

SAN FRANCISCO CITY AND COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2002

CALIFORNIA STATE BOARD OF EQUALIZATION

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FIRST DISTRICT
SECOND DISTRICT
THIRD DISTRICT
FOURTH DISTRICT
STATE CONTROLLER

JAMES E. SPEED, EXECUTIVE DIRECTOR





STATE BOARD OF EQUALIZATION
 PROPERTY AND SPECIAL TAXES DEPARTMENT
 450 N STREET, MIC: 62, SACRAMENTO, CALIFORNIA
 (PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062)
 TELEPHONE (916) 324-5827
 FAX (916) 323-5689
 www.boe.ca.gov

JOHAN KLEHS
 First District, Hayward

DEAN ANDAL
 Second District, Stockton

CLAUDE PARRISH
 Third District, Torrance

JOHN CHIANG
 Fourth District, Los Angeles

KATHLEEN CONNELL
 Controller, Sacramento

JAMES E. SPEED
 Executive Director

December 20, 2002

TO COUNTY ASSESSORS:

No. 2002/088

SAN FRANCISCO CITY AND COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Honorable Doris M. Ward, 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. This report and the assessor-recorder's response constitute the final survey report. Pursuant to Government Code section 15646, this report is distributed to the Governor, the Attorney General, and the State Legislature; and the San Francisco City and County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed the fieldwork for this survey of the San Francisco City and County Assessor's Office from March through June 2001 and from January through February 2002. This report does not reflect changes implemented by the assessor-recorder after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Ms. Ward and her staff for their cooperation and patience during this assessment practices survey.

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 your questions, comments, and suggestions for improvement with us.

Sincerely,

David J. Gau
 Deputy Director
 Property and Special Taxes department

DJG:jm
 Enclosure

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INTRODUCTION

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

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

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes may increase the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the San Francisco City and County Grand Jury, and the 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 Doris M. Ward, San Francisco City and County Assessor-Recorder,¹ elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendices.

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

¹ This report covers only the assessment functions of her 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 performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60² requires the BOE to determine whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards, defined by regulation, that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the San Francisco City and County Assessor's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with other public agencies in the City and County of San Francisco with information relevant to the property tax assessment program.

This survey also included an assessment sample of the 2000 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 costs of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

² Unless otherwise indicated, 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 assessor's operations. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our previous Assessment Practices Survey of the City and County of San Francisco, we made 52 recommendations addressing problems found in the assessor's policies and procedures. The assessor fully implemented 20 of the changes we recommended, partially implemented 15, did not implement 13 recommendations, and four no longer apply. Most of the recommendations that were not implemented, or implemented only in part, are repeated in this report.

- The assessor's business property division now makes the proper adjustments for trade level and uses the BOE computer valuation tables.
- Major improvements in the assessor's computer systems have reduced storage of paper records, added on-line access to several types of property records, and improved the review procedures for some assessment work functions. All staff members have access to the system through workstation terminals. Several recommendations in this survey report will assist the assessor in continuing the improvement of the present computer system.
- We found many vacant positions within the assessor's office, especially those positions that must be filled by BOE-certified property tax appraisers.
- The assessor has participated in the State-County Property Tax Administration Loan Program (PTAP) since its inception. PTAP funds were used to hire additional staff and purchase computer hardware and software.
- We found a lack of standards and quality control in the assessor's office.
- Although the assessor has disseminated more direction and written policy since our last assessment practices survey, the office continues to operate without formal policies and procedures manuals. Throughout our research, we found very little documentation specifying standards for job performance. There is inconsistency in how staff members perform their job duties.
- While the assessor has purged outdated appraisal records as recommended in our prior assessment practices survey, the assessor's staff was unable to provide several of the records we requested during the present assessment practices survey. Consequently, we recommend the assessor develop a system to control access to those records.
- The assessor now presents cases to the Assessment Appeals Board in a more professional and competent manner.

- The local disaster relief ordinance does not conform to section 170 and the assessor does not grant relief to all qualifying properties. We therefore repeat our prior recommendations regarding the application of disaster relief.
- The assessor grants disaster relief even though applications are received after the deadline prescribed in statute.
- In processing roll changes, we found the assessor does not include all required information on the *Notice of Proposed Escape Assessment*, does not cite the proper Revenue and Taxation Code section, or place the required notation on the assessment roll when enrolling escape assessments.
- We found that homeowners' exemptions are not being processed in a timely manner and that the assessor does not report homeowners' exemption claims to the BOE as required.
- The welfare exemption program is hampered with numerous problems. Welfare exemption claims are not legibly date-stamped and the documents are not thoroughly reviewed prior to granting the exemption. Also, we found that qualifying business personal property is not being exempted.
- The public transfer list maintained by the assessor does not cover a two-year period, nor does it include all required information.
- The assessor does not enforce the county ordinance that requires the assessor's parcel number on all recorded documents transferring real property.
- We found the assessor does not use the BOE-prescribed *Change in Ownership Statement*.
- In processing transfers involving the parent-child exclusion, the assessor does not use the dates of death as the transfer dates or distinguish between transfers of principal residences and transfers of property other than principal residences.
- The assessor does not submit quarterly reports on base year value transfers to the BOE.
- The assessor's new computer system enabled the office to greatly improve the processing of LEOP changes in ownership. However, we discovered LEOP-reported changes in control that were not valued in a timely manner.
- In our prior survey, we made a recommendation concerning the large backlog of unprocessed new construction building permits. That backlog has grown larger; therefore, we repeat that recommendation in this report. The assessor should also develop formal procedures for the processing, valuing, and enrolling of assessable new construction.
- The assessor now has electronic access to the Department of Building Inspection's building permit information. However, we found that the assessor should improve communications with both building permit-issuing agencies in the county so that building plans and building permits are more readily available for valuation purposes.

- The assessor's practice of using internal tracking numbers for building permits when the building permit numbers were "missing" has led to duplication in the computer system; the practice should be discontinued.
- We found construction in progress on the lien date that was not assessed.
- In our prior survey report, we suggested the assessor log all permits on appraisal records. Again, we found difficulty in determining the basis for values enrolled as new construction and now recommend improved documentation pertaining to new construction.
- Without authorization from the board of supervisors, the assessor failed to enroll low-value supplemental assessments. In addition, the valuation level for making that decision varied among staff appraisers.
- We found the assessor does not use the BOE-prescribed *Notice of Supplemental Assessment*.
- Although tenant improvements are reported by the taxpayer and are enrolled by the business property division, supplemental assessments are not enrolled.
- In the area of timeshare assessments, we found that the assessor's decline-in-value program does not treat timeshare interests uniformly. We also found the assessor fails to revalue changes in ownership of timeshare properties (where the individual timeshare estates are not separately assessed), when the value of the timeshare interest transferred equals or exceeds 5 percent of the total property value in any assessment year.
- The assessor's commercial appraisers are making a more concerted effort to collect and analyze market data for major commercial properties. However, we found a lack of consistency in the valuation analyses and documentation for these properties.
- We found a significant improvement in the possessory interest assessment program with the introduction of a computer program for tracking and valuing possessory interests. Once adequate data is input, this program will be a great asset. However, some improvements to the assessment program are needed. The letter used to request the annual possessory interest usage report does not clearly state the information required, which may explain why some possible taxable possessory interests are not assessed.
- Due to the large number of taxable possessory interests in berths at yacht harbors, we recommend the assessor be more diligent in collecting data for market rent estimates for purposes of valuing such interests.
- The assessor should expand her taxable possessory interest discovery program. In addition, we repeat our previous recommendation that the assessor cease enrolling possessory interests in properties owned by the California School of Mechanical Arts.
- The assessor should improve coordination between her real property and the business property divisions. This is extremely important in San Francisco because the real property division is located in City Hall while the business property division is situated in a branch office

approximately three blocks south of City Hall. Information on structural and land improvements reported on business property statements is not forwarded to the real property division for review.

- Although the assessor has made improvements towards maintaining a timely mandatory audit schedule, it appears that some mandatory audits will not be completed on time.
- In our prior survey, we found a lack of documentation in audit files reviewed and suggested the assessor could remedy this problem with the use of an audit checklist. We found that checklists are still not used, and we recommend their use in an effort to improve and standardize the quality of the audits.
- The assessor improperly offsets underassessments from one year with overassessments from another year.
- We found the assessor does not audit nonprofit organizations that meet the requirements for mandatory audits.
- Because estimated assessments should be only a temporary solution, the assessor should audit taxpayers who fail to file property statements for three or more consecutive years.
- The assessor's practice of accepting incomplete and unsigned business property statements (including electronically submitted statements) should be discontinued.
- Two improvements to the direct billing program are recommended: exclude accounts with multiple locations and send property statements to direct billing accounts every fourth year.
- In our prior survey report, we recommended the assessor review the BOE's listing of equipment leased to state assessees. Because the assessor continues to overlook this report, we repeat this recommendation. In all other respects, the assessor has an effective discovery program for business personal property.
- Because of problems with the assessment of apartment personal property, the assessor should develop formal procedures for the discovery and assessment of apartment personal property.
- The classification of service station improvements and fixtures is inconsistent.
- The assessor fails to apply the 10 percent penalty for failure to file a vessel property statement.
- The assessor applies a flat depreciation to all pleasure boats, an adjustment not supported by market data.
- We found the assessor incorrectly calculates the assessment of documented vessels.
- Information is incorrect on the *Affidavit for 4 Percent Assessment of Certain Vessels* used by the assessor.

- The San Francisco City and County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2000-2001 assessment roll indicated an average assessment ratio of 98.63 percent, and a sum of absolute differences of 2.37 percent. Accordingly, the BOE certifies that San Francisco City and County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1:	Fill vacant assessment positions.	23
RECOMMENDATION 2:	Task the assessment standards section with the responsibilities of standards and quality control.....	25
RECOMMENDATION 3:	Develop a comprehensive policies and procedures manual.....	25
RECOMMENDATION 4:	Submit BOE-prescribed form checklists.....	26
RECOMMENDATION 5:	Implement a system to control access to appraisal records.....	27
RECOMMENDATION 6:	Request that the board of supervisors repeal the resolution imposing an assessment appeal filing fee.....	29
RECOMMENDATION 7:	Request that the board of supervisors revise the disaster relief ordinance to conform to section 170.	30
RECOMMENDATION 8:	Grant disaster relief to all qualifying personal property.	31
RECOMMENDATION 9:	Grant disaster relief to property owners only when they submit timely applications pursuant to section 170.....	31
RECOMMENDATION 10:	Revise the <i>Notice of Proposed Escape Assessment</i> to include all of the information required by section 531.8(b).....	32
RECOMMENDATION 11:	Cite the notation required by section 533 when enrolling escape assessments.	32
RECOMMENDATION 12:	Cite the proper Revenue and Taxation Code section when making roll corrections.....	33
RECOMMENDATION 13:	Report information regarding homeowners' exemption claims to the BOE as required by section 218.5 in a timely manner and in the proper format.....	33
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RECOMMENDATION 15: Legibly date-stamp welfare exemption claims when received. ...34

RECOMMENDATION 16: Thoroughly review each welfare exemption claim and supporting documents before granting the exemption.34

RECOMMENDATION 17: Apply the welfare exemption to qualified business personal property.35

RECOMMENDATION 18: Maintain a transfer list that meets the requirements of section 408.1.36

RECOMMENDATION 19: Require that all recorded documents conveying title to real property contain the assessor's parcel number pursuant to section 11911.1.37

RECOMMENDATION 20: Utilize the BOE-prescribed *Change in Ownership Statement*.37

RECOMMENDATION 21: Use the date of death as the date of transfer as required by section 63.1(c)(1).38

RECOMMENDATION 22: Distinguish between the transfer of principal residences and the transfer of property other than principal residences for parent/child and grandparent/grandchild transfers.38

RECOMMENDATION 23: Submit quarterly reports of base year value transfers to the BOE, as required by section 69.5(b)(7).39

RECOMMENDATION 24: Ensure that all LEOP changes in control receive timely reappraisal.40

RECOMMENDATION 25: Eliminate the backlog of assessable new construction.41

RECOMMENDATION 26: Develop formal procedures for processing, valuing, and enrolling assessable new construction.41

RECOMMENDATION 27: Improve communications with agencies that issue building permits.42

RECOMMENDATION 28: Eliminate internal building permit tracking numbers.43

RECOMMENDATION 29: Appraise all construction in progress on the lien date.43

RECOMMENDATION 30: Improve documentation pertaining to new construction.43

RECOMMENDATION 31: Enroll all supplemental assessments.44

RECOMMENDATION 32: Use the BOE-prescribed *Notice of Supplemental Assessment* as required by section 75.31(g).45

RECOMMENDATION 33: Enroll supplemental assessments for all tenant improvements as required by section 75.11.....45

RECOMMENDATION 34: Assess timeshares at the lesser of their factored base year values or the current market values.46

RECOMMENDATION 35: Develop written procedures for the valuation of major income-producing properties.47

RECOMMENDATION 36: Reassess timeshare projects when the cumulative interest and value transferred meets the requirements of section 65.1.....48

RECOMMENDATION 37: Improve the program for the discovery of taxable possessory interests.....49

RECOMMENDATION 38: Use market rents when valuing possessory interests in yacht harbors.51

RECOMMENDATION 39: Cease the assessment of possessory interests on property owned by the California School of Mechanical Arts.51

RECOMMENDATION 40: Refer all reported structural and land improvement costs from the annual business property statement to the commercial property appraiser in the real property division for review.52

RECOMMENDATION 41: Bring the mandatory audit program to current status as required by section 469.....54

RECOMMENDATION 42: Complete an audit checklist for each audit55

RECOMMENDATION 43: Process separate escape assessments and roll corrections for each year under audit.....55

RECOMMENDATION 44: Include nonprofit organizations that meet the requirements of section 469 in the mandatory audit program.55

RECOMMENDATION 45: Audit taxpayers that fail to file property statements for three or more consecutive years.56

RECOMMENDATION 46: Screen business property statements with electronically prepared attachments to ensure the statement is complete and fully executed pursuant to section 441.5.....57

RECOMMENDATION 47: Accept only appropriately signed property statements as required by rule 172.57

RECOMMENDATION 48: Exclude accounts that have business property at multiple locations from the direct billing program.58

RECOMMENDATION 49: Send business property statements to direct billing accounts every fourth year.59

RECOMMENDATION 50: Annually review the BOE's listing of equipment leased to state assesseees.60

RECOMMENDATION 51: Develop formal procedures for the discovery and assessment of apartment personal property.60

RECOMMENDATION 52: Properly assess service station fixture improvements as improvements.61

RECOMMENDATION 53: Apply the 10 percent penalty for the failure to file or late-filing of the BOE-prescribed *Vessel Property Statement* as required by section 463.61

RECOMMENDATION 54: Annually appraise pleasure boats at market value.62

RECOMMENDATION 55: Correctly calculate the assessment of documented vessels as required by section 275.5 when vessel owners submit late-filed affidavits.62

RECOMMENDATION 56: Revise the *Affidavit for 4 Percent Assessment of Certain Vessels* to include the correct filing deadline established by section 255.63

RESULTS OF THE 1996 SURVEY

Administration

We made a multi-part recommendation advocating the development and implementation of a strategic plan. This recommendation was only partially implemented. While the assessor has developed some procedures on individual topics, the office still does not have an effective administrative policies and procedures manual. During our current survey, we found divergent assessment practices among units performing the same assessment functions and staff using different guidelines to accomplish similar assessment and administrative tasks.

We recommended the assessor develop an office policies and procedures manual addressing general administrative matters. The assessor now issues all new employees an employee handbook published by the Department of Human Resources. That handbook, among other things, provides a reference for work schedules, safety on the job, and the expected obligations of the employee.

The recommendation also directed the assessor to update the various operations manuals within the office to reflect current and correct office procedures. While efforts were made to implement this recommendation, no operations manuals have been approved and distributed. We repeat this recommendation.

We recommended the assessor redefine the objectives and responsibilities of the assessment standards section as the standards and quality control unit. While the assessor did create a transactions unit and shifted some of the assessment standards workload to that new unit, the assessment standards unit continues to function as an appraisal unit. The assessor has not implemented this recommendation.

We made a multi-part recommendation regarding the assessor's computer capabilities. We recommended the assessor acquire a mainframe computer system for assessment functions, implement a more comprehensive Local Area Network (LAN), and fill the vacant computer specialist position. The assessor has made many improvements in her mainframe computer system, replacing it with a modern and more functional mainframe. The assessor has provided all of her staff members with desktop terminals connected via a LAN to the mainframe. By filling the computer specialist position, the assessor has completely implemented this recommendation.

We recommended the assessor develop and improve weekly production reports so that key workload categories can be measured and the resulting production information can be used as a management tool. This recommendation has been implemented with the improvements made to the assessor's computer system.

Personnel

We recommended the assessor initiate a review of the Civil Service Rules and Regulations to identify hiring options and opportunities to establish programs unique and necessary to the assessor's office. The assessor has worked to revise the Civil Service Rules and Regulations addressing the hiring of new personnel. Programs unique and necessary to the assessor's office are

staffed mainly by employees who must be certified by the BOE. The assessor has complied with this recommendation.

In addition, we recommended the assessor review the possibility of obtaining additional delegation from the Human Resources Department for position classifications and examinations. The assessor is now well represented on interview panels for filling BOE-certified positions. For non-certified positions, we found that the City and County's recruitment and hiring policies are adequate. The assessor has implemented our recommendation.

Training

We recommended the assessor develop and adhere to a training plan for certified appraisal and audit-appraisal staff. Since the annual training required by section 670 is monitored by a separate BOE unit, we no longer address that topic in our assessment practices survey.

We recommended the assessor cross-train and rotate clerical staff in the real property and business property divisions to optimize the use of existing resources. While the assessor does not presently cross-train and rotate staff between those divisions, the office now cross-trains clerical staff for other positions within their respective divisions. This recommendation has been partially implemented.

We also recommended that the assessor obtain training for her appraisal staff assigned to major commercial and industrial properties. She has done this for several of her staff, providing training both in computer software applications and the assessor's comparable sales database.

Assessment Appeals

We made a three-part recommendation for the administration of assessment appeals. First, to improve the control of appraisal records used by outside contractors to ensure the security and integrity of the assessor's files. Secondly, to institute training for the presentation of assessment appeals. Thirdly, to integrate computerized analyses into assessment appeals presentations. The assessor has fully implemented our recommendation.

Welfare Exemption

We made a multi-part recommendation for revisions to welfare exemption procedures. First, we recommended the assessor adhere to reporting and filing requirements for welfare exemptions. We found the assessor still fails to thoroughly review each welfare exemption claim form and we repeat this recommendation.

Secondly, we recommended the assessor not declare to a claimant that a welfare claim had been approved until the claim had been ratified by the BOE. Since the BOE has recently asked assessors to process established claims in time for their regular roll closing, we do not repeat this recommendation.

Thirdly, we recommended the assessor expedite the processing of new welfare exemption claims. We found that the processing of new claims lags primarily because claimants are slow to submit required documentation, forcing the assessor to repeatedly contact the claimant to request this

essential formation in order to complete the claim. The assessor cannot transmit the exemption claim package to BOE until all required documents have been obtained. Accordingly, we do not repeat the recommendation.

Fourthly, we recommended the assessor forward a list of welfare claimants and their exemption status to the business property division. This change to the assessor's program was recommended in an effort speed up the review of business personal property and reduce the number of roll corrections. Although the assessor has implemented a new computer system to expedite delivery of exemption information, we found that some business property accounts still did not receive the welfare exemption as they should have; therefore, we repeat the recommendation.

Fifthly, we recommended the assessor train staff to process the abbreviated welfare exemption claim forms. We found improved annual processing of the "short forms" and therefore do not repeat this recommendation.

Lastly, we recommended the assessor date-stamp exemption claim forms when received. This recommendation is repeated because we found that the assessor still fails to date-stamp welfare exemption claim forms.

We also recommended the assessor audit mandatory business property accounts of nonprofit organizations. Because the assessor still does not audit such accounts, we repeat the recommendation in our discussion of the assessor's mandatory audit program.

Declines in Value

We found that the assessor did not perform an annual decline-in-value review for a large number of properties. The assessor's new computer system now provides the appraisal staff with an annual list of all properties with decline-in-value assessments to facilitate an annual review. The assessor has fully implemented this recommendation.

Roll Corrections

We made a three-part recommendation addressing roll corrections. We recommended the assessor review change in ownership statements to reduce the number of erroneous homeowners' exemptions, document authorization of roll corrections, and consolidate various roll correction forms. The assessor has fully implemented this recommendation.

Disaster Relief

We made a four-part recommendation addressing disaster relief assessment procedures. First, we recommended the assessor request the board of supervisors adopt a disaster relief ordinance that meets the requirements of section 170. Although the assessor requested that change, the draft ordinance was never adopted. We repeat this recommendation.

Secondly, we recommended the assessor grant disaster relief to all qualifying property, including personal property. Since the assessor has not changed this procedure, we repeat this recommendation.

Thirdly, we recommended the assessor use all available sources for discovering properties damaged by misfortune or calamity. The assessor now receives fire reports from the San Francisco Fire Department describing all reported structural fires. We found that the assessor also reviews building permits to discover repairs that result from a misfortune or calamity. This part of the recommendation has been implemented.

Finally, we recommended the assessor transfer the disaster relief program to the technical services section of the real property division. This has been implemented.

Section 408.1 Transfer List

We recommended the assessor revise the transfer list to meet the requirements of section 408.1. This has not been implemented.

Record Maintenance

We recommended the assessor develop and implement uniform policies and procedures for the maintenance of records to ensure that all records are updated, archived, and/or destroyed on a regular basis. The assessor has created a central filing area for records and many of the records have been purged of outdated material. However, the assessor still does not have a formal policy addressing record management. The assessor was unable to provide several appraisal records we requested, which suggests that our recommendation has been only partially implemented. We repeat that recommendation in this report.

Appraisal Program

We recommended the assessor establish an appraisal activity system to help identify and prioritize the real property workload. This recommendation has been implemented through the use of the new computer system.

We recommended the assessor create and maintain an appraisal data bank. This recommendation has been implemented through the development and use of a new electronic database.

We recommended the assessor consider all applicable approaches to value. Our previous survey found that the assessor's appraisal staff rarely considered the replacement cost approach or the income approach when valuing property. The assessor has not changed her procedures. We have combined this issue with others regarding assessment procedures into one recommendation.

We recommended the assessor draft procedures for the application of section 506 interest and distribute those procedures to the real property appraisal staff. Since the new computer system calculates that interest automatically, this recommendation no longer applies.

Change in Ownership

We recommended that the assessor reassign change in ownership document processing responsibilities. The assessor implemented this recommendation by creating a transaction unit that processes all recorded documents.

We recommended the assessor develop and implement a written policy for making cash equivalent adjustments. The assessor implemented this recommendation by distributing Assessors' Handbook Section 503, *Cash Equivalent Analysis*, to the appraisal staff.

We recommended the assessor review value calculations for parcels experiencing multiple fractional interest transfers. Such properties received incorrect supplemental assessments since the assessor failed to track separate base year values on the appraisal records. All multiple fractional interest transfers are now reviewed and processed by the assessor's transaction unit. After approval, the transfer information—including fractional interest data—is entered into the assessment computer program. The program contains an ownership history that tracks all base year values. The assessor has implemented our recommendation.

We recommended the assessor reappraise and issue supplemental assessments for all qualifying changes in ownership resulting from foreclosures by financial institutions. This recommendation has been implemented.

We recommended the assessor establish procedures, controls, and areas of responsibility to ensure that all properties subject to reappraisal resulting from a change in control receive timely and appropriate action. This recommendation has been partially implemented, but some problems remain. Thus, we repeat a portion of this recommendation.

New Construction

We recommended that the assessor eliminate the backlog of assessable new construction. The backlog has not been eliminated; in fact the number of permits that have not been processed has increased significantly. Consequently, we repeat the recommendation.

We recommended the assessor re-institute formalized procedures for the assessment of new construction. This recommendation has not been implemented. Each appraisal unit has its own policy for valuing new construction.

We recommended the assessor standardize the use of the cost approach to value new construction; our recommended improvements have not been implemented. Because the issues here were varied, including lack of documentation, lack of written policies, and failure to document the source of the cost factors employed, we have segregated these problems and addressed them under other recommendations.

Because no new procedures have been developed, we repeat our recommendation that the assessor revise the new construction self-reporting procedures. However, we have combined this issue with others regarding formalized procedures for assessing new construction.

We made a multi-part recommendation addressing building permit processing. First, we recommended the assessor obtain sufficiently detailed information for all permits. This part of the recommendation has been partially implemented. The assessor still does not receive copies of building plans, or receive permits, unsolicited, from the Port of San Francisco.

Secondly, we recommended the assessor revise permit screening parameters. Now that more permit information is available, the screening process has improved. This recommendation no longer applies.

Thirdly, we recommended the assessor form a separate permit processing section. This recommendation was implemented.

Lastly, we recommended the assessor implement direct terminal access to the San Francisco City and County Department of Building Inspection's database as soon as feasible. This recommendation has not been implemented.

We recommended the assessor maintain a list of discarded building permits and periodically review the list for accumulated construction activity occurring at one site or project that may indicate assessable new construction. Since the assessor does not maintain this list, this recommendation has not been implemented.

Tenant Improvements

A three-part recommendation addressed the assessment of tenant improvements. First, we recommended the assessor uniformly value and enroll tenant improvements. Since both the real property and business property divisions still value tenant improvements independently, this portion of the recommendation has not been implemented.

Secondly, we recommended the assessor investigate tenant improvement costs reported on business property statements. This recommendation has not been implemented.

Thirdly, we recommended the assessor obtain and review current leases for provisions regarding tenant improvements. Although the assessor collects the information, few appraisers actually use it. Consequently, this part of the recommendation has been only partially implemented.

Major Properties

We recommended the assessor improve the quality of commercial property valuation through (1) better control, organization, and maintenance of appraisal files; (2) better capture, storage, and use of appraisal market data; (3) specialized training; and (4) written procedures for the appraisal of commercial property. The assessor's new computer system permits her to maintain appraisal market data for major commercial properties. In addition, the assessor has provided computer training to all staff members. However, control of appraisal files and documentation of values on appraisals continue to be problems and are again addressed in this survey report.

Taxable Possessory Interests

We made a four-part recommendation addressing possessory interests. First, we recommended the assessor annually reappraise month-to-month possessory interests. Due to statutory changes, this part of the recommendation no longer applies.

Secondly, we recommended the assessor cease assessing possessory interests in properties exempted by article XIII of the California Constitution. Since the assessor still enrolls one of those possessory interests, we repeat this recommendation.

Since the assessor now reviews the terms of possession used to value possessory interests, she has implemented the third part of our recommendation.

Lastly, we recommended the assessor request copies of building permits issued by the Port of San Francisco to discover assessable new construction. The assessor now requests and receives copies of building permits issued by the port authority.

Mandatory Audit Program

We recommended the assessor bring the mandatory audit program to current status. Although the assessor has improved her performance in completing some mandatory audits, we found that several audits were not completed on time. We repeat the recommendation.

We also recommended that the assessor obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed timely. The assessor has implemented this recommendation.

Nonmandatory Audit Program

We recommended the assessor develop a formal nonmandatory audit program. However, due to the backlog of mandatory audits, we believe the mandatory audit program should be given priority, and the nonmandatory program should be improved as the assessor's workload allows.

Business Property Statement Processing

We recommended the assessor improve the processing of business property statements by (1) screening the statements for completeness, (2) adding the section 463 penalty when statements are improperly executed, and (3) using clerical personnel to process typical statements. We found that the assessor is now using clerical staff to process business property statements. Since we found additional unsigned and undated statements, and the assessor still does not apply the section 463 penalty, we repeat and rephrase that part of the recommendation.

Direct Billing

We recommended the assessor improve the direct billing program by (1) establishing a two-year history prior to enrolling an account in the program, (2) excluding hotels, motels, banks, financial institutions, and multi-location accounts from the direct billing program, and (3) sending business property statements to direct billing accounts every fourth year. With regard to part one, we found that the assessor has developed acceptable history criteria before enrolling a business in the direct billing program. Since the assessor has not implemented parts two and three of the recommendation, we repeat them in this report.

Discovery of Business Personal Property

We recommended the assessor improve the discovery of taxable personal property by supplementing field surveys with other methods of discovery. We found that the assessor now uses fictitious business name advertisements, property audits, leased equipment listings, reverse telephone directories, tenant lists, newspapers, telephone books, and the tax collector's database to supplement the annual field canvass. The assessor fully implemented that recommendation.

Exemption of Low-Value Properties

We recommended that the assessor request the San Francisco City and County Board of Supervisors to adopt an ordinance exempting low-value property. With the County's adoption of a low-value property exemption, the assessor implemented our recommendation.

Apartment Personal Property

We recommended the assessor develop and implement written standardized procedures for the discovery and assessment of landlord-owned apartment personal property. These procedures have not been developed and we repeat the recommendation.

Co-Operative Housing Personal Property

We recommended the assessor review all co-op-housing accounts to identify any personal property assessments that should be exempt, then correct these accounts and initiate appropriate refunds. The assessor has implemented this recommendation.

Service Stations

We recommended the assessor reclassify certain service station improvements as fixtures. Since the assessor has not reclassified these properties, we repeat that recommendation.

Leased Equipment

We recommended upgrading the leased equipment assessment program. Since we found continuing problems in this program, we make specific recommendations to upgrade the program.

Escape Assessments

We made a multi-part recommendation addressing escape assessments. It included:

- Ensuring all business property statements are processed prior to the completion of the assessment roll,
- Citing section 531 when adding escape assessments from delayed property statement processing, and
- Providing taxpayers with notices of proposed escape assessments, as required by section 531.8.

We found the assessor has implemented these recommendations.

Owner Identification

We recommended the assessor ensure that the full legal name of the assessee appears on the roll when known. This recommendation has been implemented.

BOE-Prescribed Assessment Forms

We recommended the assessor make timely submission of assessment forms to the BOE for approval. This has been an on-going problem for the assessor and we repeat this recommendation.

Vessels

We made a five-part recommendation addressing the assessment of vessels. First, we recommended the assessor upgrade the vessel assessment procedures. We found that formal assessment procedures are still lacking throughout the assessor's office, and vessel assessment procedures are no exception to that problem. The assessor did not implement that part of our recommendation.

By obtaining computer access to the DMV's vessel database, sending vessel property statements to vessel owners, and reassigning work within the marine division, the assessor implemented parts two, three, and five of our recommendation.

In part four of that recommendation, we advised the assessor to more closely screen signatures on *Vessel Property Statements*. Since the assessor continues to accept improperly executed property statements, we have combined this issue with others regarding property statements into one recommendation.

Documented Vessels

In the first part of a two-part recommendation, we recommended the assessor obtain a copy of a vessel's current United States Coast Guard Certificate of Inspection before granting the exemption provided by section 227. Since then, the assessor has contacted the Coast Guard to verify those vessels' status. We do not repeat the recommendation.

We also recommended the assessor implement the section 275.5 reduced documented vessel exemption when a vessel's owner files a late affidavit. The assessor now applies the reduced exemption upon receipt of a late-filed claim.

Soldiers' and Sailors' Civil Relief Act

We recommended that the assessor thoroughly examine claims for relief under the Soldiers' and Sailors' Civil Relief Act. Since then, the assessor has requested that taxpayers file new claims for relief, and has performed a thorough review of those claims. The assessor has implemented our recommendation.

OVERVIEW OF SAN FRANCISCO AND THE ASSESSOR'S OFFICE

The City and County of San Francisco encompass 129 square miles, 83 miles of which are covered by water. The Golden Gate Straits separate it from Marin County to the north and the San Francisco Bay separates it from Alameda County on the east. San Mateo County forms the southern boundary of the county and the Pacific Ocean is its western boundary.

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

The city and county presently have a population in excess of 750,000. The three leading industries within the city and county are services (39 percent), government (14 percent), and finance, insurance, and real estate (13 percent).

Workload

The following table represents the property classifications, parcel count, and assessed values of the 2000 secured and unsecured assessment rolls:

PROPERTY TYPE	PARCEL COUNT	ENROLLED VALUES
Single Family Residential	95,674	\$27,548,733,361
Multi-Family Residential	35,087	15,515,450,928
Commercial	17,456	24,588,433,273
Industrial	2,618	1,729,302,413
Other/Miscellaneous	6,830	1,324,674,320
Total Secured Roll	157,665	\$70,706,594,295
Total Unsecured Roll	27,397	6,979,432,191
Total Roll	185,062	\$77,686,026,486

The real property workload for the 1999-2000 assessment year included approximately 12,000 transfers and 1,500 reassessments resulting from new construction. The real property division also conducted 10,000 decline-in-value reviews, prepared 1,000 assessment appeals, and processed nearly 500 disaster relief claims.

For the 1999-2000 assessment year, the business property division processed over 37,000 business property assessments on the secured and unsecured assessment roll and 1,100 pleasure boats/documentated vessel assessments. In addition, the business property division is responsible for 2,400 mandatory audit accounts.

Budget

The assessor has the responsibility of preparing an assessment roll using a budget supplied by the board of supervisors. The following table presents the assessor's budget, excluding State-County Property Tax Administration Loan Program (PTAP) funds, over the last five years:

YEAR	APPROVED BUDGET
1999-00	\$7,989,686
1998-99	\$7,080,818
1997-98	\$5,641,597
1996-97	\$6,822,989
1995-96	\$6,302,208

For the assessment year 1999-00 the assessor had a budgeted staff of 116 employees to produce an assessment roll that contained over 185,000 individual accounts within the combined secured and unsecured assessment rolls. The professional staff budgeted to handle the real and business

property workload consists of 8 managers, 34 real property appraisers, and 23 auditor-appraisers. In addition, eight positions are funded through PTAP.

Staffing

The City and County of San Francisco's Assessor-Recorder Office is one of the five largest assessor's offices in Northern California. The following table represents the budgeted positions for assessment staff only.

TITLE	POSITIONS AUTHORIZED	POSITIONS VACANT
Assessor Recorder	1	0
Chief Deputy Assessor-Recorder Valuation	1	0
Chief Deputy Assessor-Recorder Administration	1	0
Chief Real Property	1	1
Chief Assessments Standards	1	0
Chief Personal Property	1	0
Project Chief	1	0
Executive Secretary II	1	0
Chief Technical Services	1	0
Senior Administrator Analyst	1	0
Confidential Secretary	1	0
Secretary	1	0
Senior Real Property Appraiser	11	1
Real Property Appraiser	21	3
Principal Real Property Appraiser	5	0
Principal Clerk	1	1
Senior Assessment Clerk	9	2
Senior Clerk Typist	6	0
Assessment Clerk	22	0
Principle Auditor	3	1
Senior Personal Property Appraiser	8	2
Personal Property Auditor	13	2
Administrator	1	1
Administrator III	2	0
Civil Engineering Associate	1	0
Management Assistant	1	0
TOTAL	116	13

During our fieldwork, 13 of the assessor's 116 budgeted assessment positions were vacant. This represents a relatively high vacancy rate of 11.2 percent.

RECOMMENDATION 1: Fill vacant assessment positions.

We found that the high vacancy rate for assessment positions has adversely affected the assessment of property in the City and County of San Francisco. In the real property division, the already high number of unprocessed building permits has increased since our 1996 survey report. The business property division is still unable to meet the mandatory audit requirements of section 469 and cannot schedule nonmandatory audits because of low staffing levels. Both of these subjects are discussed later in this survey report. As a result, property in the city and county is being underassessed.

To complete the statutory obligations of her office, we recommend the assessor fill current assessment vacancies.

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and personal property assessment programs. We examined the assessor's participation in the State-County Property Tax Administration Loan Program, the qualifications of the assessor's appraisal staff, and the assessor's computer system, standards and quality control, the procedures manual, and record maintenance. We also reviewed the preparation and presentation of assessment appeals, the assessment of property eligible for disaster relief, procedures for assessment roll changes, and the processing of exemptions, including the low-value property exemption.

State-County Property Tax Administration Loan Program

Enactment of section 95.31 established the State-County Property Tax Administration Loan Program (PTAP). This program provides state-funded loans to eligible counties for the improvement of property tax administration.³

If an eligible county elects to participate, the county and the State Department of Finance (DOF) enter into a written contract described in section 95.31. A PTAP loan is considered repaid if the county satisfies performance criteria contained in the contract. As a provision of the contract, a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment. In most counties, as a provision of the contract, verification of performance is provided to the DOF by the county auditor-controller.

San Francisco has participated continuously in PTAP since the 1995-1996 contract year. The loan amount requested and received for 1999-2000 was \$1,013,322, with a \$58,000 carry over from the previous year.

The assessor used PTAP funds to recruit and train new full-time employees, enroll backlog escape assessments, prepare and defend assessment appeals, and review decline-in-value assessments. Funds have also been used to purchase new information technology hardware and software, all designed to increase the long-term productivity of the assessor's office.

³ AB 818, Chapter 914, Statutes of 1995. During our fieldwork for this survey, the Governor approved AB 589 (Chapter 521, Statutes of 2001). This chapter established the Property Tax Administration Grant Program for fiscal years 2002-03 through 2006-07. The new grant program will operate in essentially the same manner as the loan program, except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive the grant.

Appraiser Certification

Section 670 requires any person who performs the duties of an appraiser for property tax purposes to hold a valid appraiser's or advanced appraiser's certificate issued by the BOE.

The assessor's office has a total of 67 positions that require the employee to hold an appraiser's certificate. We confirmed that each employee either currently holds an appraiser's certificate or is in the process of obtaining the certificate.

Standards and Quality Control

RECOMMENDATION 2: Task the assessment standards section with the responsibilities of standards and quality control.

We found a lack of standards and quality control in the assessor's office. As mentioned earlier, there is no policies or procedures manual. Staff within each unit determines their own arbitrary minimum value for assessing new construction. We found appraisal records have very little documentation concerning the reappraisal or additional value.

In our prior survey report, we recommended the assessor redefine the objectives and responsibilities of the assessment standards section as the standards and quality control unit. One of our suggested steps was to create a transaction unit to handle some of the responsibilities of the assessments standards unit. The assessor has created a transactions unit and shifted some of the workload to that unit, but the assessment standards unit continues to function as an appraisal unit.

Currently the chief of assessment standards has the sole responsibility for assessment standards and quality control. His duties include computer data review and spot checking recent appraisals. We believe that a standards and quality control section will eliminate many of the present deficiencies cited throughout this survey report.

We recommend the assessor task the assessment standards section with the responsibilities of standards and quality control.

Procedures Manual

In our previous survey, we recommended the assessor develop a policies and procedures manual that addresses general administrative matters and to update the various operations manuals within her office to reflect current procedures.

Subsequently, the assessor began giving each new employee a city and county administration handbook that provides the employee with information regarding employment conditions and benefits. The assessor also distributes a document that provides detailed information about access to property characteristics, ownership data, permit data, and the various reports that can be generated by the computer system.

RECOMMENDATION 3: Develop a comprehensive policies and procedures manual.

While the assessor does distribute documentation concerning employment information and the computer system, employees still do not have a comprehensive policies and procedures manual that specifically addresses the appraisal processes and the duties of the office. Several management personnel have gathered data to develop drafts and memorandums for their respective areas of expertise. However, those materials are limited in nature and have not been formally adopted by the assessor.

During our analysis of the assessor's new construction program, we found that some appraisers valued all new improvements, while other appraisers reporting to the same principal appraiser did not value any new construction below an arbitrary minimum value.

For major properties, we found that each appraiser individually determines the appropriate valuation approach utilizing various formats and forms. The lack of standardized procedures also results in escapes and incorrect assessments of apartment personal property.

Without the benefit of uniform guidelines, policies, and procedures, there is no sense of clarity, structure, framework, or direction. This situation also contributes to staff's inattention to constitutional, statutory, and regulatory provisions when addressing the assessment and exemption of property taxes. Lack of written policies and procedures invites misinterpretation and inconsistent application of procedures on the part of all staff.

We recommend that the assessor develop a policies and procedures manual.

Assessment Forms

Section 15606(d) of the Government Code authorizes the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation, including forms to be used to apply for reduction in assessment. The BOE annually publishes Assessors' Handbook Section 222, *Standard Form List*, that provides a listing of BOE-prescribed forms, as well as forms recommended by the BOE's Assessment Policy and Standards Division. Generally, the assessor has the option to change the size, color, etc. of the forms but cannot add to, change, or delete the specific language on a BOE-prescribed form. The assessor may also rearrange a form, provided the assessor submits that rearranged form for BOE approval.

Form Checklists

Annually, the BOE mails three checklists of BOE-prescribed forms to all assessors. The three checklists include exemption claim forms, property statements, and miscellaneous forms. The assessors must mark the checklists to indicate which forms they will use, will not use, or will rearrange and send for approval, and return the checklists to the BOE by the designated date. Final prints of all forms used by assessors are to be submitted to the BOE by a subsequent statutory deadline.

RECOMMENDATION 4: Submit BOE-prescribed form checklists.

In our prior survey, we found that the assessor did not respond to the BOE's request for the annual checklists. This problem continues. No checklists were submitted for the 2000-2001 roll year. In fact, over recent years, checklists have been submitted only intermittently.

Pursuant to section 15606(d) of the Government Code, the BOE is authorized to enforce the use of all forms for the assessment of property for taxation. If a form has not been approved by the BOE, it may not carry a penalty for failure to file or to timely file the form. The BOE uses the form checklists to confirm what forms the assessor uses. Compliance with the form checklist deadlines permits the BOE to approve the assessor's forms in time for the next assessment year. Late submissions hinder that process.

We recommend the assessor submit the form checklists.

Record Maintenance

In our prior survey report, we recommended the assessor develop and implement uniform policies and procedures for the maintenance of records to ensure that all records are updated, archived, and/or destroyed on a regular basis.

During our current survey, we found the assessor has made significant progress towards that goal, in large part due to the new computer system. Although the program lacks formal written procedures, the assessor appears to have effective informal guidelines for the storage, archiving, and destruction of records where appropriate.

With the introduction of the new computer system, the assessor has entered real property characteristics for every parcel into the database. In addition, records scanned by the recorder's office, e.g. images of deeds and PCOR's, are available through the assessor's computer system. Appraisers and auditors process all appraisal records on the computer system, using hard copy records only for reference and as a repository for historical documents.

Appraisal Records

Hard copy appraisal records are placed in color-coded file folders and stored in banks of open shelves. The folders are arranged by block and lot for real property, alphabetically for business property audit accounts, and by account number for business property accounts not subject to mandatory audits. Homeowners' exemption cards are arranged by year and block and lot, and are filed in designated homeowners' exemption record storage. Although business property files have been bar-coded, those barcodes are not used to track the appraisal records.

RECOMMENDATION 5: Implement a system to control access to appraisal records.

Many appraisal records, for both real and personal property, are missing. For example, records could not be found for approximately 15 percent of the 327 properties we selected for sample.

The records are stored on open shelves. There is no system in place to control access to these records; staff is free to pull records at any time without recording who has possession.

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 should be one of the assessor's priorities.

Any control system should include storing the appraisal records and other assessment documents in a secured location. Access to the records should be restricted to a limited number of staff members who control the checking out and re-filing of the records. Finally, there should be a common repository for all records returned by the staff.

Although the assessor's record maintenance program has improved since our prior survey, we recommend that controlling the access to the appraisal records is another important step in managing the office.

We recommend the assessor implement a system to control access to appraisal records.

Assessment Appeals

The assessment appeals function is mandated by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory references to guide county assessment appeals boards in the appeals function. Section 15606(c) of the Government Code directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted rules 301 through 326 to provide this guidance.

The San Francisco Board of Supervisors created an assessment appeals board (AAB) by ordinance in 1967. Assessment appeals are handled by two appointed assessment appeals boards, consisting of five persons, with three alternate members each. In addition, there is a third board, which consists of five appointed members who serve as hearing officers. One board hears appeals for reductions on secured or unsecured property rolls without value limitation. The second board hears appeals for reductions only on secured or unsecured property assessed at less than \$20 million, excluding certain mixed-use commercial/residential property of 12 units or less, and personal property or possessory interests assessed for \$75,000 or less.

The hearing officers preside over the less complex properties, i.e. single family residences, condominiums, cooperative housing units, or multiple-family dwellings of four units or less. Appellants may reject a hearing officer's recommendation and request a hearing before one of the two assessment appeals boards.

The appeals applications are received, processed, and scheduled for hearing by the administrator of the assessment appeals board. Copies of the hearing schedule are regularly provided to the assessor.

Appraisers who initially value a property under appeal also prepare and present the assessor's case before the AAB. As a result of a recommendation in our last survey report, the assessor provided assessment appeals training for her appraisal staff. Additionally, the assessor developed a computer system to improve the tracking of appeals applications.

The following table summarizes the disposition of assessment appeals filed with the AAB for the last five years.

Roll Year	Appeals Resolved	Method of Resolution					
		AAB Cases Heard			Denied for Lack of Appearance	Stipulated	Withdrawn
		Reduced	Sustained	Increased			
99-00	1,095	133	42	4	116	66	734
98-99	1,188	107	42	2	212	10	815
97-98	2,451	326	47	5	214	95	1,764
96-97	2,773	581	92	1	295	157	1,647
95-96	3,701	1,357	192	8	354	582	1,208

We attended 12 assessment appeals hearings. Nine different appraisers from the assessor's office presented these appeals. Although all presentations were handled professionally, they had varying levels of documentation, varying numbers of comparable sales, and no consistent appraisal format. A standardized appraisal format would present a consistent and more professional and effective presentation of the assessor's case before the AAB.

While we noticed a significant improvement in the quality of the presentations by the assessor's staff since our last survey, we believe that a standardized appraisal format would improve the assessor's presentations to the AAB.

RECOMMENDATION 6: Request that the board of supervisors repeal the resolution imposing an assessment appeal filing fee.

The San Francisco County Board of Supervisors has adopted local rules requiring application filing fees and fees for hearings before the San Francisco Assessment Appeals Boards. Section 2B.9 of the San Francisco Administrative Code imposes a non-refundable \$30 filing fee at the time of filing an application for assessment reduction. Section 2B.10 imposes a hearing fee on those applicants whose applications proceed to hearing. Each section provides for a waiver of the fees under specified circumstances.

The hearing fee is based on a sliding scale and applies to properties that are assessed at over \$250,000. For properties assessed between \$250,001 and \$2,000,000, the hearing fee is \$50. The maximum hearing fee is \$1,200 for a property assessed at more than \$100,000,000. The hearing fee will be partially refunded if the assessed value is lowered to the appellant's opinion of value.

Section 1605.6 provides in relevant part that: "After the filing of an application for reduction of an assessment, the clerk of the county board of equalization shall set the matter for hearing and notify the applicant, or his or her designated representative, of the time and date of the hearing." Once a hearing has been granted, section 1611 permits any party to request a transcript or recording of the hearing at that party's expense and section 1611.5 provides that a party who requests findings of fact shall bear the expense of preparing the findings. However, none of the sections pertaining to assessment appeals hearings allow the local board of equalization to charge a fee for filing of an assessment appeal or to charge a fee to obtain a hearing before the assessment appeals board.

In view of the existing statutory scheme which specifically provides for some fees but not others, we believe that the Legislature has determined that monetary charges required as a condition of an assessment appeal are a matter of statewide concern requiring statewide uniformity. In this regard state law by implication fully occupies this area of the assessment appeals process. If a local ordinance, such as the local rules in this case, duplicates or enters an area fully occupied by state law, either expressly or by legislative implication, the local ordinance is in conflict and, therefore, is void. As a result, state law effectively preempts the county's authority to require a filing or hearing fee.

We recommend that the assessor request that the board of supervisors rescind the local assessment appeals board rules requiring a \$30 filing fee and an additional fee for a hearing before the appeals board.

Disaster Relief

Section 170 permits the county board of supervisors to adopt an ordinance allowing property tax relief on qualifying damaged property. The ordinance may limit relief to property located in an area proclaimed by the Governor to be in a state of disaster, or it may include any misfortune or calamity.

Disaster Relief Ordinance

RECOMMENDATION 7: Request that the board of supervisors revise the disaster relief ordinance to conform to section 170.

This is a repeat recommendation from our prior survey report. The current disaster relief ordinance was adopted by the board of supervisors prior to the last survey. We recommended the assessor request that the board of supervisors revise the disaster relief ordinance to conform to the requirements of section 170. After our recommendation, the assessor requested that the City Attorney draft a disaster relief ordinance consistent with section 170. However, the draft was never finished, and never submitted to the board for approval. While the ordinance was updated in December 2000, it still does not conform to the requirements of section 170.

The existing ordinance provides that the taxpayer may file an application not later than the last day of the fiscal year in which the property was damaged or destroyed. Therefore, if the calamity occurred on July 1, the taxpayer would have until the following June 30 to file an application. Conversely, if the calamity occurred on June 29, the taxpayer would have only one day to file an application. Section 170 provides that the assessee must file a written application within six months of the date of the calamity. The ordinance also states that the damage must be shown to be "in excess of \$5,000" rather than the "\$5,000 or more" provided by section 170. Subsequent to our fieldwork for this survey, section 170 was amended to provide for a 12-month filing period and to require the damage to be \$10,000 or more.

We again recommend that the assessor request the board of supervisors adopt a disaster relief ordinance consistent within section 170.

Personal Property

RECOMMENDATION 8: Grant disaster relief to all qualifying personal property.

This is also a repeat of a recommendation from our prior survey report. We found that the assessor grants disaster relief for real property only. However, the city and county's disaster relief ordinance provides that any taxable property may receive tax relief resulting from a misfortune or calamity. Additionally, section 170 provides for disaster relief for land, improvements, and personal property.

The assessor has granted disaster relief for personal property only a couple of times over the last five years and does not typically refer personal property calamity information to the personal property division.

We repeat our recommendation that the assessor grant disaster relief to all qualifying personal property.

Applications

RECOMMENDATION 9: Grant disaster relief to property owners only when they submit timely applications pursuant to section 170.

We found numerous examples where the assessor granted disaster relief even though the taxpayer's application was received after the deadline prescribed by section 170.

At the time of our survey, section 170 precluded the assessor from granting such relief when an application was received more than six months after the date of the damage. Section 170(a) allows the taxpayer to file an application for tax relief within the time specified in the ordinance, or if no time is specified, within 60 days of the date of damage. Section 170(d) also permits the taxpayer to file an application within 30 days after notification by the assessor, but in no case more than six months after the damage occurred.

We recommend the assessor grant disaster relief only upon the submission of a timely application.

Roll Change Procedures

Section 4831 provides the legal authority for county assessors to make changes to the assessment roll after it has been completed and forwarded to the county auditor. Section 4831 provides that these changes shall be made within four years after the making of the assessment being corrected, with one exception as noted in the section.

Assessment roll changes fall under two categories: escape assessments and corrections. An escape assessment in an assessment of property (1) that was not assessed on the July 1 roll, for any reason, or (2) that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any escape property upon discovery, and the taxpayer must be notified of the proposed escape at least 10 days prior to enrollment.

A correction is any type of authorized change to an existing assessment except for underassessments caused by an error or omission of the assessee. Although corrections are normally initiated by the assessor's office, the concurrence of other county officers may be required depending on the nature of the correction.

All roll changes are based on specific statutes, and the assessment roll must contain appropriate statutory references.

The assessor processed approximately 2,500 roll changes in 1999 and 2,342 roll corrections for 2000. Changes to the roll are initiated by appraisers or auditor-appraisers, reviewed for quality control by principal appraisers, and processed using the assessor's computer system.

Notice of Proposed Escape Assessment

Upon discovery of property escaping assessment, the assessor must notify the affected taxpayer of the proposed escape assessment, and then add the escape assessment and any applicable penalty or interest to the assessment roll.

RECOMMENDATION 10: Revise the *Notice of Proposed Escape Assessment* to include all of the information required by section 531.8(b).

We found that the assessor's *Notice of Proposed Escape Assessment* does not include all the information required by section 531.8(b). The notice does not include the name and telephone number of a contact person at the assessor's office with whom the taxpayer can discuss the assessment.

Section 531.8(b) requires the assessor to include on the *Notice of Proposed Escape Assessment* the name and telephone number of a person at the assessor's office with knowledge of the escape assessment. By omitting that information, the assessor (1) makes it more difficult for property owners to determine the source of the escape assessment and (2) fails to fulfill a statutory obligation.

We recommend the assessor include the information required by section 531.8(b) on the *Notice of Proposed Escape Assessment*.

Entry on the Assessment Roll

RECOMMENDATION 11: Cite the notation required by section 533 when enrolling escape assessments.

We found the assessor does not include the notation required by section 533 when enrolling escape assessments. Section 533 requires the assessor to include a specific notation on the assessment roll. Section 533 provides that if the current roll is not the roll for the assessment year in which the property escaped assessment, the entry on the current roll shall be followed with "Escaped assessment for year 19__ pursuant to Sections ____ of the Revenue and Taxation Code."

We recommend the assessor include the notation required by section 533 when enrolling escape assessments.

RECOMMENDATION 12: Cite the proper Revenue and Taxation Code section when making roll corrections.

We found the assessor makes many roll corrections without citing the Revenue and Taxation Code section authorizing the correction or cites an incorrect code section.

The Revenue and Taxation Code codifies the legal authority for making changes to the assessment roll. Specific code sections apply to corrections, cancellations, escape assessments, and overassessments. For example, the assessor should cite section 531.2 for escape changes in ownership or new construction. Corrections of errors in base year values, including failure to establish a base year value, should cite section 51.5, provided the correction is made within four years of the establishment of the base year value. For an escaped change in ownership, it is probable that both of these code sections would be applicable citations.

We recommend the assessor cite the correct Revenue and Taxation Code section when making corrections to the assessment roll.

Exemptions

Low-Value Property Exemption

Section 155.20 authorizes the board of supervisors to exempt all real property with a base year value, and personal property with a full value so low that, if not exempt, the total taxes would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine the point at which the cost of processing assessments and collecting taxes exceeds the funds collected.

The board of supervisors passed Ordinance 308-97, which exempts personal property not exceeding \$4,000 in full cash value. The assessor's processing of low-value personal property conforms to the ordinance.

Homeowners' Exemption

RECOMMENDATION 13: Report information regarding homeowners' exemption claims to the BOE as required by section 218.5 in a timely manner and in the proper format.

We found that the assessor has submitted data regarding homeowners' exemptions granted in her county to BOE after the requested deadline. In addition, the information furnished does not conform to the layout requirements specified by BOE's Technology Services Division.

Section 218.5 requires the assessor to supply information from homeowners' exemption claims and county records upon the written request of the BOE. The BOE requests that information in writing three times a year. Supplying that information permits the BOE to verify the accuracy of the state's reimbursement for homeowners' exemptions and to prevent duplicate exemptions within the state. It is important that the information be supplied in a timely manner and in the necessary format, so that BOE can promptly identify multiple claims and notify county assessors to investigate and resolve these discrepancies.

We recommend the assessor report the information required by section 218.5 in a timely manner and in the correct format.

RECOMMENDATION 14: Process homeowners' exemptions in a timely manner.

We found that approximately 75 percent of the assessor's roll corrections were related to the unwarranted delay in processing homeowners' exemption claims. Over 1,200 roll corrections during the 1999-2000 assessment year were caused by the assessor's failure to process homeowners' exemption claims timely. Untimely processing of homeowners' exemption claims creates an inconvenience to property owners and results in costly roll corrections.

We recommend the assessor process homeowners' exemption claims during the assessment year they are received to avoid needless assessment roll corrections.

Welfare Exemption

RECOMMENDATION 15: Legibly date-stamp welfare exemption claims when received.

We found welfare exemption claims that were not date-stamped, or the date-stamp was not legible.

The date an assessor receives a welfare exemption claim is important because it determines whether the claim was filed timely. Section 270 requires the assessor to apply a late-filing penalty if a welfare exemption claimant files a late claim. By legibly date-stamping the claims upon receipt, the assessor has the necessary documentation to apply the late-filing penalty.

We recommend the assessor legibly date-stamp welfare exemption claims upon receipt.

RECOMMENDATION 16: Thoroughly review each welfare exemption claim and supporting documents before granting the exemption.

We found that the assessor does not thoroughly review the requirements for each welfare exemption claim prior to granting approval of those claims.

During our research, we examined several *Welfare Exemption Assessors' Field Inspection Reports* (BOE-267-S4). Many of those reports were incomplete. Areas left blank included the assessor's recommendation for approval or denial as required by section 254.5, the claimant's use of the property, other users of the property, the date when the property was transferred to the claimant, the date when the property was put to an exempt use, and restrictions on the exemption. For example, we found the assessor granted a full exemption when the claimant reported vacant land, unused property, or other uses that would restrict the exemption. We also found the assessor recommended granting a full welfare exemption at a time when there were other users of the property that were ineligible for exemption.

Providing this information is essential for the BOE's determination whether the property should receive the exemption. Although the assessor attaches a cover page to each claim containing additional information, including the signatures of each person in the assessor's approval process, this additional information does not substitute for the missing information from the *Welfare Exemption Assessor's Field Inspection Report*.

We recommend the assessor thoroughly review each welfare exemption claim and supporting documents before granting the exemption.

RECOMMENDATION 17: Apply the welfare exemption to qualified business personal property.

In prior years, we found the assessor's delay in processing welfare exemption claims for business personal property resulted in large numbers of assessment roll corrections. Although the assessor's new computer system has corrected that problem, exemptions staff must manually enter each exemption for each business property claimant each year. For some claims, where the assessor granted the property a total exemption, the land and improvements were properly exempted. However, the business personal property was taxed since the exemption staff failed to update the personal property exemption.

We recommend the assessor apply the welfare exemption to business personal property where appropriate.

ASSESSMENT OF REAL PROPERTY

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value base, factored at no more than 2 percent per year for inflation, unless there is a change in ownership or new construction. The 1975 full cash value and subsequent values that result from a reappraisal upon change in ownership or completion of new construction are known as base year values.

The assessor's real property assessment program includes revaluation of properties that have changed ownership, valuation of assessable new construction, annual review of properties experiencing declines in value, and annual review of certain properties subject to special assessment provisions.

Change in Ownership

One of the assessor's duties is to identify and value real property that has changed ownership. Section 60 defines a change in ownership as the 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 interest.

Sections 62 through 69.5 provide exclusions from the definition of change in ownership for certain transfers, and exceptions to the general rule that a transferred property be subject to a full-value reassessment upon a change in ownership. Such exclusions involve, for example, interspousal transfers, qualifying transfers between parents and children, property acquired as a replacement for property taken by eminent domain, and qualifying replacement dwellings acquired by persons who are over 55 or disabled.

Assessors most often learn of changes in ownership when deeds are recorded at the county recorder's office. In the City and County of San Francisco, the assessor is charged with the responsibilities of both the assessor and recorder. The assessor's clerks process recorded documents, sorting out potential changes in ownership based on a printed list of document types. In a typical year, the assessor processes roughly 11,775 changes in ownership.

Section 408.1 Public Sales list

Section 408.1 requires the assessor to maintain a list of transfers of any interest in property, other than undivided interests, that have occurred within the preceding two-year period.

RECOMMENDATION 18: Maintain a transfer list that meets the requirements of section 408.1.

We found that the transfer list the assessor provides for public use covered only the period from March 30, 2001 through April 11, 2001. Additionally, we found the list did not include the assessor's parcel number or the consideration paid for the property.

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, 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's transfer list does not fully disclose information that should be made available to the public.

We recommend the assessor expand the public transfer list to meet the required time frame and to include all the required information.

Document Processing

Section 11911.1 allows the Board of Supervisors to pass an ordinance requiring each deed, instrument, or other document transferring real property to be noted with the tax roll parcel number. Pursuant to this statute, the Board of Supervisors passed Ordinance 579-85 on December 16, 1985, requiring such a notation.

RECOMMENDATION 19: Require that all recorded documents conveying title to real property contain the assessor's parcel number pursuant to section 11911.1.

We found many deeds and other documents that transferred ownership in real property were recorded without listing the assessor's parcel number (APN).

Pursuant to section 11911.1, the board of supervisors passed an ordinance requiring that APN's be included on recorded documents that transfer ownership in real property. Compliance with this ordinance will relieve the assessor of the time-consuming task of researching APN's based on the transferred property's address or legal description, and it will decrease document processing time.

The assessor also holds the office of recorder. As such, she has authority over the recording function and may require that assessor's parcel numbers appear on all deeds presented for recordation. We recommend the assessor require the APN on documents recorded for the transfer of real property.

Change of Ownership Statements

The recorder adds \$20 to the recording fee when a transferee does not present a Preliminary Change in Ownership Report (PCOR) with a recorded document. During calendar year 2000, the assessor-recorder applied this penalty in 720 cases.

RECOMMENDATION 20: Utilize the BOE-prescribed *Change in Ownership Statement*.

When a PCOR is not filed with a recorded document that might signify a change in ownership, the assessor has not been automatically sending to the transferee a *Change of Ownership Statement* (COS). In instances where more information about a transaction is needed, either a telephone call is made or a written request for information is mailed. In some instances where no PCOR was filed, the sale price was determined based on the documentary transfer tax noted on the document at the time of recordation.

Section 480 requires that transferees file a COS upon a change in ownership. Failure to file a COS upon request of the assessor in writing carries a substantial penalty for noncompliance. The penalty is intended to encourage cooperation from taxpayers and enhance data collection for valuation purposes.

We recommend the assessor automatically send a BOE-prescribed COS to every transferee that does not file a PCOR at the time of recordation of an acquisition of real property.

It should be noted that toward the end of our survey the assessor adopted the policy of requesting a completed COS from all transferees who had not filed a PCOR upon recordation of a transfer document. Additionally, the new policy includes the practice of imposing the penalty for failure to comply with these requests. However, as the 45-day deadline for compliance had not yet expired on any of these mailings, we were unable to confirm that penalties would actually be imposed.

Date of Transfer

RECOMMENDATION 21: Use the date of death as the date of transfer as required by section 63.1(c)(1).

We found instances where a date other than the date of death was used as the transfer date when property transferred from a parent to a child upon the death of the parent. Examples of dates erroneously substituted for the date of death were the date of property distribution and the date of recordation.

Section 63.1(c)(1) requires the assessor to use the date of the decedent's death as the date of transfer for a transfer between parents and their children under a will or intestate succession. If the decedent died prior to November 6, 1986, the date of the decree of distribution is the event date under very limited circumstances (*Larson v. Duca* (1989) 213 Cal.App.3d 324). In all other cases, for transfers between parents and children under a will or intestate succession, the date of death should be used as the event date.

We recommend the assessor use the date of death as the date of transfer, rather than the recording date or the date of distribution.

Parent/Child and Grandparent/Grandchild Exclusions

Section 63.1 pertains to transfers between parents and their children, or from grandparents to their grandchildren. The purchase or transfer of real property that is the principal residence of an eligible transferor, in the case of a purchase or transfer between parents and their children, is excluded from change in ownership if the proper application for exclusion is filed. In addition, the purchase or transfer of the first one million dollars (\$1,000,000) of full cash value of all other real property of an eligible transferor, in the case of a purchase or transfer between parents and their children, is excluded from change in ownership. The amount of any such other real property transferred exceeding one million dollars is a change in ownership and subject to reassessment.

RECOMMENDATION 22: Distinguish between the transfer of principal residences and the transfer of property other than principal residences for parent/child and grandparent/grandchild transfers.

We found that transfers between parents and children are enrolled using an assessor's transaction code of "WO" to signify a parent/child transfer. The assessor's computer system does not distinguish between transfers of a principal residence and transfers of property other than a principal residence, between parents and children.

Section 63.1(a) excludes from the definition of change in ownership the transfer of only: (1) any principal residence, regardless of value; and (2) the first \$1 million of other real property, regardless of the use of the property. If the assessor does not distinguish between the transfers of the principal residence and property other than the principal residence, it is impossible to determine whether or not the \$1 million limit has been exhausted.

To properly track the section 63.1 exclusion, we recommend the assessor distinguish between transfers of principal residences and property other than principal residences.

Toward the end of our survey, the assessor altered the coding system for parent/child and grandparent/child transfers. The new system distinguishes between a principal residence and a property other than a principal residence. We commend the assessor for acknowledging this weakness in the computer system and taking these steps to improve the change in ownership program.

Transfer of Base Year Values

RECOMMENDATION 23: Submit quarterly reports of base year value transfers to the BOE, as required by section 69.5(b)(7).

We found the assessor does not send quarterly reports of base year value transfers to the BOE. The assessor has filed only one report per year from 1997 to 1999 and none since then.

The transfer of a base year value to a replacement dwelling is governed by section 69.5. It states, in part, that any person over the age of 55, or any severely and permanently disabled person, who resides in property that is eligible for the homeowners' exemption, may transfer, subject to conditions and limitations, the base year value of that property to a replacement dwelling of equal or lesser value located in the same county and purchased or newly constructed by that person as his or her principal residence within two years of the sale of the original property. Section 69.5(b)(7) provides that, with one exception, the transfer of a base year value from one property to another may be granted only to a claimant who has not previously received this property tax relief. To prevent duplication of claims, this section also provides that the assessor shall report quarterly to the BOE that information necessary to identify fully all claims under this section allowed by the assessor, and all claimants who have thereby received relief.

By failing to provide that information, the assessor may permit property owners to receive the relief in multiple counties. We recommend the assessor submit quarterly reports of base year value transfers to the BOE, as required by section 69.5(b)(7).

Legal Entity Ownership Program

The BOE's Legal Entity Ownership Program (LEOP) informs county assessors of changes in control of legal entities owning real property in California. Typically these types of changes in

ownership are not recorded at the local county recorder's office and may go undiscovered by the county assessor's office.

The LEOP unit gathers preliminary information from the Franchise Tax Board (FTB) and sends the acquiring entities a questionnaire requesting the date of transfer, manner of change in control, and disclosure of all parcels involved, listed by county. Responses are accumulated, sorted by county, and forwarded to the appropriate assessor's offices. LEOP notifications provide assessors with important information on unrecorded transfers of real property and changes in control that may otherwise be overlooked. Because some of the acquiring entities cannot furnish specific information, the assessors are advised to thoroughly review each listed parcel to determine, with certainty, which are subject to reappraisal.

In our prior survey we recommended the assessor establish procedures, controls, and areas of responsibility to ensure that property affected by a change in control is revalued appropriately and in a timely manner. In our current survey we found that some of the problems that prompted that recommendation still exist. Although the transactions staff has vastly improved the time it takes to transmit LEOP information to the appraisal staff (one or two months in 2001), the LEOP program still needs to be improved.

RECOMMENDATION 24: Ensure that all LEOP changes in control receive timely reappraisal.

We found a number of LEOP changes in control that had not been revalued. One large bank merger, effective September 9, 1999, consisted of 33 parcels. As of May 2001, only two parcels had been revalued. The appraisers had a number of reasons for their lack of action, including: (1) a lack of notification by the transaction unit; (2) waiting for a recorded document (which will rarely occur for changes in control); (3) unclear appraisal responsibility; and (4) a decision to skip the change in control event because the property resold. A couple of LEOP changes in control were never forwarded to an appraiser. In addition, we found very little documentation in the business property records to indicate that the fixtures were revalued as a result of the change in control.

Section 64(c) provides that a change in control of a legal entity is a change in ownership for property tax purposes of all property owned by that entity. Consequently, that property is subject to reappraisal. Oversights in forwarding LEOP information to appraisers and a lack of understanding about changes in control have resulted in escaped assessments.

We recommend the assessor provide adequate training and improve internal communication to ensure that all LEOP changes in control are reappraised timely.

New Construction

Section 70 defines "newly constructed" as any addition to real property, whether land or improvements (including fixtures), since the last lien date, and any alteration of land or improvement (including fixtures) since the lien date that constitutes a major rehabilitation thereof, or that converts the property to a different use. When real property undergoes new construction, section 71 requires the assessor to determine the added value of those improvements upon completion, or on each lien date while construction is in progress. This value is established as a

new base year value for those specific improvements and is added to the property's existing base year value. When new construction replaces existing improvements, the value attributable to those existing improvements is deducted from the property's base year value.

In our prior survey the assessor indicated there was a backlog of 2,566 unprocessed building permits with a total value of \$1,452,477,962. These facts prompted our recommendation that the staff eliminate the backlog of assessable new construction.

Toward the end of our survey, the assessor provided a printout listing 6,138 open permits issued by the City and County of San Francisco Department of Building Inspection (excluding 177 permits for demolition work), reflecting construction costing \$1,951,755,543. Because applicants tend to place conservative construction cost estimates on their permit applications, and because cost is not necessarily indicative of market value, the \$1,951,755,543 total cost shown on the open permits may not be an accurate indicator of the market value of new construction yet to be enrolled.

RECOMMENDATION 25: Eliminate the backlog of assessable new construction.

We found lengthy delays in processing building permits and enrolling value added due to new construction. In a review of the assessor's list of permits issued by the City and County of San Francisco Department of Building Inspection, we found numerous construction projects indicated to be complete, some with permits dating as far back as 1996, but the projects remain on the list of unworked permits. The processing of building permits issued by the Port of San Francisco was found to be even further behind. In 2000, the assessor requested copies of building permits issued from 1994 through 1999 from the Port. Approximately 1,300 permits were received, but as of January, 2002, work on them had not yet begun. Because of this backlog in processing older permits, the staff had not yet requested copies of the 490 permits the Port issued in 2000 and 2001.

Section 532(a) provides a four-year statute of limitation beyond which escape assessments on property may not be issued. The assessor's delay in the assessment of new construction beyond the four-year statute of limitations has resulted in lost tax revenue for the city and county. Assuming most construction projects at the Port of San Francisco are completed in the year following the year in which a given building permit was issued, the city and county have irretrievably lost revenue from assessable new construction as indicated by over 500 permits.

We recommend the assessor timely process building permits and eliminate the backlog of assessable new construction.

RECOMMENDATION 26: Develop formal procedures for processing, valuing, and enrolling assessable new construction.

After our last assessment practices survey, the assessor developed some guidelines for the assessment of new construction. However, we found the assessor has not adopted any formal policies or procedures for the assessment of new construction.

Without standardization of methodology, each principal appraiser is operating independently, even within his or her own unit. By adopting standards set forth as formal policy, the assessor can curtail inconsistencies in documentation, cost analysis, and enrollment procedures. Moreover, the

lack of clear standards stalls staff communication and slows production. Thus, formalizing new construction procedures would streamline and dramatically enhance the efficiency of this program.

We repeat our recommendation that the assessor develop formal policies and procedures for the new construction assessment program.

Permit Information Available to the Assessor

There are two agencies in the City and County of San Francisco that issue building permits. The primary issuing agency is the Department of Building Inspection (DBI), while the Port of San Francisco issues building permits for parcels within its jurisdiction.

In a very recent advance, the assessor acquired a direct computer link with the DBI. Now the assessor is able to download building permits from the DBI's database, as well as view the date a DBI inspector performed the final inspection on each project. The staff is also able to group building permits by assessor's parcel number. By assembling permits for a particular property, an appraiser may determine that a series of permits which did not appear to represent assessable new construction when viewed individually, actually represent a reappraisable event when viewed together.

RECOMMENDATION 27: Improve communications with agencies that issue building permits.

Despite improvements that have been made regarding the transmittal of information from the DBI to the assessor, there is still room for improvement. For example, the DBI does not require applicants for building permits to submit an extra set of building plans designated for the assessor, and they do not automatically provide copies of these plans to the assessor. Currently, when the assessor needs a copy of building plans, she adds the parcel number of the property to a list. Typically two or three times each week staff from the assessor's office takes the list to the DBI office and makes copies of as many of the requested plans as time allows. Some appraisers have resorted to contacting contractors directly for accurate and timely information.

In a related problem, the assessor does not have a direct link with the permit-issuing Port of San Francisco. When the assessor requests copies of building permit applications, the Port provides them. However, permits are not transmitted on a regular basis and copies of building plans are not generally provided.

Section 72 states that a copy of any building permit issued by any city, county or city and county shall be transmitted by each entity to the county assessor. This section also states that any time an assessee files an approved set of building plans with a city or county, a scale copy of the floor plans and exterior dimensions of the building designated for the county assessor shall be filed by the assessee or his designee.

DBI can require applicants to provide the assessor with a copy of their building plans. As the information provided by plans is extremely helpful to an appraiser attempting to estimate a project's value, the assessor should continue her attempts to obtain building plans from the DBI. Additionally, the assessor should attempt to obtain, on a regular basis, copies of building permits and plans from the Port of San Francisco.

We recommend the assessor improve communications with agencies that issue building permits.

RECOMMENDATION 28: Eliminate internal building permit tracking numbers.

We found that real property appraisers create internal tracking numbers for building permits when those building permit numbers were "missing." This practice has led to numerous duplicate permits in the assessor's computer system. When these appraisers "close out" open permits indexed by the internal tracking number, they often do not attempt to locate the other building permits indexed by building permit number. There is no program to cross-reference the assessor's internal tracking numbers with DBI permit numbers. The existence of independent but duplicate identification systems contributes to confusion when tracking the progress and completion of new construction. Instead, appraisers should research existing building permit data or telephone DBI to obtain the proper building permit number using the parcel ID number and street address.

Identifying new construction records by only DBI permit number will streamline new construction tracking. We recommend that the assessor eliminate internal tracking numbers for building permits.

RECOMMENDATION 29: Appraise all construction in progress on the lien date.

We found a number of large construction projects with ongoing construction for a number of years where the assessor failed to enroll construction-in-progress values for the interim years. The assessor made only one assessment upon completion of the construction project.

Section 71 and rule 463(d) provide that construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion. The assessor's practice is contrary to the requirements of law and contributes substantially to underassessments of real property.

We recommend the assessor enroll construction in progress on the lien date, as required by section 71 and rule 463(d).

RECOMMENDATION 30: Improve documentation pertaining to new construction.

In our prior survey report, we suggested the assessor log all permits on appraisal records. At that time we noted the appraisal records generally contained an inadequate description of the improvements, but we did not recommend that the assessor upgrade the quality of the appraisal records.

In the course of our current survey, we found that in many cases it was difficult to determine the basis for values enrolled for new construction. It was equally difficult to determine why the assessor placed no value on new construction described on some building permits. In addition, we found that building diagrams are rarely updated to depict enrolled new construction. Typically, the only source that shows the dimensions of a new garage or other structural addition, or the location of a new structure relative to existing improvements, is a rough drawing submitted by the owner on a self-reporting form.

The proper documentation of appraisal data is an essential step in the assessment process. It facilitates appraisal review and provides the means with which to defend a valuation. Updating

building records and building diagrams assists appraisers in the valuation of new construction and the discovery of non-permitted new construction. As a result, we recommend the assessor increase documentation on appraisal records when enrolling new construction.

Supplemental Assessments

Section 75.10 provides that whenever a change in ownership occurs or new construction is completed, the assessor shall appraise the property at its full cash value as of the date of the change in ownership or completion of new construction. Section 75.11 directs how supplemental assessments are issued. The increase or decrease in assessed value resulting from a change in ownership or completed new construction is reflected by a prorated assessment (the supplemental assessment) that covers the portion of the fiscal year remaining after the date of change in ownership or completed new construction. When these events occur between the lien date and May 31, two supplemental assessments are issued. The first covers the balance of the current fiscal year, and the second covers the following fiscal year in its entirety.

We found that supplemental assessments are accurately calculated and that two supplemental assessments are issued when appropriate. However, there are a few areas that need improvement to comply with statutes.

RECOMMENDATION 31: Enroll all supplemental assessments.

In our prior survey, we found that the assessor did not process small supplemental assessments. During our current research, we found that the policy had not changed. The assessor still fails to enroll changes in value that would result in small supplemental assessments. In addition, appraisers establish their own informal thresholds of what they consider "small" supplemental assessments. As a result, these low-value assessments are not added either to the supplemental roll or the regular roll.

Section 75.55 allows the county board of supervisors, by ordinance, to provide for the cancellation of any supplemental tax bill in which the amount of taxes to be billed is less than the cost of administration, to a limit of \$20, or \$50 in the case of eligible manufactured home accessories.⁴ However, the San Francisco Board of Supervisors has not adopted such an ordinance. Consequently, the assessor currently exempts taxable real property from assessment. This practice grants property owners an illegal exemption by failing to assess property at its full taxable value reflecting completed new construction or changes in ownership. Thus, values on the assessment roll are incorrect. Furthermore, the value thresholds are set arbitrarily by individual appraisers using their own guidelines as to what changes in value are worth enrolling. Not only does this practice result in underassessments, it creates an inequity of taxation between property owners. Assessing all changes in ownership and completed new construction, regardless of the magnitude of the change in value, ensures the assessor is abiding by sections 75 through 75.80.

We recommend the assessor enroll supplemental assessments on all qualifying changes in ownership and completed new construction.

⁴ Effective January 1, 2003, the limit is \$50 for all property types.

It should be noted that prior to the completion of this survey, the assessor revised the office policy and commenced enrolling all supplemental assessments, no matter how small.

RECOMMENDATION 32: Use the BOE-prescribed *Notice of Supplemental Assessment* as required by section 75.31(g).

The notice used by the assessor to inform taxpayers of supplemental assessments is not the BOE-prescribed form. In addition, the notice does not include all the information required by section 75.31, such as notification of the right to an informal review, the criteria for the determination of taxable value, or the requirements, procedures, and deadlines for filing an application for the reduction of a base year value.

Section 75.31 provides that the assessor shall send a notice to the assessee, that the notice shall include certain information, and that the notice will be on a form prescribed by the BOE. These requirements benefit the assessee by providing all pertinent information. Omission of the required information is contrary to statute and may confuse the assessee or lead to an inadvertent waiver of the assessee's rights.

We recommend the assessor comply with section 75.31(g) and use the BOE-prescribed *Notice of Supplemental Assessment*.

RECOMMENDATION 33: Enroll supplemental assessments for all tenant improvements as required by section 75.11.

We found that the assessor does not enroll supplemental assessments for all tenant improvements reported on Schedule B of form BOE-571-L, *Business Property Statement* (BPS). When a taxpayer completes Schedule B and reports the cost of leasehold improvements and/or building improvements, the business property division completes an analysis of all costs reported on the BPS and enrolls a value that includes an estimated value of the improvements. Although the business property division enrolls tenant improvements when they are reported on the BOE-571-L, the assessor does not enroll supplemental assessments for those tenant improvements.

Value added for the construction of tenant improvements is subject to the provisions of section 75.11. Supplemental assessments must be levied for value increases due to a change in ownership or completion of new construction, regardless of whether those improvements are on the secured or unsecured assessment roll.

We recommend the assessor enroll supplemental assessments on all tenant improvements as required by section 75.11.

Decline in Value

Section 51 requires the assessor to assess taxable real property at the lesser of its factored base year value (FBYV) or the current fair market value. Whenever a property's current market value declines below its factored base year value, for any reason, that lower value must be enrolled as the taxable value for the years of the decline. Any value enrolled as a decline in value requires annual review until the property's current market value exceeds the factored base year value. The factored base year value is then restored as the taxable value.

There has been a significant effort in San Francisco to restore the FBV to a large number of properties that had experienced declines in value. The number of decline-in-value assessments has been reduced from 28,339 in March 1995 to a total of 1,568 properties as of lien date 2000. The vast majority of those 1,568 properties still enrolled at less than their FBV are timeshare properties (1519). For lien date 2000, only 49 non-timeshare properties retain decline-in-value assessments that are less than their FBV's. Of those 49 properties only 16 will have decline-in-value assessments on the roll being prepared.

Resurgent property values over the past five years, and the work by the assessor to annually review decline-in-value assessments, has resulted in very few remaining properties in decline-in-value status. By continuing to review these values annually, the assessor has fully implemented our recommendation from the prior survey.

Timeshare Property

Although timeshare properties are defined and discussed in a separate section of this report, they are discussed here in regards to declines in value. The 2000-2001 assessment roll included 5,383 timeshare properties with a combined assessed value of \$47,065,947.

During the mid-1990's the assessor determined that the market value of some timeshares had fallen below their initial sales prices. For the 2000-2001 assessment roll, 1,519 timeshares were enrolled at values that were less than their FBV's.

RECOMMENDATION 34: Assess timeshares at the lesser of their factored base year values or the current market values.

We found a number of timeshares enrolled at values higher than the current market value of other timeshares of the same floor plan in the same development.

The assessor performed a market analysis for the 2000 roll to estimate the current market value for timeshares whose enrolled values were less than their FBV's. That analysis found the assessed values for timeshares in one development should be raised by \$1,500 to \$2,000 per unit depending on the floor plan, while those in another development should be reduced by \$2,000 to \$3,000. In addition, the study found that timeshares in a third development should be assessed at their FBV's.

Section 51 states that the taxable value of real property shall be the lesser of its base year value factored annually for inflation, or its full cash value, as defined in section 110, on the lien date.

Although the assessor performed the timeshare sales study, the results of the study were not applied to the assessment roll. While the inaccurate assessments are significant, their effect on tax bills is relatively minor. Inaccurate assessments resulting from the assessor's failure to enroll the market values recommended by staff produced tax bills that range from \$30 too high to about \$20 too low. Regardless of the monetary impact, the assessor has the legal duty to assess these properties at the lesser of FBV or current market value.

We recommend the assessor enroll all timeshares at the lesser of FBV or current market value as defined by section 110.

Major Commercial Property

The assessor's major property division values all retail properties above \$5,000,000. These properties include regional shopping centers, hotels, high-rise apartments (30 units and above), large business/industrial parks, and any special projects, e.g., a sports stadium. A separate real property division handles the assessments for all commercial office space. Although commercial income-producing properties account for approximately 11 percent of the total real property parcel count, they represent approximately 35 percent of the total assessment roll.

For change in ownership events, the assessor commonly accepts the sale price as full cash value on verifiable transfers. The income approach is also employed when reliable data are available. Capitalization rates are derived from market sales, and the cost approach is used to value new construction.

Commercial and industrial appraisers use in-house generated questionnaires to collect information from property owners. We found the questionnaires an effective tool for the collection of data. We reviewed 50 commercial and industrial property records. For the majority of properties with a change in ownership and a confirmed sale price, the sale prices are enrolled and comparable land sales are used for allocating value to land.

Our prior survey report included four recommendations pertaining to major properties. We found the assessor has implemented two of our recommendations. The commercial appraisal staff makes a concerted effort to systematically collect and analyze market data involving the sale of major income-producing properties. This effort has improved the valuation process, and the assessor indicates that this information will be incorporated into the computer database in the near future. In addition, the assessor has provided training in word processing and spreadsheet computer programs, as well as the assessor's own comparable sales database, to her appraisal staff. However, the issue of controlling, organizing, and maintaining appraisal files for major properties remains a problem (see Recommendation 5), and the documentation of appraisals of major properties still needs improvement.

RECOMMENDATION 35: Develop written procedures for the valuation of major income-producing properties.

We found that the assessor does not have written procedures or guidelines for the valuation of major properties. Each appraiser individually determines the appropriate valuation approach utilizing various formats and forms. We found a lack of consistency and uniformity in the valuation and documentation of these major properties.

We recommend that the assessor establish guidelines prescribing standard appraisal valuation procedures for major commercial and industrial properties.

Timeshare Property

Timesharing is a system of sharing ownership in property such as vacation homes, condominiums, or campsites, in which each of the owners may occupy the unit during a specified time interval. Typically, when a timeshare is purchased non-real property items are included in the selling price.

Such items include personal property (furniture, linen, kitchenware, household items), vacation exchange rights, club membership, selling and promotional expenses, and any prepaid expense such as a maintenance fee for the upcoming year. Such items are not taxable and should not be included in the assessed value.

As previously noted, San Francisco's 2000-01 assessment roll included 5,383 timeshare assessments with a total assessed value of \$47,065,947. These timeshares are located in four developments that, according to the assessor, are similar to each other in market appeal. A fifth project is currently being developed.

A major factor that must ordinarily be considered in the valuation of a timeshare is the season or specified week purchased. However, the assessor indicates that sales prices support the theory that there is no high or low season for timeshares in San Francisco. 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 70 percent of its original sale price.

RECOMMENDATION 36: Reassess timeshare projects when the cumulative interest and value transferred meets the requirements of section 65.1.

We found that the assessor does not reassess timeshare projects when the interest and value of the interest transferred meets the requirements of section 65.1. There are two timeshare projects in San Francisco where the individual timeshare estates or interests are not separately assessed. These projects were assessed for the 2000 assessment roll at approximately \$12 million. The assessor currently tracks changes in ownership of the timeshare estates and interests within these projects, in case a request for separate assessments is received at a future date. However, the assessor simply factors the prior year's assessed value unless there has been a change in ownership of the entire timeshare project.

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. Therefore, the assessor must reassess any interest that equals or exceeds 5 percent of the total property value and the total interest transferred if the total value exceeds \$10,000 at the end of each assessment year.

We recommend that the assessor reassess the timeshare interests in timeshare projects that meet the requirements of section 65.1.

Historical Property

The Mills Act provides a specific procedure for the assessment of certain historic properties. Its purpose is to encourage the renovation and maintenance of historic properties throughout California by providing a property tax incentive for their owners. Government Code section 50280 provides that an owner of a qualified historical property may enter into a contract with local government to restrict the use of the property for historical purposes in return for property tax benefits, requiring the assessor to use a specific valuation methodology.

Historical properties are reassessed annually at the lowest of their factored base year value, current market value, or restricted value. Further, when valuing enforceable restricted historic properties, section 439.2 prohibits the assessor from considering comparable sales data and requires that the restricted value be determined by using the income approach.

In the income method, a fair or market rent, less ordinary and necessary expenses, is capitalized into a value by a rate that is the sum of a BOE-issued interest component, a risk component, a component for property taxes, and a component for amortization of the improvements. Once capitalized, the appraiser compares the resulting restricted value indicator with the current market value and the factored base year value.

The City and County of San Francisco has 228 historical properties listed in the State's Register for Historical Places, but none are classified as enforceably restricted historical property as defined by the Mills Act. The board of supervisors, however, has implemented an ordinance for the purpose of allowing such contracts with property owners. In addition, the city planning department for the City and County of San Francisco indicate they may be processing and completing two contracts within the next six months.

Taxable Possessory Interests

Section 107 and rule 20(a) define a taxable possessory interest as an interest in real property which exists as a result of possession, exclusive use, or a right to possession or exclusive use of land and/or improvements unaccompanied by ownership of a fee simple or life estate in nontaxable, publicly-owned real property.

The assessor enrolled 2,897 taxable possessory interests with a total assessed value of \$1,636,782,958 for the 2000-2001 assessment year. The combined assessed values of the five largest possessory interests exceeded one billion dollars.

One significant advance in the assessment of possessory interests that occurred since our last survey is the introduction of a computer program for tracking and valuing possessory interests. The software has the potential to greatly enhance the assessment of possessory interests. By inputting the monthly or annual rent, the estimated term of possession, and the discount rate, the program can estimate the value of the possessory interest. In addition, this software has the capacity to track the year that each possessory interest requires revaluation and therefore can be used to determine the reappraisal workload for any assessment year. Appraisers can use various information screens to record information about the current lease, changes in ownership, and documentation of any data that is pertinent to the valuation of the possessory interest.

While this program for possessory interests will undoubtedly become a valuable asset, to date it contains a very limited amount of information. The only possessory interest accounts that contain sufficient documentation to support their enrolled values are those that have been revalued in the last two or three years. If a possessory interest has not been revalued within that time frame, the system will contain little, if any, information on the possessory interest.

RECOMMENDATION 37: Improve the program for the discovery of taxable possessory interests.

We found two areas where the assessor's program for the discovery of taxable possessory interests should be improved.

The first is the letter used by the assessor requesting the annual possessory interest usage report. It mistakenly limits full disclosure of possessory interests, in that it requests a list of all tenants as of January 1st. In fact, the assessor should be asking for information on all tenants, whether the tenant occupied the public property on the lien date or any time during the year. Because the assessor only requests the names of tenants who were using the property as of the lien date, it is highly likely that public agencies may overlook reporting tenants who use their property at other times of the year. A taxable possessory interest may result from the use of publicly owned real property that occurs at any time of the year, particularly if it is a recurring usage. For example, we found a flower show that has been held at a government-owned park for the past 55 years. The assessor does not assess this possible possessory interest.

Additionally, the letter does not correctly state all the required elements of the report as set forth in section 480.6, nor does it state the correct deadline. The required information not included in the assessor's request includes: (1) name and address of the fee owner of the real property; (2) the types of transactions in which the holders of the possessory interest acquired those interests, whether creations, renewals, subleases, or assignments; (3) the date of each transaction in which a holder of a possessory interest in the real property acquired that interest; and (4) for any assignments, the original and remaining term of the assignment and the consideration paid for the underlying lease. Section 480.6 also sets "the 15th day of the first month following the month in which the lien date occurs" as the filing deadline. Currently, that date is February 15th. However, the assessor's letter states a deadline of February 25th.

Section 480.6 specifies that the usage report is required to be provided by the public agency if preliminary change in ownership reports or change in ownership statements are not submitted to the assessor. The purpose of this reporting requirement is twofold: (1) to discover new taxable possessory interests and (2) to provide full information for valuation purposes. Since the assessor's taxable possessory interest discovery program relies almost exclusively on the annual usage reports, it is important that the letter requesting the report clearly describe the information needed.

The second part of the discovery program that should be improved is the identification of taxable possessory interests at convention and cultural facilities. The assessor has assessed the same possessory interests at the Moscone Convention Center and the Civic Auditorium, unless the use stopped, for a number of years. However, new events reported to the assessor are not investigated for possible assessment as taxable possessory interests. With only cursory research, we found a number of recurring events for which there has been no assessment.

An estimate of the number of possessory interests that may be escaping assessment or the potential loss in tax revenue cannot be estimated until a complete review of the events is conducted. However, regardless of the values involved, the assessor has the duty to assess all possible taxable possessory interests.

We recommend the assessor improve the discovery program for taxable possessory interests by revising the letter requesting annual usage reports so as to comply with section 480.6 and by

exercising due diligence in investigating possible possessory interests at convention and cultural facilities and enrolling all that qualify.

RECOMMENDATION 38: Use market rents when valuing possessory interests in yacht harbors.

The most recent documentation showing how the assessor values berths at public harbors is a spreadsheet that was developed for 1998 roll valuations. The rents used for valuation purposes were higher than the actual rents by 21 to 55 percent. While this may be reasonable, we found no documentation to explain the difference or illustrate the reconciliation to the rents used in the valuation analysis. Additionally, we found no market documentation in the appraisal files to support the increased values enrolled in 1999 and 2000 following three previous years of no change in enrolled values.

There are more than 1,700 boat berths in the City and County of San Francisco, including approximately 695 at the San Francisco Yacht Harbor. Actual rents charged by the City and County of San Francisco Recreation and Park Department have remained unchanged since July 1, 1994. The assessor values possessory interests in berths at the San Francisco Yacht Harbor (East and West Basin) at \$7.50 per linear foot, based on the length of the berth. This market rent was determined based on a study conducted by the assessor around 1996.

Rule 21(e)(3)(A) indicates that when using the income approach to value a possessory interest, the appraiser is to capitalize the future net income that the taxable possessory interest is capable of producing under typical, prudent management for the term of possession. This implies that when these berths are valued, the value should be based on current market rents.

We recommend the assessor periodically establish market rents for vessel berths in order to properly value possessory interests in yacht harbors.

RECOMMENDATION 39: Cease the assessment of possessory interests on property owned by the California School of Mechanical Arts.

In our last three survey reports, we recommended the assessor cease assessing possessory interests in properties exempted by section 203.5. Specifically, in our 1996 survey report, we recommended the cessation of possessory interest assessments on property owned by the California School of Mechanical Arts and the California Academy of Sciences. The assessor's response to this recommendation was that neither the California School of Mechanical Arts nor the California Academy of Sciences were being assessed, but that their unrelated commercial tenants were being assessed for their respective possessory interests in the subject property.

Our current review found that no property owned by the California Academy of Sciences is being assessed. However, we confirmed that five tenants in properties owned by the California School of Mechanical Arts are being assessed as possessory interests.

There are two reasons why these assessments are not appropriate: (1) section 203.5 specifically exempts all property owned by the California School of Mechanical Arts; and (2) since the California School of Mechanical Arts is privately owned, the interests of the tenants do not meet

the definition of a taxable possessory interest. Rule 20(b) defines a taxable possessory interest as a possessory interest in publicly owned real property.

The assessor's practice has resulted in erroneous assessments of \$1,314,031 for the 2000-2001 roll, and similar assessments in preceding and subsequent years. We again recommend that the assessor comply with rule 20 and cease assessing possessory interests on property owned by the California School of Mechanical Arts.

Leasehold Improvements

Leasehold improvements are real property items that are owned and installed by a lessee on leased real property. Typically, leasehold improvements are found in retail stores or office buildings. Because the owner of the leasehold improvements does not own the total real property, discovery of the leasehold improvements requires constant monitoring of commercial, industrial, and other income-producing properties.

Assessment of leasehold improvements requires tracking of ownership and base year values, and close cooperation between business property and real property staffs. The most common sources for the discovery of leasehold improvements are business property statements and building permits. Section B of the BOE-571-L, *Business Property Statement*, is designed specifically for real estate related assets owned by the occupants at the location of the business enterprises.

Coordination between the business property and real property staff is important for the proper assessment of leasehold improvements. The transferring of information may be done efficiently using an Inter-Departmental Memorandum. Assessment coordination was the subject of a BOE Special Topic Survey dated December 1999 (*Assessment Coordination Between Real Property and Business Property Divisions on Tenant Improvements*). The assessor may review page 27 of this publication for sample procedures on the exchange of information on leasehold improvements.

Commercial, industrial, and other types of income-producing properties require constant monitoring by the assessor because of tenant turnover or various alterations of the original improvements. Alterations may lead to a change in use and may qualify as new construction.

When real property is reported on the business property statement, an appraiser and an auditor-appraiser should examine the reported cost. These additions must be properly classified as structural, fixture improvements, or personal property and properly enrolled. For these reasons, coordination between the real property and business property staffs is very important. Additionally, coordination between real property and business property staff will promote uniform assessment and should minimize duplicate or escape assessments.

RECOMMENDATION 40: Refer all reported structural and land improvement costs from the annual business property statement to the commercial property appraiser in the real property division for review.

We recommended in our previous survey that improvement costs reported on the business property statement (e.g., structural, fixtures, land development, and land) be referred to the real property division for evaluation and appropriate assessment. The assessor responded by initiating a *Leasehold Improvements Referral* sheet that could be used by both the real property and business

property staffs. While this referral sheet is a significant step towards coordination between the real property and business property staffs, there is no evidence that any coordination is occurring between the two divisions. This could result in the double assessment of fixtures.

The commercial appraiser should determine whether the new improvement costs reported on the business property statement reflect assessable new construction. When the business account is on the secured roll, the new construction is assessed directly to the owner of the land and building. When 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; otherwise, the improvement costs are referred back to the Business Property Division for assessment as unsecured tenant improvements.

With a secured business account, the commercial real property appraiser classifies and values completed new construction and improvements as real property with a base year value and supplemental assessment. In subsequent years, this base year value will be factored by the current consumer inflation factor. However, when new construction and improvements are assessed by the auditor-appraisers on the unsecured assessment roll, they are classified as trade fixtures, assigned a 12- to 15-year economic life, and assessed to the unsecured business owner. This inconsistent procedure produces a significant valuation difference between similar improvements assessed on the secured tax roll versus the unsecured tax roll.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

- processing annual business property statements;
- annual valuation of personal property and fixtures reported on business property statements;
- auditing business property statements to ensure proper reporting by taxpayers; and
- annual valuation of other taxable personal property, including vessels.

Audit Program

Audits are an important part of the assessor's business property assessment program. Property tax audits ensure that taxable property has been reported accurately by the taxpayer and assessed correctly by the assessor. Audits allow investigation and resolution of reporting and appraisal problems. They also provide a means of collecting data relevant to determination of taxability, situs, and value of business property. Audits may result in changes to the assessment roll to more accurately reflect the taxable value of business property. The audit program is divided into mandatory and nonmandatory audits.

Mandatory Audits

Section 469 and rule 192 require the assessor to conduct an audit of the books and records of taxpayers at least once every four years when the value of those taxpayers' locally assessable trade fixtures and tangible personal property reaches or exceeds a specified amount for a period of four consecutive years. Consequently, mandatory audits are the most significant part of the assessor's audit program.

Mandatory audits verify the property statement filings for the largest business property accounts and help prevent and correct potentially large errors. For the period from July 1997 through June 2001, the assessor had approximately 2,400 accounts that met the mandatory audit criteria.

RECOMMENDATION 41: Bring the mandatory audit program to current status as required by section 469.

We found that there has been a major reduction in the assessor's audit-appraisal staff. For fiscal year 1998-99, the assessor had 26 auditors-appraisers on her staff. During the following year, that number dropped to 18 auditor-appraisers. We found that the assessor cannot meet the requirements of section 469 and rule 192 with so few staff. For the period from July 1999 to June 2000, only 290 audits were assigned to those 18 auditor-appraisers. To meet the requirements of section 469, the assessor would need to assign and complete 381 audits during the 2000 assessment year. This workload leaves a deficit of 91 unassigned or incomplete audits. Although in some cases the

taxpayers had executed waivers of the statute of limitations, for much of the audit backlog no waivers were on file; hence, for some years the possibility of roll corrections or escapes may be lost.

The assessor has created a mandatory audit schedule that cannot meet the requirements of section 469. Although we acknowledge that the backlog was partially created by the high vacancy rate of auditor-appraisers and other staff, we recommend the assessor create and maintain a mandatory audit schedule that meets her statutory obligations so as to bring the mandatory audit program current.

RECOMMENDATION 42: Complete an audit checklist for each audit.

We reviewed a sample of recently completed mandatory audits to measure the content, scope, documentation, and quality of those audits. We found that the assessor's use of computer-generated forms resulted in audits with a professional appearance. However, no audit checklists were included in those audits. In our prior survey report, we suggested the assessor include an audit checklist in all audits. We now repeat that advice as a recommendation.

Audit checklists provide documentation that the auditors have fully investigated that account. Also, audit checklists help standardize the quality of the audits. We recommend the assessor require an audit checklist for all property tax audits.

RECOMMENDATION 43: Process separate escape assessments and roll corrections for each year under audit.

We found that the assessor offsets underassessments (escapes) for one year with overassessments in other years when enrolling the results of an audit. Section 533 allows for an offset of tax refunds against tax liabilities in different years; however, that statute does not apply to assessed values. The responsibility for offsetting refunds with proposed tax liabilities does not rest with the assessor, but with the tax collector.

The correct procedure is for the assessor to enroll each escape assessment and each roll correction that is within the statute of limitations under section 532, and allow the tax collector to handle the offsets.

We recommend the assessor process separate escape assessments and roll corrections for each year in which an error is discovered during an audit, provided that they are within the statute of limitations period, unless the taxpayer has agreed to extend the time under section 532.1.

Audit of Nonprofit Organizations

The assessor's mandatory audit computer report includes many nonprofit organizations that meet the requirements of section 469. However, many of these organizations also file for property tax exemptions such as the welfare exemption. Examples include hospitals, community service groups, and charitable organizations.

RECOMMENDATION 44: Include nonprofit organizations that meet the requirements of section 469 in the mandatory audit program.

We found the assessor does not audit nonprofit organizations that meet the requirements of section 469. This deficiency was also noted in our prior survey report and we suggested the assessor include qualifying organizations in the mandatory audit program.

Section 469 does not exclude nonprofit organizations from mandatory audits and no such exclusion appears elsewhere in the Revenue and Taxation Code. By failing to perform these audits, the assessor fails to meet statutory obligations under section 469.

We recommend the assessor include nonprofit organizations that meet the requirements of section 469 in the mandatory audit program.

Estimated Assessments

Business entities or individuals that fail to file the property statements required by section 441 present problems for any assessor's office. Since those assesseees report no data, the assessor must generate estimated assessments. These estimates are mandated by section 501, which provides that:

"If after written request by the assessor, any person fails to comply with any provision of law for furnishing information required by Sections 441 and 470, the assessor, based upon information in his possession, shall estimate the value of the property and, based upon this estimate, promptly assess the property."

RECOMMENDATION 45: Audit taxpayers that fail to file property statements for three or more consecutive years.

The assessor had 777 business accounts with full cash values of \$100,000 or more enrolled as estimated assessments for the 2000 lien date. Of those 777 accounts, 231 accounts had full values of \$300,000 or more, including 56 accounts with full values over \$1 million (Note: the mandatory audit threshold has increased as of January 1, 2001, to \$400,000). We found that the assessor has audited only 39 of these 56 accounts; 17 accounts have not been audited or scheduled for an audit.

Good auditing practices in an assessor's office should dictate that estimated assessments should be limited to no more than three consecutive years. Estimates are only a temporary solution for any recurring nonreporting problem. With 231 business accounts reaching the mandatory audit threshold, those nonfiling taxpayers should receive priority when scheduling audits.

We recommend that the assessor audit those taxpayers that fail to file property statements for three or more consecutive years.

Discovery of Business Personal Property and Fixtures

One of the assessor's ongoing responsibilities is the discovery of new businesses, relocation of existing businesses, and new tenant improvements. To assist in this discovery process, the assessor's business property division annually conducts a field canvass using auditor-appraisers, property assessment specialists, and support staff. The field canvass teams look at the major business locations checking ownership information, new tenant improvements, and new businesses. Other sources of discovery include fictitious business name advertisements, the audit

process, leased equipment listings, reverse telephone directories, tenant lists, newspapers, telephone books, and the tax collector's database.

The assessor annually canvasses businesses in the downtown area and other selected neighborhoods, reviewing about one-third of the businesses in San Francisco. Rotating through different neighborhoods each year enables the assessor to review the entire city over a three-year cycle.

We found the assessor has an effective business personal property discovery program.

Business Property Statement Processing

Section 441 provides that every person owning taxable personal property in excess of \$100,000 must annually file a signed business property statement with the assessor. Every person owning personal property that does not meet the above requirements must, upon request of the assessor, file a signed business property statement. Annual business property statements are a basic element of any personal property assessment program.

RECOMMENDATION 46: Screen business property statements with electronically prepared attachments to ensure the statement is complete and fully executed pursuant to section 441.5.

We found that business property statements with electronically prepared attachments were accepted by the assessor, despite the fact that the statements were not complete. Although the taxpayer attached the electronically reproduced statements to the business property statement provided by the assessor, the statement was not signed or dated. Additionally, we found that the field in which the taxpayer is required to list in detail the nature of newly reported structural items from Schedule B1 was not included on the taxpayer-submitted electronic versions. Without this information it is difficult to confirm that the reported items were indeed reportable as business property.

Section 441.5 authorizes taxpayers to submit attachments in lieu of completing the printed property statement sent by the assessor. However, that statute also requires the taxpayer to attach and execute the property statement sent by the assessor. Further, section 441.5 requires that the attachments be in a format specified by the assessor. Instructions for Schedule B1 indicate that if there are any additions or disposals during the past year, a listing showing the month and year and description of each addition and disposal should be attached.

During processing, the auditor-appraiser must determine whether items reported on Schedule B1 are assessable or non-assessable. Thus, a complete statement including an itemized listing of additions and disposals is necessary for proper classification.

We recommend the assessor screen business property statements submitted with electronic attachments to ensure that taxpayers have fully executed the statement and have provided full information as specified in section 441.5.

RECOMMENDATION 47: Accept only appropriately signed property statements as required by rule 172.

In our last assessment practices survey report, we recommended the assessor screen property statements for completeness. During our current survey we found that the assessor continues to process unsigned property statements (e.g., business property statements and vessel property statements) and property statements signed by unauthorized agents and employees.

Rule 172 requires property statements to be signed by assessees, partners, duly appointed fiduciaries, or agents. When signed by an agent or employee, other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, rule 172 also requires the assessee to file a written authorization with the assessor.

We found that the assessor accepts all business property statements and does not screen them for authorized signatures or maintain a list of authorized agents. Although the agents or employees signing these statements may be "duly appointed fiduciaries" within the meaning of rule 172, the assessor must have written authorization on file to accept such signatures.

We recommend the assessor screen property statements more closely, rejecting those statements that do not contain the signatures required by rule 172.

Direct Billing

San Francisco is one of the 39 county assessors' offices that uses an assessment procedure called direct billing or direct assessment. It is a system of assessment where established businesses, having tangible personal property costing less than \$100,000 and only minor changes in equipment holdings from year to year, do not file annual property statements. Instead, the assessor sends an assessment directly to the taxpayer.

The assessor had three main criteria for enrolling a business account in the direct billing program for the 2000 lien date. Those criteria were as follows:

- the taxpayer has filed at least one property statement;
- the total acquisition costs were under \$50,000; and
- the property has been subject to a physical inspection.

These criteria seem reasonable and are in accord with generally accepted assessment practices. However, problems arise when the threshold is applied on an individual location basis instead of the aggregate sum of the total tangible personal property.

RECOMMENDATION 48: Exclude accounts that have business property at multiple locations from the direct billing program.

We found multiple-location accounts—with an aggregate sum over \$100,000—included in the direct billing program. Aggregate account values over \$100,000 are not appropriate for direct billing. Section 441 requires annual property statements for all accounts over \$100,000. Direct billing cannot be used for those accounts.

We recommend the assessor exclude multiple-location accounts from the direct billing program.

RECOMMENDATION 49: Send business property statements to direct billing accounts every fourth year.

In our last survey report we recommended the assessor send property statements to direct billing accounts every fourth year. This recommendation has not been implemented.

Direct billing accounts require periodic updating and review. That review can be accomplished by sending business property statements to all direct billing accounts on a four-year cycle, regardless of their business type or classification.

We repeat our prior recommendation that the assessor send business property statements to direct billing accounts every four years.

Valuation

Valuation Factors

Most assessors derive valuation factors by combining equipment index factors with percent good factors. To assist assessors in the uniform assessment of business personal property, the BOE has developed annual equipment index factors and percentage good factors. Those factors are published in the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, (AH 581).

Computer Valuation

To promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issues valuation factors for the valuation of computer equipment. The BOE provided valuation factors for use in valuing computer equipment for the 2000-2001 assessment year in Table 6 of AH 581.

We reviewed the assessor's computer valuation program and found that the proper factors are used. We found no problems with the assessor's computer valuation program.

Leased Equipment

Another of the assessor's responsibilities is the discovery and assessment of leased equipment. The annual property statement includes a section in which taxpayers are required to report any leased equipment that they possess. Taxpayers must provide the lessors' names, addresses, dates of acquisition, acquisition costs, and other relevant information for all leased equipment. The assessor's business property staff tracks all leased equipment reported by the lessees and lessors, including any conditional sales contracts reported by financial institutions or other leasing companies.

The assessor has assigned a principal auditor-appraiser to direct the leased equipment assessment program. As a result of PTAP funding, the assessor has assigned an additional auditor-appraiser to the leased equipment assessment program. This program tracks leased equipment, cross-references, and reviews leased equipment reported by lessors and lessees.

RECOMMENDATION 50: Annually review the BOE's listing of equipment leased to state assessees.

The BOE's Valuation Division assesses public utilities and railroads in California. Certain equipment used by those assessees, but leased from other parties, must be assessed by the assessor. Assessees report that property to the BOE's Valuation Division on form BOE-600-B, copies of which are forwarded by the Division to the appropriate assessors' offices. In our prior survey report, we recommended the assessor review these reports and use them as a discovery tool for leased equipment. We found that the assessor continues to overlook this form.

To aid in the discovery of all taxable personal property, we repeat our recommendation that the assessor annually review the forms BOE-600-B provided by the BOE's Valuation Division.

Apartment Personal Property

Personal property in apartment complexes is subject to assessment if owned by the apartment owner and used in the production of income. The cost of that apartment personal property must be reported to the assessor annually on the BOE-571-R, *Apartment House Property Statement*. Apartment personal property includes apartment furniture, appliances, office furniture, furniture in common areas, and recreational and maintenance equipment. As specified in section 224 and rule 134, other personal property that qualifies as personal effects or household furnishings is exempt from taxation.

RECOMMENDATION 51: Develop formal procedures for the discovery and assessment of apartment personal property.

In our prior survey report, we recommended the assessor develop and implement written standardized procedures for the discovery and assessment of landlord-owned apartment personal property. We found that those procedures have not been written and that the assessment of apartment personal property in San Francisco continues to be burdened by many problems. The assessor does not send the annual *Apartment House Property Statement* to many apartment owners. Consequently, these property owners do not receive a separate assessment for their apartment personal property. Apartment personal property either escapes assessment or is incorrectly assessed because the real property assessments include the value of that personal property in the total assessment.

We recommend the assessor develop formal procedures for the discovery and assessment of apartment personal property.

Service Station Improvements

Prior to the addition of article XIII A of the California Constitution, service station improvements were generally assessed as a single unit without differentiating between structure and fixture classification. After the addition of article XIII A, fixture improvements and structure improvements needed to be properly classified because of new construction definitions and decline-in-value assessments, and for supplemental roll purposes.

RECOMMENDATION 52: Properly assess service station fixture improvements as improvements.

We found that the assessor inconsistently assesses service station fixture improvements. For some service stations, fixture improvements such as tanks, monitoring systems, and fuel dispensers are properly classified and assessed as improvements. On the other hand, for several service station accounts, the same fixture improvements were assessed as personal property.

Proper classification of these improvements is essential for their correct valuation. For real property, the taxable value is the lesser of its factored base year value or its current market value. Tangible personal property, however, is assessed each year at its current market value on the lien date.

In Letters to Assessor 92/27, 88/40, and 88/24 we recommended the assessor classify real property items such as buried tanks, dispensers, hoists, and air/water stations as fixtures. Classifying those fixture improvements as personal property is contrary to that advice.

We recommend that service station fixture improvements be assessed as improvements.

Vessels

For the 2000-2001 assessment roll the assessor valued 1,104 pleasure boats with a total assessed value of \$47,596,134. In addition, the assessor enrolled 40 documented vessels with a net assessed value of \$40,630,806. The primary sources of discovering assessable boats/vessels are an annual field canvass; Department of Motor Vehicles (DMV) reports; lists of vessels provided by owners, operators, and lessees of private and public boating facilities; referrals from other counties; and information from yacht brokers.

Vessel Property Statements

RECOMMENDATION 53: Apply the 10 percent penalty for the failure to file or late-filing of the BOE-prescribed *Vessel Property Statement* as required by section 463.

We found that when a vessel owner fails to file a BOE-576-D, *Vessel Property Statement*—or files that statement after its statutory deadline—the assessor does not apply the 10 percent penalty required by section 463. We believe that this situation arises from an incorrect assumption that the 10 percent penalty applies only to boats costing \$100,000 or more.

Section 441 requires owners of taxable personal property with an aggregate cost of \$100,000 or more to file an annual property statement. Upon the request of the assessor, every person owning personal property must file a signed property statement regardless of the aggregate cost. Those requirements also apply to the vessel property statement.

Section 463 specifically requires the assessor to add a 10 percent penalty to the assessed value when a taxpayer fails to file a property statement or files that statement after the statutory deadline. Only the assessment appeals board, through the regular appeals process, can abate that penalty.

We recommend the assessor apply the 10 percent penalty required by section 463 to all taxpayers that fail to file or that file late vessel property statements.

Pleasure Boats

RECOMMENDATION 54: Annually appraise pleasure boats at market value.

When a pleasure boat is sold or becomes permanently sited in San Francisco, the assessor sets an initial value using the *BUC Used Boat Price Guide (BUC)*. If the reported purchase price falls within the range of value in the *BUC* guide, the assessor enrolls that value. If the reported purchase price is significantly less than that value range, the assessor enrolls the low value from the value guide. This procedure is reasonable. After setting the initial value, however, the assessor reduces future assessments annually by 5 percent. There is no study to support this fixed depreciation rate.

While this valuation method simplifies the assessment process, it assumes a fixed depreciation rate for each class of pleasure boat, which may or may not reflect the market value. Absent a study supporting an across-the-board 5 percent depreciation rate, the assessed value will probably not represent market value.

A more valid valuation approach would first categorize all boats into two major groups, new and used. These two groups should then be classified into six subgroups, cruiser/powerboat, sailboat, inboard, outboard, inboard/outboard, and personal watercraft. Based on a periodic study of each classification, the assessor should then calculate the market values for each subgroup by comparing the published boat valuation guides to local selling prices.

We recommend the assessor annually appraise all pleasure boats at market value using trending factors developed from periodic reviews for each classification of boat.

Documented Vessels

Section 130 defines a documented vessel as any vessel which is required to have a valid marine document issued by the Bureau of Customs of the United States or any federal agency successor. This definition does not include documented yachts of the United States or vessels registered with, or licensed by, the DMV.

Certain documented vessels qualify for assessment at 4 percent of their full cash value pursuant to section 227. Those vessels must be used exclusively in the taking of fish or other living sea resources for commercial purposes, in instruction or research as an oceanographic vessel, or in carrying or transporting seven or more people for hire. To be assessed at 4 percent of full cash value, section 254 requires vessel owners to submit annual affidavits.

RECOMMENDATION 55: Correctly calculate the assessment of documented vessels as required by section 275.5 when vessel owners submit late-filed affidavits.

When a vessel owner fails to file the annual affidavit timely, the assessor reduces the market value of the vessel to by percent. However, 76 percent is an improperly rounded number.

When the affidavit is filed late—between February 16 and August 1—section 275.5 requires the assessor to reduce the assessment by only 80 percent of the 96 percent reduction, or 76.8 percent.

We recommend the assessor correctly calculate the reduced assessments required by section 275.5.

RECOMMENDATION 56: Revise the *Affidavit for 4 Percent Assessment of Certain Vessels* to include the correct filing deadline established by section 255.

Section 254 requires owners of documented vessels to submit the affidavit annually to the assessor to receive the 4 percent assessment. We found that the affidavit used by the assessor contains incorrect deadline information.

To receive the full benefit of assessment under section 227, the assessor's instructions state that the affidavit must be filed on or before February 1. Section 255 provides that the affidavit shall be filed between the lien date and 5 p.m. on February 15. The instructions also state that if the affidavit is filed between February 2 and August 1, the assessment shall be lowered to only 80 percent of the 96 percent reduction. Under section 275.5 the assessment shall be reduced if the affidavit is filed between February 16 and August 1.

We recommend that the assessor revise the current *Affidavit for 4 Percent Assessment of Certain Vessels* to include the correct filing deadlines.

APPENDIX

A: County Property Tax Division Survey Group

San Francisco City and County

Chief, County Property Tax Division:

Charles Knudsen

Assessment Practices Survey Section Manager

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor

Michael Lebeau

Supervising Property Appraiser

Office Survey Team Leader:

James Lovett

Senior Specialist Property Appraiser

Survey Team:

Lois Adams

Senior Specialist Property Appraiser

Sally Boeck

Senior Specialist Property Appraiser

Jody Henning

Associate Property Appraiser

Wesley Hill

Associate Property Appraiser

Ken King

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Ancil Aydelott

Associate Property Auditor Appraiser

Manuel Garcia

Associate Property Auditor Appraiser

Larry Gee

Associate Property Auditor Appraiser

Raymond Tsang

Associate Property Auditor Appraiser

Kim Trotto

Assistant Property Appraiser

Marilyn Jones

Tax Technician II

Debbie Cooke

Tax Technician I

B. Assessment Sampling Program

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

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

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one of five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

- d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

- c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

C: Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The San Francisco City and County Assessor's response begins on the next page. The BOE has no comments on the response.



City and County of San Francisco
Office of the Assessor-Recorder

DORIS M. WARD
Assessor-Recorder

November 22, 2002

Mr. Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 94278
Sacramento, CA 94279-0062

RECEIVED
NOV 23 2002
County Property Tax Division
State Board of Equalization

Dear Mr. Knudsen:

My response to the recommendations included in the State Board of Equalization Assessment Practices Survey of the City-County of San Francisco is enclosed. The response was prepared in accordance with Section 15645 of the California Government Code.

You will note that we agree with many of the recommendations and have already implemented or are planning to implement the changes necessary to achieve compliance.

I want to thank the survey team for the courteous and professional manner in which they conducted the audit, including the subsequent visits.

Most importantly, I want to thank my staff for their hard work, professionalism, and dedication to serving both the City-County of San Francisco and the City-County taxpayers as they administer the California property tax laws in a fair and equitable manner.

Sincerely,

Doris M. Ward
Assessor-Recorder
San Francisco County

Enclosure

RECOMMENDATION 1: Fill vacant assessment positions.

RESPONSE

We agree with the recommendation. We will continue to request funding for these positions, however, City & County of San Francisco budget constraints have not permitted us to fill vacant positions.

RECOMMENDATION 2: Task the assessment standards section with the responsibilities of standards and quality control.

RESPONSE

We agree with the recommendation, but due to staffing and budget problems this will have to wait until a later date.

RECOMMENDATION 3: Develop a comprehensive policies and procedures manual.

RESPONSE

We agree with the recommendation and continue to work on this manual as time and staff permits.

RECOMMENDATION 4: Submit BOE-prescribed form checklists.

RESPONSE

We agree with the recommendation and will submit forms checklist.

RECOMMENDATION 5: Implement a system to control access to appraisal books.

RESPONSE

We agree with the recommendation. Due to space constraints; and floor plan required in a historic City Hall, we are unable to comply at this time.

RECOMMENDATION 6: Request that the board of supervisors repeal the resolution imposing an assessment appeal filing fee.

RESPONSE

We agree with the recommendation and will request repeal of this fee.

RECOMMENDATION 7: Request that the board of supervisors revise the disaster relief ordinance to conform to section 170.

RESPONSE

We agree with the recommendation and will ask the BOS to revise the ordinance.

RECOMMENDATION 8: Grant disaster relief to all qualifying personal property.

RESPONSE

We agree with the recommendation. We have granted relief to those who have applied in the past and will continue to do so.

RECOMMENDATION 9: Grant disaster relief to property owners only when they submit timely applications pursuant to section 170.

RESPONSE

Section 170 (l) permits the Assessor, upon Board of Supervisors approval, to reassess the damaged property as provided in subdivision (b) and notify the last known owner of the property of relief granted.

RECOMMENDATION 10: Revise the Notice of Proposed Escape Assessment to include all of the information required by section 531.8(b).

RESPONSE

We agree with the recommendation and will revise the notice.

RECOMMENDATION 11: Cite the notation required by section 533 when enrolling escape assessments.

RESPONSE

We agree with the recommendation.

RECOMMENDATION 12: Cite the proper Revenue and Taxation Code section when making roll corrections.

RESPONSE

We agree with the recommendation.

RECOMMENDATION 13: Report information regarding homeowners' exemption claims to the BOE as required by section 218.5 in a timely manner and in the proper format.

RESPONSE

We agree with the recommendation. The fiscal year 2002-2003 was filed with BOE due date July 31, 2002, along with completed media specification and forms. All documentation on previous multiple claims lists or fiscal years 2000-2001 and 2001-2002 have been corrected and submitted to the Board of Equalization at the close of fiscal year 2001-2002.

RECOMMENDATION 14: Process homeowners' exemptions in a timely manner.

RESPONSE

We agree with the recommendation. The fiscal year 1999 -2000 began the implementation of the Assessor's completely new AS-400 computer system. Numerous changes and delays impacted ownership documentation updates, which directly affected timely mailing and processing of homeowner's and Welfare exemptions claims. The Assessor Office has purged the new AS-400 of many processing errors and beginning with January 1, 2002 a timely mailing and processing of homeowner's and welfare claims has been achieved

RECOMMENDATION 15: Legibly date-stamp welfare exemption claims when received.

RESPONSE

We agree with the recommendation and will purchase an accurate and legible time-date stamp machine.

RECOMMENDATION 16: Thoroughly review each welfare exemption claim and supporting documents before granting the exemption.

RESPONSE

We agree with the recommendation and will give full attention to be sure that information is provided on the inspection report.

Note: 1) No claims are submitted to the BOE unless they are fully reviewed. 2) all incomplete and pending claims are sent to BOE as recommended by the San Francisco County Assessment Practices Survey of March 1996. 3) The

Assessor provides with every welfare report a complete detailed appraiser's report. Furthermore, no audit reports have noted that this procedure was irregular in light of the full Appraiser's report sent to BOE with every claim.

RECOMMENDATION 17: Apply the welfare exemption to qualified business personal property.

RESPONSE

We agree with the recommendation and will update personal property Exemptions timely when the Business Personal Property manually request a Welfare exemption to be applied.

RECOMMENDATION 18: Maintain a transfer list that meets the requirements of section 408.1.

RESPONSE

We agree with the recommendation and will update our list.

RECOMMENDATION 19: Require that all recorded documents conveying title to real property contain the assessor's parcel number pursuant to section 1191.1

RESPONSE

City & County of San Francisco ordinance amending ART 12C-Part II of Municipal code requires correct parcel number and commonly known situs and/or street name and number (August 2001).

RECOMMENDATION 20: Utilize the BOE-prescribed Change in Ownership Statement.

RESPONSE

We agree with the recommendation.

RECOMMENDATION 21: Use the date of death as the date of transfer as required by section 63.1©(1).

RESPONSE

We agree with the recommendation. This is the date we use. Those transfers

were errors that were not discovered until later.

RECOMMENDATION 22: Distinguish between the transfer of principal residences and the transfer of property other than principal residences for parent/child and grandparent/grandchild transfers.

RESPONSE

We agree with the recommendation and it has been implemented.

RECOMMENDATION 23: Submit quarterly reports of base year value transfers to the BOE, as required by section 69.5(b)(7).

RESPONSE

We agree with the recommendation and will submit reports more frequently.

RECOMMENDATION 24: Ensure that all LEOP changes in control receive timely reappraisal.

RESPONSE

We agree with the recommendation and will continue to better implement LEOP Processing functions.

RECOMMENDATION 25: Eliminate the backlog of assessable new construction.

RESPONSE

Will address this when permitted to fill long-term vacant positions.

RECOMMENDATION 26: Develop formal procedures for processing, valuing, and enrolling assessable new construction.

RESPONSE

Will continue to address this as we are currently doing.

RECOMMENDATION 27: Improve communications with agencies that issue building permits.

RESPONSE

Will continue to address this issue.

RECOMMENDATION 28: Eliminate internal building permit tracking numbers

RESPONSE

We agree with the recommendation and it has been implemented.

RECOMMENDATION 29: Appraise all construction in progress on the lien date.

RESPONSE

Has been implemented and will continue to address this.

RECOMMENDATION 30: Improve documentation pertaining to new construction.

RESPONSE

Will continue to address this.

RECOMMENDATION 31: Enroll supplemental assessments for all tenant improvements as required by section 75.11.

RESPONSE

Has been implemented and will continue to address this.

RECOMMENDATION 32: Use the BOE-prescribed Notice of Supplemental Assessment as required by section 75.31(g).

RESPONSE

We agree with the recommendation and will use the new form.

RECOMMENDATION 33: Enroll supplemental assessments for all tenant improvements as required by section 75.11.

RESPONSE

Has been implemented.

RECOMMENDATION 34: Assess timeshares at the lesser of their factored base year values or the current market values.

RESPONSE

Has been implemented.

RECOMMENDATION 35: Develop written procedures for the valuation of major income-producing properties.

RESPONSE

Will address this as staffing permits.

RECOMMENDATION 36: Reassess timeshare projects when the cumulative interest and value transferred meets the requirements of section 65.1.

RESPONSE

Will address this when permitted to fill long-term vacant positions

RECOMMENDATION 37: Improve the program for the discovery of taxable possessory interests.

RESPONSE

We agree with the recommendation.

RECOMMENDATION 38: Use market rents when valuing possessory interests in yacht harbors.

RESPONSE

We agree with the recommendation.

RECOMMENDATION 39: Cease the assessment of possessory interests on property owned by the California School of Mechanical Arts.

RESPONSE

We disagree. We have submitted a city attorney opinion based on this specific Example. We rely on this city attorney opinion in this case.

RECOMMENDATION 40: Refer all reported structural and land improvements costs from the annual business property statement to the commercial property appraiser in the real property division for review.

RESPONSE

We agree with the recommendation. Our referral process has been in place for the last few years.

RECOMMENDATION 41: Bring the mandatory audit program to current status as required by section 469.

RESPONSE

We agree with this recommendation but due to mandatory budget constraints which reduces staff we will have a very difficult time bringing the mandatory audit program current.

RECOMMENDATION 42: Complete an audit checklist for each audit.

RESPONSE

We agree with the recommendation and it is currently being implemented.

RECOMMENDATION 43: Process separate escape assessments and roll corrections for each year under audit.

RESPONSE

We agree with the recommendation and will implement this procedure.

RECOMMENDATION 44: Include nonprofit organizations that meet the requirements of section 569 in the mandatory audit program.

RESPONSE

We are unable to audit non-profits until our mandatory program is brought up to current status.

RECOMMENDATION 45: Audit taxpayers that fail to file property statements for three or more consecutive years.

RESPONSE

We are unable to audit until our mandatory program is brought up to current status.

RECOMMENDATION 46: Screen business property statements with electronically prepared attachments to ensure the

statement is complete and fully executed pursuant to section 441.5.

RESPONSE

We agree with the recommendation and have reminded the staff the legal requirements of obtaining proper signatures on property.

RECOMMENDATION 47: Accept only appropriately signed property statements as required by rule 172.

RESPONSE

We agree with the recommendation and have reminded the staff the legal requirements on obtaining proper signatures on property statements.

RECOMMENDATION 48: Exclude accounts that have business property at multiple locations from the direct billing program.

RESPONSE

We agree with the recommendation and it has been implemented.

RECOMMENDATION 49: Send business property statements to direct billing accounts every fourth year.

RESPONSE

We disagree with the recommendation because this will make hardships for small property owners who maintain the same assets for many years.

RECOMMENDATION 50: Annually review the BOE's listing of equipment leased to state assesses.

RESPONSE

We agree with the recommendation and will comply as staffing permits.

RECOMMENDATION 51: Develop formal procedures for the discovery and assessment of apartment personal property.

RESPONSE

We agree with the recommendation and it has been implemented.

RECOMMENDATION 52: Properly assess service station fixture improvements as improvements.

RESPONSE

We agree with the recommendation.

RECOMMENDATION 53: Apply the 10 percent penalty for the failure to file or late filing of the BOE-prescribed Vessel Property Statement as required by section 463.

RESPONSE

We agree with the recommendation. Since July 2002, we have implemented the application of the 10% penalty under Section 463 according to the requirement of Section 441. (Request to remove footnote #131)

RECOMMENATION 54: Annually appraise pleasure boats at market value.

RESPONSE

We agree with the recommendation. The boats should be annually appraised at market value. Due to budget constraints and lack of staff, we do not have the manpower to conduct a periodic study of market conditions to generate trending factors. Our present practice simplifies the assessment process.

RECOMMENDATION 55: Correctly calculate the assessment of documented vessels as required by section 275.5 when vessel owners submit late-filed affidavits.

RESPONSE

We agree with the recommendation and will continue to work with our Information Systems Department to remedy the situation.

RECOMMENDATION 56: Revise the Affidavit for 4 Percent Assessment of Certain Vessels to include the correct filing deadline established by section 255.

RESPONSE

We agree with the recommendation. The Affidavit for 4 percent Assessment to Certain Vessels was updated in 2001 to reflect the correct filing deadline and current tax laws.