.</b>
<i>Revenue and Taxation Code</i>	
§75.60	<b>Allocation for administration.</b>
<i>Title 18, California Code of Regulations</i>	
Rule 370	<b>Random selection of counties for representative sampling.</b>
Rule 371	<b>Significant assessment problems.</b>

## **ASSESSOR'S RESPONSE TO BOE'S FINDINGS**

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

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



# COUNTY OF SAN DIEGO

ERNEST J. DRONENBURG, JR.

ASSESSOR/RECORDER/COUNTY CLERK

www.sdarcc.com



ASSESSOR'S OFFICE  
1600 PACIFIC HIGHWAY, SUITE 103  
SAN DIEGO, CA 92101-2480  
(619) 236-3771 • FAX (619) 557-4056

RECORDER/COUNTY CLERK'S OFFICE  
1600 PACIFIC HIGHWAY, SUITE 260  
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July 11, 2016

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

Dear Mr. Yeung:

Enclosed is San Diego County's amended response to the recent State Board of Equalization Assessment Practices Survey of San Diego County and its now nine recommendations. This amended response incorporates the BOE's removal of Recommendation No. 7 regarding mandatory audits and is made pursuant to Section 15645 of the California Government Code. Please incorporate this response into your final Assessment Practices Survey Report.

We would like to commend the survey team for the courtesy and professional manner in which they conducted the survey. We appreciate the generally positive tone of the Assessment Practices Survey report.

I want to acknowledge the staff of the San Diego County Assessor/Recorder/County Clerk department. Our staffs are hardworking, dedicated and consistently provide excellent customer service to the people of San Diego County. I am very proud of their efforts to always improve the service to our San Diego County customers.

Sincerely,

Ernest J. Dronenburg, Jr.  
Assessor/Recorder/County Clerk

EJD:jmr

Enclosure

RECEIVED

JUL 13 2016

County-Assessed Properties Division  
State Board of Equalization

***Response to recommendation 1:***

Several years ago, the assessor's office changed the transfer list on the website and the public kiosks to only reflect a conversion of Documentary Transfer Tax versus the sales price as indicated on the PCOR. Apparently this change was not applied to the microfiche. The existing microfiche has been destroyed and we are no longer creating any new microfiche. As for Transferor/Transferee information, due to systems limitations only the Transferee can be displayed on the public kiosk and the on the web. However, the transferee name is redacted from the transfer list on the web due to the restrictions of Government Code section 6254 prohibiting online (world-wide web) publication of name and address.

To address this issue, the assessor will create and maintain a public transfer list that: (1) includes all required information pursuant to section 408.1(c) and (2) does not include confidential information provided on the PCOR or COS. Both transferor and transferee will be included in kiosk searches upon completion of County of San Diego's Integrated Property Tax System. Until then system limitations continue to restrict us to listing only the transferee.

***Response to recommendation 2:***

The County of San Diego/ARCC agrees with the recommendation and has contracted with its IT vendor to make system changes to import wells and septic permits into our automated permit system for assessment by qualified staff appraisers.

The County of San Diego/ARCC has contracted with its IT vendor to make system changes to include all new construction permits into its automated permit system, regardless of value.

***Response to recommendation 3:***

The County of San Diego/ARCC agrees with the recommendation and has contracted with its IT vendor to establish a data feed of factored base year values to be included in our annual, decline in value notifications.

***Response to recommendation 4:***

The County of San Diego/ARCC agrees with the recommendation and CLCA questionnaires were sent January 2015 and will continue to be sent each year thereafter.

***Response to recommendation 5:***

The Assessor's current leasehold improvements referral program has the Business Division forward to Realty Division 571L statements where Schedule B reported current year structural costs exceed \$100,000. Based on these survey recommendations, the program will be expanded to include all reported structural improvement costs regardless of dollar amount. The Business Division will refer this information via workflow, and Realty Division appraisers will access these referrals via an Access Database. The appraisers will review this information, determine proper assessment, and value accordingly. Real Property will document the improvement on the

PAR (Property Appraisal Record) building record/tenant improvement sheet and the Access database. It will include tenant name, improvement description, basis for valuation, and result of coordination with the Business Division. The PAR will be scanned for access by both Realty and Business for future reference. The Access database will maintain notes/historical records including final disposition and reconciliation of valuations between Business and Realty Divisions.

***Response to recommendation 6:***

The County of San Diego/ARCC agrees with the recommendation and has contracted with its IT vendor to make system changes to apply the CPI annually to all time shares not currently on Prop 8 status. ARCC has also established a database to calculate the factored base year values for all parcels subject to decline in value status, including time shares. ARCC will enroll the lesser of the factored base year value or the market value of all assessable time share property.

***Response to recommendation 7:***

County of San Diego/ARCC agrees with the recommendation and ARCC has implemented additional procedures to ensure that business property statements contain authorized signatures.

***Response to recommendation 8:***

County of San Diego/ARCC agrees with the recommendation and we have implemented procedural changes in order to ensure compliance with any future County Assessor Only specific letters pertaining to the California Pollution Control Financing Authority.

***Response to recommendation 9:***

County of San Diego/ARCC agrees with the recommendation and we have implemented additional procedural changes to ensure that a current Coast Guard certificate of inspection is submitted with each affidavit.