

SAN FRANCISCO CITY AND COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2008

CALIFORNIA STATE BOARD OF EQUALIZATION

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February 11, 2008

TO COUNTY ASSESSORS:

No. 2008/008

SAN FRANCISCO COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the San Francisco City and County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (Board) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the Board 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 Philip Y. Ting, San Francisco City and County Assessor-Recorder, 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 Francisco City and County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from September 2005 through February 2006. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

TABLE OF CONTENTS

INTRODUCTION.....	1
SCOPE OF ASSESSMENT PRACTICES SURVEYS	2
EXECUTIVE SUMMARY	3
RESULTS OF THE 2002 SURVEY	6
(AND THE 2005 SPECIAL SURVEY).....	6
OVERVIEW OF SAN FRANCISCO CITY AND COUNTY.....	11
ADMINISTRATION	13
BUDGET AND STAFFING	13
STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM	14
APPRAISER CERTIFICATION.....	15
ASSESSMENT APPEALS.....	15
DISASTER RELIEF.....	17
ASSESSMENT ROLL CHANGES	18
LOW-VALUE PROPERTY EXEMPTION	21
EXEMPTIONS	21
RECORD MAINTENANCE	24
ASSESSMENT OF REAL PROPERTY	26
CHANGE IN OWNERSHIP.....	26
NEW CONSTRUCTION.....	30
DECLINES IN VALUE	35
SUPPLEMENTAL ASSESSMENTS	36
TAXABLE POSSESSORY INTERESTS	37
RESTRICTED HISTORICAL PROPERTY	41
LEASEHOLD IMPROVEMENTS	42
TIMESHARES	44
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....	46
AUDIT PROGRAM	46
BUSINESS PROPERTY STATEMENT PROGRAM.....	47
BUSINESS EQUIPMENT VALUATION	50
LEASED EQUIPMENT	50
VESSELS.....	51
APPENDIXES	53
A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP	53
B. ASSESSMENT SAMPLING PROGRAM.....	54
C. RELEVANT STATUTES AND REGULATIONS.....	57
ASSESSOR'S RESPONSE TO BOE'S FINDINGS	63

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 funding level, 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 (Board) periodically reviews (surveys) the practices and procedures of every county assessor's office. This report reflects the Board's findings in its current survey of the San Francisco City and County Assessor-Recorder's Office.¹

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

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

¹ This report covers only the assessment functions of his office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

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

Our survey of the San Francisco City and County Assessor'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 Francisco City and County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2005-06 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 report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. This is the nature of an audit. However, the reader should not infer from this that the assessors' programs are generally ineffective; on the contrary, most of the programs are well managed.

There have been dramatic changes in the San Francisco City and County Assessor's Office over the last four years. Since November 2002, there have been three elected or acting assessors. In July 2005, San Francisco Mayor Gavin Newsom appointed Philip Y. Ting as the San Francisco City and County Assessor-Recorder. The Honorable Mr. Ting was elected assessor in November 2005. Since our survey work did not commence until September 2005, the reader should note that all of the problems addressed in this survey were inherited by Mr. Ting.

This survey addresses problems discovered during our 2002 survey and in a subsequent 2005 Special Survey, performed at the behest of then assessor, the Honorable Mabel Teng. To address these problems, we made 56 recommendations in our 2002 survey and 4 recommendations in our 2005 survey. Two of the recommendations in the 2005 survey were similar to, or addressed similar issues as, those in the 2002 survey. Of 58 distinguishable recommendations, 34 were fully implemented. Seventeen recommendations were not implemented at all, while another was, only partially implemented. Finally, six of our previous recommendations are no longer applicable. The recommendations that were not implemented, or implemented only in part, are repeated in this report.

In the area of real property appraisal, we found three major assessment areas that directly and seriously impact revenue and workload for the assessor. Specifically, we found backlogs in the assessor's programs in the areas of (1) change in ownership, (2) new construction, and (3) taxable possessory interests.

We found that 2,053 of 12,884 reappraisable changes in ownership occurring between January 2, 2004, and January 1, 2005, had not been processed. In the area of new construction, we found that a total of 2,893 building permits with an indicated dollar value in excess of \$500 million had not been processed. The dates of completion for these permits ranged from 1993 to 2004.

The backlog in working new construction permits has been a persistent problem, going back to at least our 1996 survey. The failure by Mr. Ting's predecessors to properly administer these programs adds to the current workload of the assessor's office.

Our review also showed a major problem in discovering new construction in tax exempt government-owned property. The public agencies responsible for managing these properties have not been cooperative in providing information concerning new construction. The assessor must employ alternate means of obtaining the information; he should enlist the aid of the county counsel to obtain the information.

In the area of business personal property, we found that mandatory audits are not completed timely. Again, this problem dates back to our 1996 survey. The backlog in performing mandatory audits is exacerbated by recent staff attrition.

The San Francisco City and County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2005-06 assessment roll indicated an average assessment ratio of 95.38 percent, and the sum of the absolute differences from the required assessment level was 6.14 percent. Accordingly, the Board certifies that San Francisco City and County is eligible to receive 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:** Request that taxpayers send appeal withdrawal letters directly to the clerk of the assessment appeals board.17
- RECOMMENDATION 2:** Improve the assessment roll change program by: (1) citing the proper Revenue and Taxation Code section when making roll corrections, (2) adding penalty and interest when terminating erroneous homeowners' exemptions caused by the assessee's error as required by sections 531.6 and 506, (3) limiting roll changes to those roll years within the statute of limitations pursuant to section 532, and (4) submitting all roll corrections for approval by a principal appraiser or manager before enrollment.19
- RECOMMENDATION 3:** Impose the section 270 penalty on late-filed church and welfare exemption claims.24
- RECOMMENDATION 4:** Improve the assessor's change in ownership program by: (1) maintaining a transfer list that meets the requirements of section 408.1, (2) ensuring that all properties owned by legal entities that have undergone changes in control are reappraised timely, and (3) processing changes in ownership timely.29
- RECOMMENDATION 5:** Improve new construction procedures by: (1) eliminating the backlog of assessable new construction, (2) obtaining building permits and plans from all entities issuing building permits, (3) expanding appraisal record documentation, and (4) appraising all construction in progress on the lien date.33
- RECOMMENDATION 6:** Improve the taxable possessory interest assessment program by: (1) discovering and enrolling all taxable possessory interests, (2) documenting taxable possessory interest assessments, and (3) assessing taxable possessory interests according to statutory and regulatory provisions.38

- RECOMMENDATION 7:** Revise the leasehold improvement program by: (1) referring all reported structural and land improvement costs to the real property division, and (2) properly classifying structural improvements assessed on the unsecured roll.43

- RECOMMENDATION 8:** Reassess timeshare estate projects when the cumulative interest and value transferred meet the requirements of section 65.1.45

- RECOMMENDATION 9:** Timely auditing the books and records of professions, trades, and businesses pursuant to section 469.....47

- RECOMMENDATION 10:** Improve business property statement processing by: (1) ensuring that business property statements contain authorized signatures, and (2) using the information provided on the taxpayers' supplemental schedules.....48

- RECOMMENDATION 11:** Include full costs when assessing vessels.52

RESULTS OF THE 2002 SURVEY (AND THE 2005 SPECIAL SURVEY)

Budget, Workload, & Staffing

We recommended the assessor: (1) fill vacant positions, (2) task the assessment standards section with the responsibilities of standards and quality control, and (3) develop a comprehensive policies and procedures manual.

Currently, the new assessor is working to fill vacant positions; therefore, we will not repeat this recommendation. The assessor has implemented the second and third recommendations by tasking the standards and quality control unit with planning, coordinating, and promoting uniform appraisal procedures and assessment practices, and by developing a procedures manual. Therefore, we will not repeat these recommendations.

Appraiser Certification (2005 Special Survey)

In our 2005 Special Survey, we recommended the assessor require all staff appraisers to maintain current training requirements. More recent data collected by the Board's Training and Certification unit indicate that the assessor is making progress toward meeting these requirements.

Assessment Forms

In the 2002 survey, we recommended the assessor annually submit to the Board required information about the use of assessment forms. As the Board is currently revising its process for approving the forms used by assessors, this subject is not addressed in this report.

Control and Security of Assessment Records

In both the 2002 survey and the 2005 Special Survey, we recommended the assessor implement a system to control access to appraisal records. In our current survey, we found that controls for accessing appraisal records have been improved. In addition, the records are now kept in a secure area. We commend the assessor and encourage him to continue his efforts to safeguard confidential taxpayer information.

Assessment Appeals

We recommended the assessor request that the board of supervisors repeal the resolution imposing an assessment appeal filing fee. As the imposition of these fees is not a function of the assessor's office, we are not repeating this recommendation.

Disaster Relief

We recommended the assessor: (1) request that the board of supervisors revise the disaster relief ordinance to conform to section 170, (2) grant disaster relief for all qualifying personal property, and (3) grant disaster relief to property owners only when they submit timely applications.

Subsequently, the board of supervisors revised the disaster relief ordinance, and the second and third recommendations have been implemented. Therefore, we do not repeat these recommendations.

Roll Change Procedures

We recommended the assessor: (1) revise the *Notice of Proposed Escape Assessment*, (2) cite the notation required by section 533 when enrolling escape assessments, (3) cite the proper code section when making roll corrections, and (4) require that all roll changes be reviewed and approved by a principal property appraiser or manager (2005 Special Survey).

The assessor implemented the first recommendation. Due to recent amendments to section 533, the second recommendation is no longer applicable. However, the assessor continues to cite the incorrect code section when making roll corrections. Moreover, an assessment technician, rather than a principal property appraiser or manager, initiates and approves many leased equipment roll changes. Therefore, recommendations three and four are repeated in our current survey.

Exemptions

We recommended the assessor: (1) report to the Board in a timely manner and in the proper format information regarding homeowners' exemption claims pursuant to section 218.5; (2) process homeowners' exemptions in a timely manner; (3) legibly date-stamp welfare exemption claims when received; (4) review each welfare exemption claim and supporting documents before granting the exemption; and (5) apply the welfare exemption to qualified business personal property.

We found that the assessor has improved procedures and implemented all recommendations pertaining to exemption procedures.

Change in Ownership

We recommended the assessor: (1) maintain a transfer list that meets the requirements of section 408.1; (2) require that all recorded documents conveying title to real property contain the assessor's parcel number pursuant to section 1191.1; (3) use the Board-prescribed *Change of Ownership Statement*; (4) use the date of death as the date of transfer as required by section 63.1(c)(1), where a parent-child or grandparent-grandparent transfer results from the death of the transferor; (5) distinguish between the transfer of principal residences and the transfer of property other than principal residences for parent-child and grandparent-grandchild transfers; (6) submit quarterly reports of base year value transfers to the Board as required by section 69.5(b)(7); and (7) ensure that all changes in ownership discovered through the Board's Legal Entity Ownership Program are processed in a timely manner.

The Board is reviewing its procedures for facilitating assessor reporting of section 69.5 base year value transfers. For parent-child and grandparent-grandchild transfers, the assessor now uses the date of death as the transfer date of decedents' properties, and he now distinguishes between the transfer of principal residences and the transfer of property other than principal residences. In addition, all recorded documents conveying title to real property now contain the assessor's parcel number. In addition, the assessor is using the Board-prescribed *Change of Ownership*

Statement, Form BOE-502-AH. Thus, in the area of change in ownership, the assessor has implemented recommendations two, three, four, and five. Meanwhile, recommendation six is not applicable. However, the assessor has failed to implement recommendations one and seven; therefore, they are repeated in this survey.

New Construction

We recommended the assessor: (1) eliminate the backlog of assessable new construction; (2) develop formal procedures for processing, valuing, and enrolling assessable new construction; (3) improve communications with agencies that issue building permits; (4) eliminate internal building permit tracking numbers; (5) appraise all construction in progress on the lien date; and (6) improve documentation pertaining to new construction (also in the 2005 Special Survey).

The assessor now has procedures in place for valuing new construction, and he has eliminated the internal building permit tracking numbers, thereby satisfying recommendations two and four. However, the assessor still fails to address the backlog of unassessed new construction (one), to obtain permits from all permit-issuing agencies (three), to document the valuation of new construction (six), and to properly assess construction in progress on the lien date (five). These four issues are addressed again in this survey.

Supplemental Assessments

We recommended the assessor: (1) enroll all supplemental assessments, even those with insignificant amounts; (2) use the Board-prescribed *Notice of Supplemental Assessment* as required by section 75.31(g); and (3) enroll supplemental assessments for all leasehold improvements as required by section 75.11.

The assessor now enrolls all supplemental assessments, even those with insignificant amounts, and he uses the proper Board-prescribed form. He still fails, however, to enroll supplemental assessments for all leasehold improvements; accordingly, we repeat the corresponding recommendation in the leasehold section of this survey.

Timeshare Property

We recommended the assessor assess individual timeshare interests at the lesser of their factored base year value or current market value, and reassess collectively assessed timeshare projects when the cumulative interest and value transferred meets the requirements of section 65.1.

We found the assessor has implemented the first recommendation and is annually reviewing all timeshares for possible declines in value. However, the assessor has failed to implement the second recommendation, and, therefore, it is repeated in this survey.

Major Commercial Property

We recommended the assessor develop written procedures for the valuation of major income-producing properties. Appraisal documentation remains a pressing quality control issue for

the assessor. We address this issue in our discussion of the assessor's programs for assessing new construction and taxable possessory interests.

Taxable Possessory Interests

We recommended the assessor: (1) improve the discovery of taxable possessory interests, (2) use market rents when valuing taxable possessory interests in yacht harbors, and (3) cease the assessment of possessory interests on property owned by the California School of Mechanical Arts. The assessor has failed to implement any recommendations in this area; therefore, all are repeated in this survey.

Leasehold Improvements

We recommended the assessor refer all structural and land improvement costs reported on business property statements to the real property division. The assessor has not implemented this recommendation, and it is therefore, repeated in this survey.

Audit Program

We recommended the assessor: (1) bring the mandatory audit program to current status, (2) complete an audit checklist for each audit, (3) process separate escape assessments and roll corrections for each year under audit, (4) include nonprofit organizations that meet the requirements of section 469 in the mandatory audit program, and (5) audit taxpayers that fail to file property statements for three or more consecutive years.

We found that the assessor implemented recommendations two, three, and four. We do not repeat number five because, while auditing non-filing taxpayers is good practice, it is not required by law. Notwithstanding, however, the assessor's mandatory audit program is not current. Thus, we repeat recommendation one in this survey.

Business Property Statement Processing

We recommended the assessor: (1) screen business property statements with electronically prepared attachments to ensure the statement is complete and fully executed, (2) accept only appropriately signed property statements pursuant to Rule 172, (3) exclude from the direct billing program accounts that have business property at multiple locations, and (4) send business property statements to assessees in the direct billing program every fourth year.

The assessor has improved his direct billing program procedures; he now sends business property statements to assessees in the program every fourth year. In addition, he now excludes from the direct billing program accounts that have business property at multiple locations. We do not repeat the recommendation that the assessor reject incomplete business property statements because this procedure is not required by statutory provisions. However, because the assessor still accepts inappropriately signed business property statements, we repeat this recommendation.

Leased Equipment

We recommended the assessor annually review the copy of Form BOE-600-B, which is provided by the Board, and assess equipment that is leased to state assesseees but which is subject to local assessment. The assessor has implemented this recommendation.

Apartment Personal Property

We recommended the assessor develop formal procedures for the discovery and assessment of apartment personal property. These properties are now properly assessed; therefore, we do not repeat this recommendation.

Service Station Improvements

We recommended the assessor properly assess service station fixtures as improvements. We are not repeating this recommendation, as the proper classification of service station improvements is a minor item in the overall business property program.

Vessels

We recommended the assessor: (1) apply the 10 percent penalty for the failure to timely file Form BOE-576-D, *Vessel Property Statement*; (2) annually appraise pleasure vessels at market value; (3) correctly calculate the assessment of documented vessels when vessel owners submit late-filed affidavits as required by section 275.5; and (4) revise Form BOE-576-E, *Affidavit for 4 Percent Assessment of Certain Vessels*, to include the correct filing deadline. The assessor implemented all recommendations regarding vessels.

OVERVIEW OF SAN FRANCISCO CITY AND COUNTY

The City and County of San Francisco is a 46.7 square mile peninsula that is bounded on the west by the Pacific Ocean, the north by the Golden Gate Strait, the east by the San Francisco Bay, and on the south by San Mateo County. San Francisco County was one of the original 27 counties established by the California Legislature in 1850.

The city was chartered in 1850, only the ninth charter granted in the state. Currently, an 11-member board of supervisors and the mayor govern the city and county. The duties of the assessor and recorder have been merged into one department. Assessment functions are under the direction of an elected assessor-recorder.

The city and county has a population of more than 793,700 people. The following table shows the number of people employed, by industry, as of 2000:

INDUSTRY	EMPLOYMENT
Construction	18,600
Manufacturing	29,300
Transportation	37,100
Trade	113,800
Finance, Insurance, Real Estate	73,500
Services	243,500
Government	83,000
Total	598,800

For the 2005-06 roll year, the real property workload consisted of 12,884 appraisable transfers and 21,747 assessments for completed new construction. The roll included 2,595 taxable possessory interests and 2,523 decline-in-value assessments, including timeshares. The assessor also resolved 1,683 assessment appeals. The assessor completed a business property workload that included 28,297 business personal property assessments and audits of 258 business accounts. He also assessed 1,509 vessels.

The following table displays property type, number of assessments, and enrolled value information pertinent to the 2005-06 assessment roll as provided by the assessor:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
Secured Roll	Single Family Residential	124,930	\$46,074,721,270
	Multi-Family Residential	36,048	\$21,465,445,257
	Commercial	20,251	\$34,308,684,141
	Industrial	2,506	\$2,135,013,763
	Other Secured	6,394	\$1,734,182,703
	Secured Fixtures/Other Tangibles		\$1,011,747,038
	Total Secured	190,129	\$106,729,794,172
Unsecured Roll	Personal Property & Fixtures	28,297	\$7,112,848,775
	Total Assessment Roll	218,426	\$113,842,642,947

The following table illustrates the growth in assessed values during the past several years as provided in the Board's annual reports:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2005-06	\$109,974,759,000	6.8%	11.1%
2004-05	\$102,971,440,000	6.8%	8.3%
2003-04	\$96,409,468,000	5.1%	7.3%
2002-03	\$91,705,690,000	7.3%	7.3%
2001-02	\$85,490,891,000	N/A	N/A

ADMINISTRATION

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

Budget and Staffing

To enable the assessor to perform his duties, the county board of supervisors annually funds the assessor's office through the city and county's general fund. The allotted funds are provided so that the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments as required before an appellate body, and provide information and service to the public as needed.

The following table shows the assessor's funding levels over recent fiscal years. The gross budget figures reflect the funding for appraisal services and related administration and support services only; they do not include funds budgeted for recording functions. PTAP funds are accounted for separately from the assessor's adopted budget.

BUDGET YEAR	GROSS BUDGET	ANNUAL CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED	PTAP STAFF
2005-06	\$8,397,267	-0.09%	101	\$1,013,000	9
2004-05	\$8,472,650	3.84%	104	\$1,013,000	9
2003-04	\$8,159,702	0.83%	104	\$1,013,000	8
2002-03	\$8,092,971	-6.27%	106	\$1,013,000	8
2001-02	\$8,634,297		116	\$1,013,000	8

The two major units performing the duties of the assessor's office are the real property division and the business personal property division. The real property division is headed by a deputy assessor-recorder and assisted by a chief appraiser. The division is comprised of five valuation units, a standards and quality control unit, a transactions unit, and an exemptions unit. The business personal property division is headed by a chief auditor-appraiser with the assistance of two principal personal property auditors.

In our 2002 survey, we recommended the assessor fill vacant assessment positions. At the time of our fieldwork for this survey, eight of the above positions were vacant. However, due to hiring constraints beyond his control, the assessor has not been able to fill these vacant positions in a timely manner. Therefore, we will not repeat the recommendation.

A standards and quality control unit promotes the consistency and quality of the appraisal product and taxpayer services through the development and maintenance of appraisal and operating standards. The purpose of appraisal standards is to establish the minimum information and documentation necessary for acceptable property assessments.

In our 2002 survey, we found that the standards and quality control unit was functioning as a valuation unit and did not involve itself in the establishment and maintenance of office-wide appraisal and operating standards. We recommended the assessor task the standards and quality control unit with these responsibilities. The assessor has implemented this recommendation.

The standards and quality control unit is now staffed with a principal appraiser, one senior real property appraiser, and one senior assessment clerk. The unit no longer performs any property appraisals, and is in the process of developing a mission statement with a list of proposed duties. Some of the proposed duties for this unit are to plan, coordinate, and promote uniform standards of appraisal procedures and assessment practices; develop a training program for new appraiser trainees; conduct random internal audits; and maintain the appraisers' training records.

Procedures manuals provide broad policy guidelines, specific standards, and uniform procedures to assist staff in the preparation of audit and appraisal reports, as well as other technical work products. In addition, they help ensure that the work product is consistent with approved policies and practices. Furthermore, they can be used as a training tool for new employees.

In our 2002 survey, we recommended the assessor develop a comprehensive policies and procedures manual. One of the tasks of the revamped standards and quality control unit is the development of an office-wide comprehensive policies and procedures manual to promote uniform assessment practices and equal treatment of all taxpayers. Therefore, we will not repeat the recommendation in this survey.

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 2006-07.⁴ The grant program operates in essentially the same manner as the loan program except that if a county does not 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 elects to participate, the county and the State Department of Finance will enter into a written contract as described in section 95.31. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the

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

⁴ State-County Property Tax Administration Program funding has been suspended, beginning with the 2005-06 California State Budget.

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.

San Francisco City and County first participated in PTAP in the 1995-96 contract year and has continued participation for each subsequent year. For contract year 2004-05, the county assessor received a grant of \$1,013,000. The county's required base funding and staffing levels for the assessor's office is set at the 1993-94 fiscal year with a gross appropriation of \$6,011,534. The base year staffing level is set at 97 positions.

Continued participation in the grant program is dependent upon the county satisfactorily meeting its contractual performance requirements. The Office of the Controller for the City and County of San Francisco has certified to the State Department of Finance that the county met the contractual requirements for loan or grant repayment for every year under contract.

PTAP funds are used by the assessor to address the backlog of real property transfers, completed new construction, audits, and assessment appeals; for reviewing properties experiencing declines in value; and for processing supplemental assessments. PTAP funds have also been used to augment the assessor's staff with nine additional positions. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units, such as the assessment appeals board and the tax collector, that are involved in the property tax function.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are a total of 50 certified appraisers on staff, of which 15 hold advanced certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

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 assessment appeals process, including the conduct and procedures of assessment appeals boards (AABs) and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeal process.

Assessment appeals in San Francisco City and County are heard by three AABs drawn from ten regular members and six alternate members. All AAB members required to complete the Board assessment appeals training class have done so.

A three-member panel conducts each assessment appeals hearing. In addition, any of the 16 regular or alternate members of the AAB may serve as hearing officers. Hearing officers preside over hearings involving properties that consist of one to four residential units.

Appeals applications are received, processed, and scheduled for hearing by the clerk of the AAB. Applications inadvertently sent to the assessor are date-stamped and forwarded to the clerk of the AAB. Copies of all assessment appeals applications are sent to the assessor.

The appraiser within whose area the property under appeal is located generally prepares and presents the assessor's case before the AAB. In certain instances, one of the assessor's property specialists may handle the case. In all cases, a principal appraiser reviews the presentation prior to the hearing and attends presentations made before an AAB. An attorney from the city attorney's office attends appeal hearings involving legal issues.

The following table illustrates the appeal workload for recent years:

APPEALS	FISCAL YEAR				
	2004-05	2003-04	2002-03	2001-02	2000-01
Total Appeals:					
Applications Received	1,707	1,963	2,257	1,210	728
Carried Over	1,600	1,360	1,077	1,324	1,334
Total	3,307	3,323	3,334	2,534	2,062
Resolution:					
Denied-lack of appearance	52	45	119	57	84
Hearing-denied	29	217	24	32	30
Hearing-reduced	257	334	263	219	106
Hearing-increased	0	5	1	1	6
Cancelled	5	0	0	0	0
Rejected/Invalid	123	85	123	32	46
Stipulation Approved	10	14	74	331	33
Stipulation Denied	7	2	0	30	0
Withdrawn	1,198	1,018	1,366	745	431
Penalty abated	2	3	4	10	2
Total	1,683	1,723	1,974	1,457	738
Carried over to next year	1,624	1,600	1,360	1,077	1,324

Pursuant to section 1604(c)(1), the taxpayer and the AAB have signed waivers for all appeals not resolved within two years of the timely filing of the application for changed assessment.

We attended a number of assessment appeals hearings and found the assessor's staff was well-prepared and handled their presentations professionally.

In our 2002 survey report, we recommended that the assessor request that the board of supervisors repeal the resolution imposing assessment appeal filing and hearing fees. As the imposition of these fees is not a function of the assessor's office, we are not repeating this recommendation. However, we did find an area of the assessor's assessment appeals program that needs improvement.

RECOMMENDATION 1: Request that taxpayers send appeal withdrawal letters directly to the clerk of the assessment appeals board.

When the assessor reviews an assessment under appeal and finds the value should be changed, he sends a letter to the taxpayer informing the taxpayer that he intends to enroll a corrected value. This letter is not standardized. One version states that if the taxpayer agrees with the assessor's corrected value, the taxpayer should sign the enclosed withdrawal letter and return it to the assessor in the enclosed envelope. The assessor then forwards the withdrawal letter to the AAB.

The AAB acts independently from the assessor, adjudicating value disputes between taxpayers and the assessor. It is inappropriate for the assessor to act as an intermediary between the AAB and taxpayers by requesting taxpayers with property under appeal to submit appeal withdrawal letters directly to him rather than to the AAB. In his letter to taxpayers, the assessor should instruct that any withdrawal letters be sent directly to the AAB.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

During the past five years, the assessor has granted disaster relief to an average of 70 parcels annually. The assessor discovers calamities through building permits issued for repairs, newspaper articles, taxpayer notification, fire department reports, and field investigations.

The assessor's computer system tracks all of the disaster relief applications. The appraisal staff reviews all applications for completeness, while the standards and quality control unit tracks all claims after they are assigned to the appraisal staff.

In our 2002 survey, we recommended the assessor grant disaster relief to all qualifying personal property and to property owners only when they submit timely applications. Subsequently, there has been a change in the law and the assessor may initiate disaster relief of his own volition. We could find no instances where the assessor failed to grant disaster relief to qualifying properties.

Finally, we recommended the assessor request that the board of supervisors conform the county disaster relief ordinance to current law. In September 2005, the assessor requested that the board of supervisors amend Section 10.2-5 of the San Francisco Administrative Code to conform to section 170. The board of supervisors adopted this amendment in January 2006.

We have no recommendations for this program.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, if a correction is made that will decrease the amount of the unpaid taxes, the consent of the board of supervisors is necessary. All changes to the roll are authorized by 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, for any reason, on the original roll. 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 by the assessor for recent years:

FISCAL YEAR	SECURED ROLL	UNSECURED ROLL	TOTAL ROLL
2004-05	25,855	1,613	27,468
2003-04	23,670	1,761	25,431
2002-03	25,301	1,427	26,728
2001-02	23,728	1,786	25,514

For the real property division, roll changes are initiated by the real property appraisers. For the business personal property division, roll changes are initiated by an auditor-appraiser. All roll changes are initiated electronically, directly on the assessor's computer system. Once the appraiser has completed all the necessary worksheets, the entire file is forwarded to the principal appraiser for review and approval.

For escaped assessments the computer system generates the required *Notice of Proposed Escape Assessment*, which is mailed to taxpayers. After 10 days, the system enrolls the values and generates a *Notice of Enrollment of Escape Assessment*. This required notice is also mailed to the taxpayer. Values are then transmitted to the tax collectors' data information system to create a tax bill.

In our 2002 survey, we recommended the assessor: (1) revise the *Notice of Proposed Escape Assessment* to include all of the information required by section 531.8(b), (2) cite the notation required by section 533 when enrolling escape assessments, and (3) cite the proper Revenue and Taxation Code section when making roll corrections.

In the current survey, we found that all elements required by section 531.8(b) were incorporated in the current *Notice of Proposed Escape Assessment*. Meanwhile, section 533 was amended effective January 1, 2005, so that it no longer requires that specific notations be made on the roll when making roll corrections. The first two recommendations will not be repeated. However, the assessor continues to cite the incorrect code sections when making roll corrections; therefore, we repeat our recommendation on this issue.

In addition, in our 2005 Special Survey, we recommended the assessor modify the computer system to ensure that only principal appraisers or managers approve roll changes before enrollment. Pending modification to the computer system, the assessor has instituted a new procedure that calls for all roll changes to be reviewed and approved by a principal appraiser. In addition, any changes made by a principal level appraiser are to be reviewed and approved by the chief appraiser. Because this new procedure is not followed in all cases, it is the basis of our following recommendation.

RECOMMENDATION 2: Improve the assessment roll change program by: (1) citing the proper Revenue and Taxation Code section when making roll corrections, (2) adding penalty and interest when terminating erroneous homeowners' exemptions caused by the assessee's error as required by sections 531.6 and 506, (3) limiting roll changes to those roll years within the statute of limitations pursuant to section 532, and (4) submitting all roll corrections for approval by a principal appraiser or manager before enrollment.

Cite the proper Revenue and Taxation Code section when making roll corrections.

We found that when the assessor makes roll corrections to the secured roll, he does so without citing the Revenue and Taxation Code section authorizing the correction. Escaped assessments are identified on the roll with the notation "ESC." There is no statutory reference to the appropriate code section authorizing the correction.

Specific code sections apply to corrections, cancellations, escape assessments, and overassessments. For example, the assessor should cite section 531.2 for escaped assessments resulting from changes in ownership or new construction. For escaped assessments resulting from corrections of errors in base year values, the assessor should cite section 51.5. For an escaped assessment resulting from an unprocessed change in ownership, it is probable that both of these code sections would be applicable citations.

On the unsecured roll, we reviewed a number of roll corrections and escape assessments made as a result of audits or corrections of inaccurate information furnished by assessees on property statements. In these instances, we found that the assessor incorrectly cited code section 531.3

when processing roll corrections for overassessments. In instances of an escaped assessment, the assessor incorrectly cited both sections 531.3 and 4831.5 as the authority for making the change to the assessment roll.

By failing to cite the appropriate Revenue and Taxation Code sections when making roll corrections, the assessor may not be adding the penalty assessment to the assessed value where applicable and may not be instructing the controller to apply interest when applicable.

Add penalty and interest when terminating erroneous homeowners' exemptions caused by the assessee's error as required by sections 531.6, and 506.

We found that the assessor, when terminating an erroneous homeowners' exemption caused by the assessee's error, neither adds the required 25 percent penalty to the assessment nor notifies the controller to apply interest.

An exemption improperly allowed is considered a taxpayer error if the taxpayer does not inform the assessor when the property is no longer eligible for the exemption. Pursuant to section 531.6, a taxpayer who initially filed a claim for the homeowner's exemption is responsible for notifying the assessor when the property is no longer eligible for exemption.

If a homeowners' exemption has been incorrectly allowed as a result of an assessee' error, an escape assessment with interest pursuant to section 506 must be made. Section 531.6 further provides that if the exemption was allowed because the claimant failed to notify the assessor in a timely manner that the property was no longer eligible for the exemption, the penalty pursuant to section 504 must be added.

The assessor's practice does not conform to the specific requirements of sections 531.6 and 506.

Limit roll changes to those roll years within the statute of limitations pursuant to section 532.

The assessor processed escaped assessments pursuant to completed audits beyond the statute of limitations.

As provided by section 532, escape assessments must be made within four years after July 1 of the assessment year in which the property escaped assessment or was underassessed. The time period is extended to eight years for assessments where section 504 penalties apply.

Delays in processing escape assessments can adversely affect the security of taxes. Entering escape assessments on the roll outside the statute of limitations results in overassessments.

Submit all roll corrections for approval by a principal appraiser or manager before enrollment.

In our review of leased equipment assessments, we found that many roll corrections were initiated and completed by an assessment technician. There was no indication on the assessor's records that the roll change received management or supervisory approval or review.

It is essential that any corrections to the unsecured roll be reviewed and approved by a supervisor or manager to ensure the integrity of the assessment process.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors shall not 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 taxable possessory interests. A board of supervisors must adopt a low-value property 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 August 1, 1997, the City and County of San Francisco's Board of Supervisors adopted Ordinance Number 308-97, exempting from taxation all personal property on the unsecured roll with a value of \$4,000 or less. On December 28, 2000, the board of supervisors amended the ordinance to raise the low-value exemption threshold to \$5,000. The county has not adopted a resolution exempting low-value supplemental assessments or low-value escaped assessments.

For the 2005-06 roll year, the assessor had 5,918 unsecured properties with a total assessed value of \$11,482,045 that qualified for the low value exemption. The assessor correctly identifies and exempts properties with a value below the low-value exemption threshold.

We have no recommendations in this area.

Exemptions

Homeowners' Exemption

In our 2002 survey report, we recommended the assessor process homeowners' exemptions in a timely manner and properly report information regarding homeowners' exemption claims to the Board pursuant to section 218.5. Our review found that both of these recommendations have been implemented. The assessor now submits information regarding homeowners' exemption claims to the Board in a timely manner and in the proper format, and processes the majority of these exemptions within one to two weeks of receipt.

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 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt, under article XIII,

section 4(d), 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) of the California Constitution authorizes the Legislature to exempt property that is 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 of the Revenue and Taxation Code, 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, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

Three full-time staff members in the assessor's office process all church, religious, and welfare exemption claims. These staff members rely on Assessors' Handbook Section 267, *Welfare, Church and Religious Exemptions* (October 2004), advisory Letters To Assessors issued by the Board that deal with exemption issues, and a workbook received during a Board workshop on the welfare exemption.

Appraisers conduct field inspections of properties for which a church, religious, or welfare exemption is claimed. The appraisers are briefed by the exemptions processor on how to evaluate the property use in the field. If a field inspection results in a determination of only partial eligibility for exemption, the appraisal record will be documented with the appraiser's calculations. The calculated exemption percentage is inputted into the computer. Unless manually changed due to a change in the use of the exempt property, this percentage will automatically be applied to each roll year's taxable value to determine the exempt amount.

The assessor processed 191 church exemption claims and 363 religious exemption claims for the 2005-06 assessment roll. The following table illustrates religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS	EXEMPTED VALUE	CHURCH	EXEMPTED VALUE
2005-06	363	\$212,970,801	191	\$86,632,705
2004-05	357	\$206,015,291	204	\$86,328,562
2003-04	354	\$193,127,566	209	\$85,345,970
2002-03	349	\$183,318,162	201	\$81,620,149
2001-02	353	\$172,573,395	216	\$84,044,905

Our review of the assessor's religious exemption program showed that the assessor adheres to the statutory filing requirements. Once the religious exemption is granted, it is the assessor's policy to annually send to the claimant Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*. If a claimant fails to return the annual termination notice as provided in section 257.1, the assessor mails a second request to the claimant. If this fails to generate a response, the assessor performs a field inspection to determine if the claimant still qualifies for the exemption. We found no problems in the religious exemption program.

In addition, we reviewed church exemption claims to evaluate the assessor's church exemption program. We found one procedure that needs improvement; it is addressed below in our recommendation following discussion of the assessor's welfare exemption program.

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 Board and county assessors. Effective January 1, 2004, the Board became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates (OCCs)* to qualified nonprofit organizations. Additionally, 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 OCC issued by the Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's OCC issued by the Board.

The following table shows welfare exemption data for recent years:

ROLL YEAR	WELFARE	EXEMPTED VALUE
2005-06	1,214	\$3,235,095,931
2004-05	1,210	\$2,977,435,472
2003-04	1,165	\$2,650,830,144
2002-03	1,100	\$2,519,755,790
2001-02	1,102	\$2,386,018,370

We reviewed a variety of welfare exemption claims on file at the assessor's office. Property uses included churches with parsonages, elderly and handicapped and low income rental housing, public benefit corporations, environmental protection organizations, and a private high school. We found that the assessor requires an OCC from each claimant and properly allocates exempt and taxable areas of properties receiving partial exemptions.

In our 2002 survey report, we recommended the assessor: (1) legibly date-stamp all welfare exemption claims when received, (2) thoroughly review each welfare exemption claim and supporting documents before granting the exemption, and (3) apply the welfare exemption to qualified business personal property. We found that the assessor improved his processing procedures and implemented the first two recommendations. Furthermore, we will not repeat the third recommendation as we found no instances where qualified business personal property was taxed in error. However, we did find one incorrect practice in the assessor's welfare exemption program and a corresponding incorrect practice in the assessor's church exemption program.

RECOMMENDATION 3: Impose the section 270 penalty on late-filed church and welfare exemption claims.

We found instances where the assessor allowed the full welfare or church exemption even when a claimant failed to file a timely claim.

Section 270(a) provides that late-filed claims for the church and welfare exemptions may be allowed 90 percent of the full exemption if the claim is filed after February 15 but before the following January 1 lien date, and 85 percent if the claim is filed after January 1. Section 270(b) limits the total penalty for late filing to a maximum of \$250.

The assessor is responsible for imposing the penalty and notifying the controller that interest is to be calculated and added as well. By not imposing the late-filing penalty to church and welfare exemption claims and not notifying the controller of the need to apply the interest, the assessor is not conforming to the provisions of section 270.

Record Maintenance

In both our 2002 survey and our 2005 Special Survey, we recommended the assessor implement a system to control access to appraisal records. We also recommended that the assessor keep the records in a secure location.

Controlling appraisal records is one of the key responsibilities of the assessor. Appraisal records are the basis for all assessments. Generally, they contain the description of the properties being assessed and the assessment history of each property. In addition, some of these records contain confidential information supplied by the taxpayer. The assessor has already incurred a large expense in collecting this information. Maintaining this data is one of the assessor's priorities.

The assessment records have been moved to a secure area and one person is responsible for retrieving and filing records, generally on a daily basis. The assessor has instituted a property file checkout log to track property records. The assessor has fully implemented our recommendations.

We commend the assessor for his efforts at securing the property records and assuring that all personnel adhere to his appraisal record tracking system.

ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Valuations of certain properties subject to special assessment procedures, such as taxable possessory interests, timeshares, and restricted historical properties.

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

Change in Ownership

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

Document Processing

The San Francisco City and County Assessor's and Recorder's Offices are combined and use an integrated computer system. Upon recordation, those documents potentially effecting a change in ownership of real property are electronically transmitted to the assessor's transaction unit along with any accompanying Form BOE-502A, *Preliminary Change of Ownership Report* (PCOR).

All changes in ownership are reviewed by the transaction unit to determine whether or not the document represents a reappraisable event. In addition, the transaction unit is responsible for processing exclusions from change in ownership and ensuring accuracy in the system for the owner's name and the percentage interest held, mailing address, and exemptions for each parcel. Once the transaction unit determines that there is a change in ownership, the computer system generates an electronic worksheet to track that workload item.

Change in ownership worksheets are assigned to individual appraisers. Each workload item is reflected on the appraiser's workload report until the appraisal is completed and approved by the principal appraiser. Appraisers enter values directly into the computer system, thus eliminating paper copies.

The following table shows the total number of recorded documents and those that indicate a reappraisable change in ownership for recent years.

ROLL YEAR	RECORDED DOCUMENTS	REAPPRAISABLE TRANSFER DOCUMENTS
2005-06	37,007	12,884
2004-05	40,504	11,461
2003-04	38,098	10,316
2002-03	29,908	8,102
2001-02	30,027	10,402

Discovery

When the assessor learns about unrecorded transfers (e.g., by way of sales contracts or long-term lease agreements), he contacts property owners for further information. The assessor also pursues any missing information regarding the term of a lease in order to determine if the lease is for 35 years or more, and would thus qualify as a change in ownership.

When deeds transferring property to a trust do not name the trustee(s) or beneficiary(ies), the assessor requests this information from the transferor to determine whether or not the transfer is eligible for exclusion from change in ownership.

The assessor also communicates regularly with probate attorneys to aid in the discovery of changes in ownership brought about by the death of a property owner. In our 2002 survey, we recommended the assessor require that all recorded documents conveying title to real property contain the assessor's parcel number pursuant to section 11911.1. This recommendation has been implemented.

One innovation in discovering unreported changes in ownership implemented by the current assessor is the "Real Estate Watchdog" program developed by the current assessor. He proposed, and the board of supervisors adopted, an ordinance on February 7, 2006, which provides an incentive program for local residents to furnish information concerning unreported changes in ownership. The incentive is 10 percent of the resulting increase in tax dollars up to a limit of \$500,000.

Legal Entity Ownership Program (LEOP)

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

To help assessors, the Board's LEOP unit investigates and verifies changes in entity control and ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property involved. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

In our 1996 survey, and in our 2002 survey, we recommended the assessor ensure that all changes in control identified by the LEOP program receive timely reappraisal. The assessor still fails to investigate these changes in control; accordingly, this recommendation is repeated below in our current survey.

Section 408.1 Transfer Lists

Section 408.1(a) requires the assessor to maintain a list of transfers that have occurred within the preceding two-year period. Section 408.1(c) requires that the transfer list include the name of the transferor and transferee if available, the assessor's parcel number, the situs address, the date of the transfer, the date of recording, the recording reference number, and, when known, the consideration paid for the property. The assessor shall not include information on the list that is not otherwise public information.

In our 2002 survey, we recommended the assessor maintain a proper transfer list meeting the requirements of section 408.1. The assessor still fails to maintain a section 408.1 transfer list; accordingly, this recommendation is repeated below in this survey.

Parent-Child Exclusion and Base Year Value Transfer

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of the principal residence and the first one million dollars of other real property between parents and children. Under limited circumstances, the exclusion is applicable to transfers between grandparents and grandchildren. The following table shows the number of approved section 63.1 applications for recent roll years.

ROLL YEAR	SECTION 63.1 APPLICATIONS
2005-06	2,540
2004-05	2,441
2003-04	1,990
2002-03	2,704
2001-02	2,179

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 or severely and permanently disabled, the owner files a claim timely, and the properties

are within the same county. A county board of supervisors may, by ordinance, allow transfers of base year value from properties located in other counties. The San Francisco City and County Board of Supervisors have not adopted such an ordinance.

The following table shows the number of section 69.5 base year value transfers granted in recent years:

ROLL YEAR	SECTION 69.5 CLAIMS
2005-06	64
2004-05	38
2003-04	36
2002-03	37
2001-02	27

RECOMMENDATION 4: Improve the assessor's change in ownership program by: (1) maintaining a transfer list that meets the requirements of section 408.1, (2) ensuring that all properties owned by legal entities that have undergone changes in control are reappraised timely, and (3) processing changes in ownership timely.

Maintain a transfer list that meets the requirements of section 408.1.

We found that the assessor still fails to provide a transfer list for public use as required by section 408.1. This was a recommendation in our 2002 report.

Pursuant to section 408.1, the assessor is required to maintain and make available for public inspection a list of property transfers for the most recent two-year period. The type of information that should be included on the list is specifically outlined in section 408.1.

Failure to provide a transfer list for public use is contrary to statutory requirements.

Ensure that all properties owned by legal entities that have undergone changes in control are reappraised timely.

We found a number of parcels that were not reassessed despite the assessor knowing about changes in control of the legal entities that owned them. For example, a large petroleum company that underwent a change in control in September 2002 held 15 parcels. Despite the change in control, none of the parcels had been reappraised. Further, there was no indication in the assessor's computer database that reappraisals were pending.

In another instance, a large bank with six parcels underwent a change in control in 2002. Yet, only one of the six parcels had been reappraised. The other five parcels appear in the assessor's database as pending workload since the year 2002. In another situation, five parcels owned by an

entity that underwent a change in control appear in the assessor's database as pending workload since the year 2003.

Without the timely reappraisal of these properties, the affected taxpayers will eventually receive multiple corrected tax bills. In the event that these properties go unprocessed for four years or more, the county may lose revenue for years beyond the statute of limitations for levying supplemental and escape assessments.

Process changes in ownership timely.

We found that the assessor has not established new base year values for 2,053 of 12,884 reappraisable changes in ownership that occurred between January 2, 2004, and January 1, 2005. This represents approximately 16 percent of the changes in ownership for the 2005-06 roll year.

Failure to reappraise these properties on a timely basis results in delays in revenue collection, corrected tax bills being sent to taxpayers, and possible lost revenues for years beyond the statute of limitations for levying supplemental and escape assessments.

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 is the new base year value of the newly constructed property.

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

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

Discovery

Most new construction activity is discovered from building permits. There are two agencies in the City and County of San Francisco that issue building permits for parcels within their respective jurisdictions: the Department of Building Inspection (DBI) and the Port of San Francisco (PSF).

The real estate division of PSF is responsible for all asset management, property and lease management, marketing, and leasing for PSF's property along the 7.5 miles of San Francisco's waterfront extending from Fisherman's Wharf to Bayview/Hunters Point. PSF has over

400 commercial and industrial tenants representing 12.8 million square feet of occupied space and approximately \$38 million in annual revenue. This does not include leases to maritime tenants managed by the maritime division. Real estate asset and property management duties entail lease negotiations, lease and property administration and enforcement, and asset value enhancement.

In addition, the assessor uses newspaper articles, field inspections, and reporting from taxpayers to discover unpermitted new construction.

Self Reporting

The DBI has eight application forms for filing building permits:

- Form 1-New building construction.
- Form 2-New building construction.
- Form 3-Additions, alterations, and repairs.
- Form 4-Installation of new sign.
- Form 5-Grading, fill, quarry, and excavation.
- Form 6-Demolition.
- Form 7-Painted or other non-structural signs.
- Form 8-Additions, alterations, and repairs.

Completed electronic Forms 1, 2, 3, 6, and 8 that are submitted to DBI are downloaded to the assessor's database every Saturday. Applications submitted on the other forms are not considered new construction. The assessor sends self-reporting questionnaires only to owners of residential properties who have filed permits for assessable new construction. When the questionnaires are returned, they are forwarded to the appraiser for valuation. For income-producing properties, individual letters are sent to owners requesting specific cost information.

The assessor estimates that 65 to 70 percent of the owners respond to the self-reporting questionnaires. The area appraiser determines whether the cost information received warrants a field inspection of the property. The following table shows the number of self-reporting questionnaires received for recent fiscal years:

FISCAL YEAR	QUESTIONNAIRES RECEIVED
2004-05	2,016
2003-04	2,110
2002-03	5,100
2001-02	3,692
2000-01	1,040

We found the assessor's self-reporting program to be a valuable and productive discovery method.

Permit Processing

Permit processing is the responsibility of one assessment clerk. The clerk screens the permits to determine whether they represent assessable new construction. Permits describing assessable new construction are forwarded to the appraisal staff for review and valuation. Nonassessable permits are also randomly checked by the division senior and occasionally reviewed by the chief appraiser for quality control.

The following table shows the number of permits worked and the value added by those permits for recent years:

ROLL YEAR	PERMITS WORKED	TOTAL VALUE ADDED
2004-05	21,747	\$274,755,016
2003-04	22,926	\$399,351,788
2002-03	23,446	\$558,601,363
2001-02	23,902	\$595,792,932
2000-01	24,653	\$1,093,554,270

Valuation

The assessor values completed new construction by estimating the full value of new construction as of the date of completion. The appraiser determines the completion status of new construction from on-site reviews, notices of completion from the building department, or information from

taxpayers. Several cost information sources are used in valuing new construction, including local building costs, owners' actual costs, and for commercial and industrial properties, the *Marshall Valuation Service*.

Section 71 requires the assessor to enroll construction in progress (CIP) at its fair market value on each lien date. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value upon completion and a base year value is assigned.

Summary

In our 2002 survey report, we recommended the assessor: (1) eliminate the backlog of assessable new construction, (2) develop formal procedures for processing, valuing, and enrolling assessable new construction, (3) improve communications with agencies that issue building permits, (4) eliminate internal building permit tracking numbers, (5) appraise all CIP on the lien date, and (6) improve documentation pertaining to new construction.

We found the assessor has procedures in place for valuing new construction, has eliminated the internal building permit tracking numbers, and is now enrolling CIP values for interim years. However, the assessor does not appraise all CIP on the lien date. He also needs to continue efforts to communicate with the permit-issuing agencies (PSF and DBI) and address the backlog. In addition, the documentation of new construction is lacking. Therefore, these recommendations are repeated in this current survey.

RECOMMENDATION 5: Improve new construction procedures by: (1) eliminating the backlog of assessable new construction, (2) obtaining building permits and plans from all entities issuing building permits, (3) expanding appraisal record documentation, and (4) appraising all construction in progress on the lien date.

Eliminate the backlog of assessable new construction.

We found lengthy delays between the receipt of building permits and the assessment of the permitted new construction. In a review of the assessor's list of permits issued by DBI, we found numerous completed construction projects, some with permits dating as far back as 1993; however, the projects remained on the list of unworked permits, and final values were never enrolled. The backlog of permits with completion status from 1993 to 2004 was 2,893 permits with a reported permit cost of over \$500 million.

This backlog has resulted in uncollected revenue and will result in delayed property tax bills for taxpayers.

Obtain building permits and plans from all entities issuing building permits.

Although improvements have been made regarding the transmittal of information from DBI to the assessor, there is still room for improvement. The DBI fails to require applicants for building permits to submit an extra set of building plans designated for the assessor, and fails to

automatically provide extra copies of these plans to the assessor. Currently, when the assessor needs a copy of building plans, he sends staff to the DBI office to make copies of the plans.

In addition, the assessor has received little cooperation from PSF. Although the assessor has sent several letters to PSF requesting that his staff be allowed to review copies of permits and obtain a permit listing, PSF has made it difficult for the assessor to obtain this information.

In order to obtain copies of permits, PSF requires that the assessor request a specific permit and have staff present themselves at the PSF office to make a copy of the permit. The assessor does not have a direct link with the PSF computer system, permits are not obtained on a regular basis, and copies of building plans are not generally provided.

Section 72(a) provides that a copy of any building permit issued by any city, county, or city and county shall be transmitted by each issuing entity to the county assessor as soon as possible after the date of issuance. Section 72(c) also provides that any time an assessee files an approved set of building plans with a city, county, or city and county, the assessee or designee shall also file with the city, county, or city and county a scale copy of the floor plans and exterior dimensions of the building designated for the county assessor. The receiving authority must transmit that copy to the county assessor as soon as possible after the final plans are approved. Since PSF and DBI are part of the City and County of San Francisco, they must transmit a copy of all permits to the assessor and ensure that all permit applicants provide a scale copy of their building plans for transmission to the assessor.

The consequences of continued lack of cooperation by the permit-issuing entities in San Francisco are substantial. Section 532(a) provides a four-year statute of limitations beyond which escape assessments may not be issued. Therefore, delays in the assessment of new construction result in the loss of tax revenue for the city and county. In addition, related supplemental assessments on new construction have not been issued, resulting in potentially more lost revenue. Furthermore, because of the lack of cooperation from PSF, the assessor does not receive information on changes in ownership of taxable possessory interests.

We strongly urge the assessor to take whatever steps may be necessary to ensure PSF's and DBI's cooperation in providing the necessary permit and building plan information. If cooperation is not forthcoming, then the assessor should work with his legal counsel to pursue all avenues within the law to ensure compliance.

Expand appraisal record documentation.

In our 2002 survey report, we noted that appraisal records did not adequately document the description of improvements and cost methods used for valuation. In our current survey, we continue to find many cases in which it was difficult to determine the basis for values enrolled for new construction, or why the assessor placed no value on new construction described on some building permits. In addition, we found that diagrams on the building records are not updated to reflect new construction. Typically, the only information available in the file is a rough drawing submitted by the owner on a self-reporting questionnaire.

The documentation of appraisal data is an essential step in the assessment process because it facilitates appraisal review, provides the means with which to defend an assessment, provides the

basis for the new construction value, and facilitates the discovery of unpermitted new construction.

Appraise all construction in progress on the lien date.

We found several parcels where the assessor enrolled values for CIP on the initial lien date but failed to value CIP at its current market value on subsequent lien dates. Instead, the inflation factor was automatically applied to the prior year's unfinished value.

Pursuant to section 71, the assessor must appraise new CIP on the lien date at its full value on such date and each lien date thereafter until it is completed. The assessor's failure to consistently assess CIP on the lien date is contrary to statutory provisions.

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 factored base year value 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 factored base year value, then the assessor must enroll the factored base year value.

Discovery of declines in value is accomplished through several means. One method is by appraiser familiarity with their assigned geographic area and specialty; the appraisers are expected to be familiar with value trends within their areas of responsibility. In addition, taxpayer requests for review and assessment appeals trigger reviews for value declines in properties surrounding the subject property.

All assessments for properties experiencing declines in value are tracked and coded with a temporary code in the assessor's computer system; this code ensures that the annual inflation factor will not be applied. The assessor's system generates a list of properties coded as decline-in-value, so these properties can be identified for annual review. Records for properties on the list are then distributed for review by appraisers responsible for the area where the properties are located. Annually, the appraisers review these assessments. Any changes in value are reviewed and approved by a principal appraiser.

Due to a strengthening of the local real estate market, the number of properties that are experiencing a decline in value below their FBYV has been dropping since the 2003-2004 roll. The breakdown of the remaining decline-in-value properties for 2005-06 is 56 residential, 4 commercial, and 1 industrial property.

The history of decline-in-value properties in San Francisco County is as follows, not including timeshares:

ROLL YEAR	DECLINE-IN-VALUE PROPERTIES
2005-06	61
2004-05	571
2003-04	1,246
2002-03	1,075
2001-02	343

We reviewed several residential and commercial decline-in-value properties and found all have comparable sales listings in their files and all are on the system supporting their current assessment. The appraisals were well documented, complete, and reasonable. We found that the assessor annually reviews and adjusts parcels receiving decline-in-value assessments pursuant to section 51.

Supplemental Assessments

Sections 75 through 75.80 mandate supplemental assessments for changes in ownership and the completion of new construction occurring on or after July 1, 1983. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. After valuation by the appraiser, the computer system generates a supplemental assessment notice. To ensure that the taxpayer has sufficient time to contest the assessment, the system tracks the date the notice was mailed. The supplemental assessment is then electronically forwarded to the tax collector for the issuance of a tax bill.

The following table shows the supplemental assessment statistics for recent roll years:

ROLL YEAR	SUPPLEMENTAL NOTICES MAILED
2004-05	18,832
2003-04	16,130
2002-03	14,817
2001-02	15,444

In our 2002 survey, we recommended the assessor: (1) enroll all supplemental assessments, (2) use the Board-prescribed *Notice of Supplemental Assessment*, and (3) enroll all leasehold improvements. The assessor has implemented the first two recommendations. He enrolls all supplemental assessments, including those with insignificant amounts, pursuant to section 75.10. In addition, we found that the assessor uses the Board-prescribed *Notice of Supplemental Assessment* form.

However, we found that the assessor still does not issue supplemental assessments for leasehold improvements, and a significant backlog exists in the processing of supplemental assessments for new construction and change in ownership. The failure to issue supplemental assessments in these situations results from other issues which are addressed in the leasehold improvement, new construction, and change in ownership sections of this report.

Taxable Possessory Interests

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

The assessor enrolled 2,595 taxable possessory interests with a total assessed value of \$1,762,824,312 for the 2005-06 assessment year. These taxable possessory interests are located on property owned by approximately 40 public agencies.

In our 2002 survey, we recommended the assessor: (1) improve the program for the discovery of taxable possessory interests, (2) use market rents when valuing taxable possessory interests in yacht harbors, and (3) cease the assessment of possessory interests on property owned by the California School of Mechanical Arts. Because the assessor did not implement these recommendations, they are repeated below.

RECOMMENDATION 6: Improve the taxable possessory interest assessment program by: (1) discovering and enrolling all taxable possessory interests, (2) documenting taxable possessory interest assessments, and (3) assessing taxable possessory interests according to statutory and regulatory provisions.

Discover and enroll all taxable possessory interests.

In our 2002 survey, we found the assessor was not discovering and enrolling all taxable possessory interests. For one, the letter used by the assessor to request annual usage reports from government agencies was inadequate because it limited the request only to tenants as of January 1 and did not include all the elements in the usage reports. The assessor subsequently revised the letter by conforming the deadline for submitting reports to the provisions of section 480.6 and by requesting more comprehensive lease information.

However, the letter still incorrectly limits the request to tenants as of the current lien date. By limiting the request to tenants as of the current lien date, the assessor ignores private parties who use the property throughout the year, but who may not occupy the property on the lien date.

We also found some taxable possessory interests that were reported to the assessor by government agencies but that were not enrolled. In addition, we found instances where the assessor failed to employ alternate means of discovering taxable possessory interests, such as exploring government agency Web sites that contain standard rent schedules and descriptions of typical lease terms that could be used to estimate the value of a taxable possessory interest.

Finally, we found instances where government agencies are hindering the assessor's attempts to discover taxable possessory interests by refusing to provide information about the lessees of their properties. As discussed in the new construction section of this report, in these cases the assessor should use all means within the law to obtain the information, including seeking assistance from county counsel.

Document taxable possessory interest assessments.

We found that the assessor does not provide sufficient information in his files to determine how he arrived at the taxable possessory interest value conclusions.

The assessor uses a computer program to value taxable possessory interests. After the rent, lessor expenses, anticipated term of possession, and discount rate are input, the program calculates an estimated value. The program allows the appraiser to document data pertinent to the valuation of the taxable possessory interest. In addition, the program has the capacity to track the date each taxable possessory interest is due for revaluation, and therefore may be used to calculate the reappraisal workload for any assessment year.

However, the appraisers are not fully using this program. In many cases, there were no comments to indicate how the base year value was established. Computer screens for many accounts do not show the anticipated term of possession, gross or net income, or the discount rate used to establish the base year values. In addition, there is often no record of the date the taxable possessory interest was created or the date on which it should be revalued.

Documentation is necessary for supervisors to review the assessment, to explain the assessment to a taxpayer, or to defend the assessment in an assessment appeal. In addition, absent the date of the most recent change in ownership and the anticipated term of possession, or tracking the appropriate revaluation date, it is impossible to know when a taxable possessory interest should be revalued.

Assess taxable possessory interests according to statutory and regulatory provisions.

Assess only private uses on publicly-owned real property according to Rule 20.

In our last four survey reports, we recommended the assessor not assess possessory interests in properties exempted by section 203.5. In our 2002 report, we recommended the assessor not assess a possessory interest in property owned by the California School of Mechanical Arts. Currently, the California School of Mechanical Arts has one tenant, and that tenant is assessed for a taxable possessory interest.

Rule 20(b) defines a taxable possessory interest as a possessory interest in publicly-owned real property. Property owned by the California School of Mechanical Arts is privately owned, and therefore, the interests of its tenants do not meet the definition of a taxable possessory interest. The assessor's practice of enrolling taxable possessory interests on property owned by the California School of Mechanical Arts resulted in one erroneous assessment of \$307,889 on the 2005-06 roll, and similar improper assessments in prior years.

Properly assess taxable possessory interests in yacht harbors.

In our 2002 survey, we found the assessor uses actual rents rather than economic rents when valuing taxable possessory interests in boat berths in the marinas. This practice is unchanged. Actual rents for berths in San Francisco marinas have not changed since 1994, and the assessor is aware of a study that shows that San Francisco marina rents are low relative to rents charged at other marinas in the Bay Area.

Pursuant to Rule 21(e)(3)(C), the income to be capitalized in the valuation of a taxable possessory interest is either the estimated economic rent or, if that rent is unreliable or unavailable, the estimated net operating income of a typical, prudent operator of the property.

Because the assessor uses rents that are lower than market rents, he underassesses the taxable possessory interests in boat berths.

Assess taxable possessory interests in a property owned by a redevelopment agency pursuant to Health and Safety Code Section 33673.

The assessor erroneously uses the same procedure to value taxable possessory interests in property owned by the San Francisco Redevelopment Agency that he uses to value taxable possessory interests in property owned by other government agencies.

Health and Safety Code section 33673 provides that whenever property in any redevelopment project has been redeveloped and thereafter is leased by the redevelopment agency, or whenever

the agency leases real property in any redevelopment project for redevelopment, the property shall be assessed and taxed in the same manner as privately owned property.

By valuing just the taxable possessory interests in property owned by the San Francisco Redevelopment Agency, rather than the fee interests, the assessor is not following statutory provisions and is underassessing these interests.

Assess taxable possessory interests pursuant to Rule 21(d).

The assessor values some taxable possessory interests using an anticipated term of possession based on the history of the tenant's use of the property rather than on the lessee's contract term.

Rule 21(d) provides that the stated term of possession shall be the reasonably anticipated term of possession used in valuing a taxable possessory interest unless there is clear and convincing evidence that the lessor and lessee have reached a mutual agreement that the term is to be other than the stated term. We found no evidence of such agreements in cases where the assessor is using a term of possession different from the contract terms.

The assessor's use of an anticipated term of possession different from the contract term is not based on evidence that the lessor and lessee have mutually agreed to a different term, and is, thus, contrary to regulatory guidelines.

Reassess taxable possessory interests at the end of their anticipated terms of possession pursuant to section 61(b).

When a taxable possessory interest is created by a lease with a stated term of one year or less, in establishing the base year value, the assessor estimates the reasonably anticipated term of possession based on the lease history for that type of property. In subsequent years, the assessor indexes the assessed value for inflation using the Board-announced inflation factor. In some cases, this indexing continues beyond the initial reasonably anticipated term of possession used by the assessor until the property is leased to a new tenant.

Section 61(b) provides that a change in ownership includes the creation, renewal, extension or assignment of a taxable possessory interest in tax-exempt real property for any term. Pursuant to section 61(b)(2), any renewal or extension during the reasonably anticipated term of possession used by the assessor to value the interest does not cause a change in ownership until the end of that anticipated term of possession. Accordingly, a change of ownership occurs at the end of the term of possession, and the assessor should revalue the taxable possessory interest at that time.

Use a declining term of possession to assess a taxable possessory interest created by a lease with a stated term according to Rule 21(d)(1).

Subsequent to the enrollment of the initial base year value, the assessor annually applies the Board-announced inflation factor to the assessed values of taxable possessory interests created by leases with stated terms that exceed one year. He does not annually estimate the market value of these taxable possessory interests based on the number of years remaining in the anticipated term of possession.

Rule 21 provides that a contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee anticipate that a different term is appropriate. Rule 21 also provides that the stated term of possession for a taxable possessory interest is the remaining period of possession. Since the stated term of possession of a taxable possessory interest lessens with each passing lien date, the annual market value of the taxable possessory interest may be affected. For this reason, the assessor must estimate the market value of a taxable possessory interest on the lien date (based on the remaining term of the contract), compare this value with the factored base year value, and enroll the lesser of the two values.

Failing to use a declining term when valuing taxable possessory interests may overstate the taxable value of the taxable possessory interest.

Restricted 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 the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily-prescribed capitalization of income method. Section 50280.1 stipulates that in order for a property to qualify as a historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Restricted 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, as provided in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is instead a summation of:

- An interest component that is determined annually by the Board;
- 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.

The City and County of San Francisco has 246 historical properties listed in the city and county planning code; however, the assessor is assessing only one property as a restricted historical property on the 2005-06 assessment roll. The owners of the other historical properties have not entered into contracts with the city and county for this special assessment treatment.

For the 2006-07 assessment roll, there will be one additional historical property assessed. The appraisal file of the restricted property contains copies of the contract with the local government, and also copies of the ordinances establishing an historical preservation district and historical preservation zone.

We found that the qualifying historical property in the City and County of San Francisco is assessed correctly.

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 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 reflected in the property's assessment if they qualify as new construction.

When real property is reported on Form BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is 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 most common methods of discovery for leasehold improvements are the BPS and building permits. Schedule B of the BPS is a particularly useful source for discovering leasehold improvements. The business personal property division has procedures to send a copy of the Schedule B of the BPS to the real property division when expenditures of \$1 million or more are reported as structural improvements. However, this is not always followed and we have a recommendation concerning this practice.

Cell Tower Sites

Effective January 1, 2001, the Board 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 accounts in San Francisco County that were formerly assessed by the Board. All wireless communication sites reported by the Board's State-Assessed Properties Division on Form BOE-516, *Wireless Communication Sites*, are assessed locally.

Recommendation

In our 2002 survey, we recommended the assessor refer all reported structural and land improvement costs from the annual BPS to the commercial property appraiser in the real property division for review. This recommendation was not implemented. Therefore, we are repeating this recommendation with added revisions.

RECOMMENDATION 7: Revise the leasehold improvement program by: (1) referring all reported structural and land improvement costs to the real property division, and (2) properly classifying structural improvements assessed on the unsecured roll.

Refer all reported structural and land improvement costs to the real property division.

In our 2002 survey, we recommended the assessor refer improvement cost data reported on the BPS to the real property division for evaluation and appropriate assessment. The business personal property division sends a copy of Schedule B of the BPS to the real property division only when expenditures of \$1 million or more are reported as structural improvements. Structural improvements of less than \$1 million are assessed by the business personal property division as fixtures.

There is no confirmation of the action taken by the real property division. In addition, the business personal property division enrolls fixtures as reported on the property statement without determining the true classification of the reported items. Consequently, these properties may be escaping assessment, may be doubly assessed, or may be underassessed.

Appropriate review and referral procedures should include, but not be limited to: (1) a referral slip from the business property division that includes a description of the property, the property address, parcel number, unsecured parcel number, and the reason for referral; (2) a determination as to whether or not the reported costs can be tied to specific permits; (3) a determination as to whether or not assessable new construction exists; and (4) if new construction exists, the creation of a field document to be placed in the real property appraiser's work list. In addition, an audit trail should be created to track the process and inform the business personal property division of the actions taken by the real property division.

Since the business personal property division is responsible for assessing fixtures, a cross-referral system should be established to ensure that property does not escape assessment. If the business account is on the secured roll, the new construction is assessed directly to the owner of the land and building. However, if the business account is on the unsecured roll, the real property appraiser should determine whether any of the new improvement costs should be assessed to the owner of the building, or be referred to the business personal property division for assessment as unsecured leasehold improvements.

Properly classify structural improvements assessed on the unsecured roll.

The business personal property division enrolls items with costs of less than \$1 million reported on column 1 of Schedule B of the BPS as fixtures rather than structural improvements. The assessor does not investigate the nature of the reported work. Costs reported on column 1 of Schedule B are for structural improvements made by the tenant or lessee and are typically assessed on the secured roll and billed to the landowner. When the reported costs are above the \$1 million threshold, the real property division is responsible for investigating the reported item for possible assessment.

The assessor's practices in this area inevitably lead to improper classification of some structural improvements as fixtures. In turn, the assessment treatment of these items may be impacted in

several areas: (1) fixtures constitute a separate appraisal unit when measuring declines in value, (2) fixtures are treated differently from structures for supplemental assessment purposes, and (3) the full value of both fixtures and personal property must be considered when determining whether a business property account is subject to mandatory audit.

This practice treats taxpayers unequally, based on an arbitrary threshold of reported cost, and can produce erroneous assessments when costs below \$1 million are not investigated.

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 nonreal property items. Examples of nonreal property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses, such as maintenance fees.

The assessor has identified five timeshare estate projects and two timeshare projects operating in San Francisco City and County.

In a timeshare estate project, the owner has a fee interest in a specific living unit for a specific period of time. The assessor tracks by individual assessor's parcel number (APN) a total of 6,734 timeshares in the five estate projects. The assessor tracks timeshare ownership. The five timeshare estate projects have a total 2005-06 assessed roll value of \$42,579,754.

In a timeshare project, the owner has a right to occupy any one of a number of specified types of living units or models that may be available, with no accompanying fee interest in the project. The two timeshare projects have a total 2005-06 assessed roll value of \$7,902,956.

In both types of timeshares, the owner has a right of occupancy for a specific interval of time, typically one or two weeks, during a certain time of the year. The cost of a timeshare can vary with the seasons. In San Francisco City and County, the assessor has determined that sale prices support the conclusion that there is no high or low season for timeshares.

To determine how much of a timeshare's initial sale price might be attributable to nontaxable sales promotion costs, the assessor's staff interviewed timeshare developers. Based on those findings, the assessor has enrolled each new timeshare at 65 percent of its original sale price.

In our 2002 survey, we recommended the assessor: (1) assess timeshares at the lesser of their factored base year value or the current market value, and (2) reassess transferred interests in timeshare projects when the cumulative interest and value transferred meet the requirements of section 65.1.

We found that the assessor has implemented the first recommendation by annually reviewing all timeshares for possible declines in value. However, the assessor failed to implement the second recommendation, and it is, therefore, repeated here.

RECOMMENDATION 8: Reassess timeshare estate projects when the cumulative interest and value transferred meet the requirements of section 65.1.

We found that the assessor still fails to reassess timeshare projects when the cumulative interest and value transferred meet the requirements of section 65.1. Section 65.1(a) provides that a change in ownership of an interest with a market value of less than 5 percent of the total property value shall not be reappraised if the value transferred is less than \$10,000. However, these transfers are cumulative within each assessment year. Therefore, the assessor must track and reassess any interest that equals or exceeds 5 percent of the total property value and the total interest transferred to determine whether or not the total value exceeds \$10,000 at the end of each assessment year.

The assessor's failure to comply with section 65.1 results in incorrect assessments of timeshare estate projects.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we review the assessor's audit, business property statement processing, business property valuation, leased equipment discovery and assessment programs, and the assessment of vessels.

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, educates property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Six auditor-appraisers and six senior auditor-appraisers report to one acting principal auditor-appraiser and one principal auditor-appraiser in the business personal property division. The principal auditor-appraiser reviews all audits. One senior auditor-appraiser handles the marine accounts. The remaining auditor-appraisers complete the mandatory audits and process property statements.

The auditor-appraisers perform both out-of-county and out-of-state audits. Additionally, they participate in the California Counties Cooperative Audit Services Exchange (CCCASE). They complete audits of locally-sited taxpayers for other California counties, and contract with other counties to complete audits of remotely-sited taxpayers for them.

In our 2002 survey, we recommended that the assessor: (1) bring the audit program to current status, (2) complete an audit checklist for each audit, (3) process separate escape assessments and roll corrections for each year under audit, (4) include nonprofit organizations that meet the requirements of section 469 in the mandatory audit program, and (5) audit taxpayers that fail to file property statements for three or more consecutive years.

In our current survey, we found that the assessor now completes an audit checklist for each audit and processes separate escape assessments and roll corrections for each year under audit . However, pursuant to section 469(a), which was amended effective January 1, 2006,

organizations that are fully exempt from property taxation are no longer subject to mandatory audit; thus, the fourth recommendation is no longer applicable.

As to the fifth recommendation, while it is a good practice to audit taxpayers failing to comply with filing requirements, there is no statutory requirement that these taxpayers be audited; accordingly, we do not repeat that recommendation. However, the mandatory audit program continues to be in arrears. Thus, the first recommendation is repeated in our survey. In addition, we found another area requiring attention.

RECOMMENDATION 9: Timely auditing the books and records of professions, trades, and businesses pursuant to section 469.

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more. Consequently, mandatory audits are the most significant part of the assessor's audit program.

The assessor has a total workload of approximately 2,400 mandatory audit accounts, or an average of about 600 audits per year for a four-year cycle. For each fiscal year for 2000-01 through 2003-04, the assessor had 21 authorized auditor-appraiser positions and four vacancies. For fiscal year 2005-06, the assessor had only ten auditor-appraisers to perform approximately 600 mandatory audits. For 2004-05 fiscal year, the assessor completed only 258 mandatory audits, resulting in a net value change of \$139,553,150. Of these, 53 were carried over from the prior year and 30 were performed for other counties.

The current assessor has prioritized the completion of mandatory audits by reorganizing the business property staff. Auditor-appraisers are assigned field audits, while desk duty is handled by technical support staff to answer routine questions. In addition, audits have been streamlined. However, the assessor is still behind in timely completing his mandatory audits.

Failure to timely audit mandatory accounts is contrary to the provisions of section 469.

Business Property Statement Program

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

The number of business property statements processed and the dollar volume of the statements processed in recent years are shown in the following tables:

Roll Year	Secured Accounts	Assessment	Unsecured Accounts	Assessment	Total Accounts	Total Assessment
2004-05	10,306	\$528,567,054	17,991	\$4,783,207,968	28,297	\$5,311,775,022
2003-04	11,379	\$544,035,083	23,954	\$5,173,338,416	35,333	\$5,717,373,499
2002-03	12,413	\$579,685,552	25,546	\$5,972,153,666	37,959	\$6,551,839,218
2001-02	12,402	\$511,185,891	39,775	\$6,603,365,434	52,177	\$7,114,551,325

The following table gives a further breakdown by categories of businesses and their assessed values:

DESCRIPTION	2004-05	2003-04	2002-03	2001-02
General Business	\$4,735,192,020	\$5,015,697,314	\$5,851,329,241	\$6,123,761,074
Apartments	14,460,377	13,266,924	8,224,862	8,360,638
Banks & Financial	133,658,812	134,897,440	144,985,375	172,696,344
Direct Billing	101,232,750	107,024,692	148,391,708	163,410,895
Leased Equipment	224,327,726	305,795,518	331,549,102	568,629,755
Vessels – 4% Assessed	2,118,632	2,084,985	1,493,866	1,568,883
Vessels – Pleasure Boats	100,784,705	138,606,628	65,865,064	76,123,736
Total	\$5,311,775,022	\$5,717,373,501	\$6,551,839,218	\$7,114,551,325

In our 2002 survey, we recommended the assessor screen signatures on business property statements to ensure compliance with Rule 172, which requires assessees to provide written authorization for statements signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, or a duly appointed fiduciary. The assessor failed to implement this recommendation. We repeat it below, and discuss an additional problem.

RECOMMENDATION 10: Improve business property statement processing by:
 (1) ensuring that business property statements contain authorized signatures, and (2) using the information provided on the taxpayers' supplemental schedules.

Ensure that business property statements contain authorized signatures.

Several of the property statements we reviewed were not signed by a qualified person, and none had the required assessee's written authorization on file with the assessor.

Rule 172 requires every Board-prescribed property statement and mineral production report to be signed by the assessee, a partner, a duly appointed fiduciary, or an authorized agent. Statements filed on behalf of a corporate assessee must be signed by an officer, an employee, or an agent authorized by the board of directors to sign on behalf of the corporation.

When a property statement is signed by an agent who is not 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 for that agent to sign the statement must be filed with the assessor. A property statement unsigned, or signed by an unauthorized agent, does not constitute a valid filing.

Use the information provided on the taxpayer's supplemental schedules.

We found several instances where the assessor erroneously assessed certain non-assessable remodeling costs and non-taxable application software. These items were reported and identified on the *Supplemental Schedule for Reporting Monthly Acquisitions and Disposals of Property Reported*, Schedules A and B.

Supplemental schedules may provide detailed information on new equipment acquisitions, descriptions of any leasehold improvements reported on Schedule B, and breakdowns of new construction costs reported on the property statement. These cost breakdowns enable an auditor-appraiser to determine whether or not they represent an appraisable asset or are merely non-assessable repairs, replacements, or deferred maintenance.

Examining the supplemental schedules will enable the assessor to accurately assess these types of property and avoid costly assessment appeals, roll corrections, and refunds.

Direct Billing

Many California assessors use 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 filed or field reviews performed. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin operated laundrettes, 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 San Francisco City and County, there were 14,628 direct billing accounts with a total assessed value of more than \$98 million enrolled on the 2004-05 assessment roll. The assessor's criteria for direct billing are that the cost of assets must be under \$50,000 and there must be an initial filing of a business property statement. Taxpayers are removed from this program if they fail to meet these criteria.

In our 2002 survey, we made two recommendations to improve the assessor's direct billing program. The first was to send business property statements to direct billing accounts every four years. The

assessor has implemented our recommendation by sending property statements to 25 percent of all direct-billed accounts each year and every year thereafter. Our second recommendation was to exclude from the direct billing program accounts that have business property at multiple locations. The assessor has implemented this recommendation by removing such accounts from the program.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

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

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment.

Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to historical cost produces an estimate of market value. We have no recommendation concerning the assessor's business equipment valuation procedures.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the Board issues valuation factors for computers and related equipment. In AH 581, Table 7: *Computer Valuation Factors*, the Board provides valuation factors for use when valuing computers and related equipment.

The San Francisco City and County Assessor-Recorder properly uses the composite valuation factors provided by the Board in his valuation of nonproduction computers and related equipment. We have no recommendations in this area.

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 difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer purchasing the equipment), and double assessments or escape assessments resulting from combined lessor and lessee reporting. These issues are discussed in detail in AH 504, *Assessment of Personal Property and Fixtures*.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of the equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

The assessor has assigned the acting principal auditor-appraiser to direct the leased equipment assessment program. This program tracks leased equipment, cross-references and reviews leased equipment reported by both lessors and lessees, particularly reports of conditional sales and reports from financial institutions. A senior assessment technician handles the assessment of conditional sales and leased equipment from financial institutions, and regularly reviews Form BOE-600-B, on which the Board provides information on leased equipment used by state assessees. All other leased equipment assessments are performed by auditor-appraisers. We have no recommendations for this area; however, we did find problems with roll corrections for leased equipment assessments and those are discussed in the Assessment Roll Changes section of this report.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, and information directly provided by the vessel owners.

The following table illustrates vessels assessed in San Francisco City and County for the recent roll years:

ROLL YEAR	VESSELS	ASSESSED VALUE
2005-06	1,509	\$102,903,337
2004-05	1,922	\$140,691,613
2003-04	1,404	\$67,358,930
2002-03	1,383	\$77,692,619

In our 2002 survey, we recommended the assessor: (1) apply the 10 percent penalty for failure to file or late-filing of the Board-prescribed *Vessel Property Statement* pursuant to section 463, (2) annually appraise pleasure vessels at market value, (3) calculate the assessment of documented vessels pursuant to section 275.5 when vessel owners submit late-filed affidavits, and (4) revise the *Affidavit for 4 Percent Assessment of Certain Vessels* form to include the correct filing deadline established by section 255.

Our current findings show that the assessor implemented all four recommendations. The assessor is now applying the 10 percent penalty for the failure to file or late-filed *Vessel Property Statements*. Vessels are valued using *BUC Used Boat Price Guide (BUC)* and *National*

Automobile Dealers Association Marine Appraisal Guide (NADA). Market data is also obtained from resources available on the Internet. The appraisal staff changed their procedure in calculating the partial exemption granted to those vessel owners who submit their affidavits late. Finally, the revised *Affidavit for 4 Percent Assessment of Certain Vessels* form has the correct filing deadline pursuant to section 255. Notwithstanding, we did find one problem with the assessor's vessel program:

RECOMMENDATION 11: Include full costs when assessing vessels.

The assessor uses value guides, such as BUC and NADA, as well as market data found on the Internet to value vessels. Adjustments are made to the value guides for vessel condition, motor type or motor condition, and for trailers. However, the assessor fails to add sales tax, applicable freight, or set-up costs.

When price is the basis of value, sales or use tax, freight, and installation or set-up costs are elements of that value, and should be included in the estimate of market value. Furthermore, AH 576, *Assessment of Vessels*, states that where a value guide is used for a comparative sales approach, sales tax, an element of value, should be added to the listed value to arrive at the full cash value for property tax purposes.

APPENDIXES

A. County-Assessed Properties Division Survey Group

San Francisco City and County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Robert Reinhard

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Appraiser

Survey Team:

Ronald Louie

Senior Specialist Property Appraiser

Robert Donay

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Charles Matura

Associate Property Appraiser

Robert Rossi

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Jeffrey Arthur

Associate Property Auditor-Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

Jeffrey Dangermond

Associate Property Auditor-Appraiser

Manuel Garcia

Associate Property Auditor-Appraiser

Erica Fisher

Office Technician

Kristina Valdez

Tax Technician I

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

The Board's County-Assessed Properties Division (CAPD) 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:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁶

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

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

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.

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.

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.

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.

Unsecured properties. Those properties on the unsecured roll.

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.

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

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?

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?

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?

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?

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

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.

The results of the sample are then expanded as described 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-Assessed Properties 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 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 the assessee's 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 Board a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the Board's comments on the assessor's response, if any, constitute the final survey report.

The San Francisco City and County Assessor's response begins on the next page. The Board has no comments on the response.

OFFICE OF THE ASSESSOR-RECORDER
SAN FRANCISCO



PHIL TING
ASSESSOR-RECORDER

RECEIVED

NOV 29 2007

County-Assessed Properties Division
State Board of Equalization

Mr. Dean Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
450 N Street
Sacramento, CA 94279-0062

November 26, 2007

Dear Mr. Kinnee:

Enclosed please find our department's written responses to the confidential post-conference draft of the *San Francisco City and County Assessment Practices Survey Report*. We would appreciate these responses being included in the final product and apologize for our delay in getting the responses to you.

Feel free to contact Katie Muehlenkamp at 415-554-7434 if you have any questions or need further clarification on our responses. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Phil Ting".

Phil Ting
Assessor-Recorder
City & County of San Francisco

Enc.

cc: Mr. David G
Mr. Arnold Fong
Mr. Robert Reinhard
Ms. Zoon Nguyen
Mr. Maurilio Leon
Mr. Joselito Laudencia
Mr. Alex Tharayil



**SBE Assessment Practices Survey
Assessor-Recorder's Responses to Recommendations 1 - 11**

Recommendation 1: Request that taxpayers send appeal withdrawal letters directly to the clerk of the Assessment Appeals Board.

ASR RESPONSE:

This recommendation has been implemented. However when a taxpayer erroneously sends the letter to the Assessor, such letters are forwarded to the AAB.

Recommendation 2: Improve the assessment roll change program by: (1) citing the proper Revenue and Taxation Code section when making roll corrections, (2) adding penalty and interest when terminating erroneous homeowners' exemptions caused by the assessee's error as required by sections 531.6 and 506, (3) limiting roll changes to those roll years within the statute of limitations pursuant to section 532, and (4) submitting all roll corrections for approval by a principal appraiser or manager before enrollment.

ASR RESPONSE:

(1) We agree with this recommendation. For the Business Personal Property Division, we have a procedure already in place, and it continues to be a standard of operating procedure. For the Real Property division, we intend to implement this recommendation by changing the computer program.

(2) We agree with this recommendation to apply the penalty of 25% of assessed value when we improperly allow a homeowner's exemption as a result of an assessee's error and to notify the Controller to apply interest.

(3) We agree with this recommendation. The Business Personal Property division does not make roll changes to the roll if the statute of limitation has expired for the year, unless there is a signed waiver.

(4) We agree with this recommendation. We have a procedure already in place that requires submittal of all roll corrections for approval by a principal auditor before enrollment. In the case of enrollment of leased equipment escapes, which sometimes are processed in batches involving large number of entries and in order to meet enrollment deadlines, the principal auditor or manager approves the batch for enrollment, instead of each individual entry.



Recommendation 3: Impose the section 270 penalty to late filed church and welfare exemption claims.

ASR RESPONSE:

We agree with this recommendation to apply penalties to late filed church and welfare exemption claims.

Recommendation 4: Improve the assessor's change in ownership program by: (1) maintaining a transfer list that meets the requirements of section 408.1, (2) ensuring that all properties owned by legal entities that have undergone changes in control are reappraised timely, and (3) processing changes in ownership timely.

ASR RESPONSE:

(1) We agree with this recommendation to maintain a transfer list of property transfers for the most recent two-year period.

(2) We agree with this recommendation. We are now in the process of reviewing all changes in entity control and ownership reported by legal entities to the BOE's LEOP unit to ensure the reappraisal of all assessable properties. We have also designated staff for our internal LEOP program.

(3) We agree with this recommendation. For the Transactions Unit, we have hired additional temporary staff to reduce unprocessed changes in ownership and we are retooling our business processes to make our work more efficient. For the Real Property division, we have given priority to appraising older event dates. We have reduced the back log from 4 years to less than 3 years avoiding possible revenue loss. We continue to reduce the back log and intend to eliminate the back log when additional resources are available.

Recommendation 5: Improve new construction procedures by: (1) eliminating the backlog of assessable new construction, (2) obtaining building permits from all entities issuing building permits, (3) expanding appraisal record documentation, and (4) appraising all construction in progress on the lien date.

ASR RESPONSE:

(1) We agree with this recommendation. Priority is given to older event dates. Once fully staffed the backlog can be eliminated.



(2) We agree with this recommendation. We are working with the Department of Building Inspections and the Port of San Francisco to obtain permits electronically. We anticipate these departments will modernize their system within 2 years.

(3) Implemented. Standards division has developed procedures and proper records are kept in the file.

(4) Implemented. We are appraising all construction in progress since 2006.

Recommendation 6: Improve the possessory interest assessment program by: (1) discovering and enrolling all taxable possessory interest, (2) documenting the possessory interest assessment, and (3) assessing possessory interests pursuant to existing statutes and regulations.

ASR RESPONSE:

(1) We agree with this recommendation. The Assessor intends to modify the letter. The Assessor does not intend to take legal action against other city departments.

(2) We agree with this recommendation. This recommendation will require program change and more staffing.

(3) We agree with this recommendation. Newly assigned staff will **pursue** this recommendation. Standards division will be entrusted with the task of developing procedures.

Recommendation 7: Revise the leasehold improvement program by: (1) referring all reported structural and land improvement costs to the real property division, and (2) properly classifying structural improvements assessed on the unsecured roll.

ASR RESPONSE:

We disagree with this recommendation. We have a procedure already in place since June of 2006. We have guidelines defining responsibilities between Real Property and Business Personal Property. Based on the type of improvements, the guidelines prescribe which division is responsible for valuation and assessment of a particular class of improvement. Having the guidelines has minimized referrals (back and forth) to only the very few complex and high value cases.



Recommendation 8: Reassess timeshare projects when the cumulative interest and value transferred meet the requirements of Section 65.1.

ASR RESPONSE:

We agree with this recommendation. However, we cannot implement it at this time due to a lack of staff resources. We intend to implement this when we upgrade our computer system.

Recommendation 9: Timely auditing the books and records of professions, trades, and businesses pursuant to section 469.

ASR RESPONSE:

We agree with this recommendation. As indicated in your report, the backlog in performing mandatory audits is exacerbated by recent staff attrition. The Business Personal Property division has seen a decline of 55% of auditors. We currently have ten auditors to handle 600 current audit plus those in arrears. With better training and guidance, quality and quantity will be improved. However, the Assessor recognizes that it will be extremely difficult to bring mandatory audits to current level with the present number of staff. The Assessor requested and received funding approval for 2 additional auditors for the FY 07-08 budget.

Recommendation 10: Improve business property statement processing by: (1) ensuring that business property statements contain authorized signatures, and (2) using the information provided on the tax payers' supplemental schedules.

ASR RESPONSE:

(1) We agree with this recommendation. We have a procedure in place whereby staff screens all statements before they are processed, and copies of unsigned statements are sent back to the taxpayer for signature.

San Francisco is one of the few counties that use the "long" form. Most tax payers have authorized agents who prepare the 571-L forms. Some tax payers, or authorized agents, submit a "computer generated prepared attachments" along with the original bar-coded business property statements. These computer generated prepared attachments appear to be in a format that is similar to an SBE approved "short" form. All information on the "short" form is consistent with SBE requirements. It is easier for tax payers to work off of the computer generated SBE approved "short" form as they are available in a soft copy format, (i.e. excel spreadsheet) rather than filling out ASR's "long" form, which is a hard copy.



San Francisco accepts incoming statements from tax payers who signed the computer generated SBE approved "short" form as long as it is attached to our bar-coded original business property statements "long" form – even if this original "long" form is unsigned.

In the case of e-filing, if an auditor were to look at the physical file, there would not be a signed statement. However, in the AS 400 system, it will show that this particular statement was "certified," otherwise it would not be received.

(2) We agree with the recommendation. We will review Schedule B to remove structural or nontaxable items. This procedure will be implemented concurrently as part of leasehold improvement program as referenced in Recommendation 7 above.

Recommendation 11: Include full cost when assessing vessels.

ASR RESPONSE:

We agree with the recommendation. We are now adding all costs incidental to the acquisition of vessels.