

SAN JOAQUIN COUNTY ASSESSMENT PRACTICES SURVEY

JANUARY 2013

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No. 2013/011

January 23, 2013

TO COUNTY ASSESSORS:

SAN JOAQUIN COUNTY
ASSESSMENT PRACTICES SURVEY

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

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from November through December 2010. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

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

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

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

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) 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 this office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

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

Our survey of the San Joaquin County Assessor-Recorder-County Clerk's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in San Joaquin County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2010-11 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office.

Many of our recommendations concern portions of programs which are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, the assessor is effectively managing staffing and workload. However, we made recommendations for the improvement of the appraiser certification, staff property and activities, assessment appeals, disaster relief, and exemptions programs.

In the area of real property assessment, the assessor has effective programs for new construction and declines in value. However, we made recommendations for improvement of the change in ownership, California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property programs.

In the area of personal property and fixtures assessment, the assessor has effective programs for assessing manufactured homes, aircraft, and vessels. However, we made recommendations for improvement of the following programs: audit, business property statements, and business equipment valuation.

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

The San Joaquin County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2010-11 assessment roll indicated an average assessment ratio of 100.04 percent, and the sum of the absolute differences from the required assessment level was 1.79 percent. Accordingly, the BOE certifies that San Joaquin County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1:	Ensure appraisers meet section 671 annual training requirements.....	9
RECOMMENDATION 2:	Improve the assessment of staff-owned property by developing more detailed written procedures for the assessment of staff-owned property.....	10
RECOMMENDATION 3:	Instruct applicants to return the withdrawal letter directly to the clerk of the assessment appeals board (AAB).	13

RECOMMENDATION 4: Modify disaster relief procedures by: (1) revising the notice of reassessment for disaster relief to conform to the requirements of section 170(c), and (2) calculating the proration of taxes due on damaged property to include the month in which the damage occurred.15

RECOMMENDATION 5: Improve the administration of church and religious exemptions by: (1) granting the church exemption only for religious worship and church parking, (2) mailing both the church exemption claim forms and annual religious exemption notices prior to January 1, and (3) conducting field inspections on all new claims filed for church and religious exemptions.17

RECOMMENDATION 6: Improve the administration of the welfare exemption by: (1) requiring nonprofit claimants that own and operate low-income housing property to meet all filing requirements, and (2) denying the welfare exemption on personal property put to an exempt use after the lien date.19

RECOMMENDATION 7: Improve the exemptions program by applying the penalty to all late-filed claims.....20

RECOMMENDATION 8: Improve the administration of the disabled veterans' exemption by: (1) imposing appropriate late-filing penalties pursuant to sections 276 and 276.2, (2) granting the disabled veterans' exemption on a prorated basis in accordance with sections 276.1 and 276.2, (3) granting the full amount of the disabled veterans' exemption to the extent of the interest owned by the claimant pursuant to section 205.5(d), (4) removing the disabled veterans' exemption as of the date the property is no longer the claimant's principal place of residence, and (5) requiring documentation that the disabled veteran has been honorably discharged.21

RECOMMENDATION 9: Improve the penalty process by: (1) removing misleading language from the *Notice of Penalty for Failure to File Completed Change in Ownership Statement*, and (2) correctly implementing the penalty abatement process in compliance with section 483.26

RECOMMENDATION 10: Improve the valuation of CLCA properties by: (1) including all potential income available to the property when determining the value, (2) properly allocating restricted value between land and living improvements, (3) valuing commercial use portions of restricted property using the restricted rate, (4) using current market rents to estimate the income utilized in the valuation of restricted properties, and (5) properly calculating nonliving improvement expenses.....37

RECOMMENDATION 11: Improve the taxable possessory interest program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (2) properly issuing supplemental assessments.41

RECOMMENDATION 12: Annually determine reserves and their value pursuant to Rule 469.....42

RECOMMENDATION 13: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.....45

RECOMMENDATION 14: Improve the audit program by: (1) using a comprehensive audit checklist as a standard component of all audits, and (2) enrolling all escape assessments and overassessments discovered during the course of an audit.46

RECOMMENDATION 15: Improve the business property statement (BPS) program by: (1) properly valuing and assessing landlord-owned personal property in apartments, and (2) valuing taxable business property in accordance with section 501 when a taxpayer fails to file a BPS or files late.48

RECOMMENDATION 16: Properly classify and value taxable business property by: (1) correctly classifying machinery and equipment reported on the business property statement (BPS), and (2) valuing structural improvements reported on the BPS in the same manner as other real property structures.....51

OVERVIEW OF SAN JOAQUIN COUNTY

San Joaquin County was established by the California Legislature in 1850 as one of the original 27 counties. The county lies in the heart of the California Central Valley, taking its name from the San Joaquin River. It is bordered by Sacramento County to the north and northwest, Amador and Calaveras Counties to the east, Stanislaus County to the south and southeast, Contra Costa and Alameda Counties to the west, and Santa Clara County at the southwest corner.

San Joaquin County has a total area of about 1,426 square miles, which consists of 1,399 square miles of land and 27 square miles of water. There are seven incorporated cities: Escalon, Lathrop, Lodi, Manteca, Ripon, Stockton, and Tracy. Stockton is the county seat. As of 2010, San Joaquin County had a population of approximately 685,300.

The following table displays information pertinent to the 2010-11 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$15,368,005,615
	Improvements	\$35,719,095,364
	Personal Property	\$1,330,030,784
	Total Secured	\$52,417,131,763
Unsecured Roll	Land	\$113,331,278
	Improvements	\$1,335,306,418
	Personal Property	\$2,145,030,077
	Total Unsecured	\$3,593,667,773
Exemptions³		(\$2,087,783,352)
	Total Assessment Roll	\$53,923,016,184

The next table sets forth the changes in assessed values over recent years:⁴

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2010-11	\$53,923,016,000	-3.8%	-1.9%
2009-10	\$56,079,725,000	-10.6%	-2.4%
2008-09	\$62,710,145,000	-1.0%	4.7%
2007-08	\$63,333,031,000	9.2%	9.6%
2006-07	\$57,978,496,000	17.5%	12.3%

³ The value of the Homeowners' Exemption is excluded from the exemptions total.

⁴ State Board of Equalization Annual Report, Table 7

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, workload, appraiser certification, staff property and activities, assessment appeals, disaster relief, and exemptions.

Budget and Staffing

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

The following table shows the assessor's budget and staffing for recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2010-11	\$10,001,047	1.2%	96
2009-10	\$9,881,082	11.5%	101
2008-09	\$8,860,549	-3.4%	104
2007-08	\$9,175,027	1.9%	106
2006-07	\$9,006,321	8.7%	106

As of the date of our survey, the San Joaquin County Assessor's Office had a full-time budgeted staff of 96 positions, 4 of which were vacant. This included the assessor, assistant assessor, department information systems manager, 2 principal appraisers, 29 appraisers, 11 auditor-appraisers, 1 chief cadastral technician, 1 transfer technician supervisor, 1 office supervisor, 1 exemptions supervisor, 12 property technicians, 5 cadastral technicians, 3 computer analysts/technicians, 27 support staff.

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

According to the prior two tables, the roll value has decreased three of the past five years, while the gross budget has increased four of the past five years. The assessor has experienced a loss in staff over the last several years, while managing a fluctuating workload. The number of transfers resulting in reappraisal due to changes in ownership has been fluctuating over recent years, with the most recent year showing a decrease. The number of permits resulting in assessable new construction has decreased each of the last four years. The number of assessment appeals and declines in value has increased dramatically three of the last four years, with the most recent year showing a decrease.

These trends are shown in the following table:

Workload Description	2009-10	2008-09	2007-08	2006-07	2005-06
Changes in Ownership	30,530	34,572	25,645	22,191	25,778
New Construction	1,520	2,371	3,506	4,395	5,737
Declines In Value	97,864	105,575	58,465	23,262	1,758
Assessment Appeals	3,501	5,826	3,195	648	347

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 42 certified appraisers on staff, including the assessor; 34 hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor uses contract appraisers to value mineral properties.

In San Joaquin County, the principal appraiser of the Standards Division is the training coordinator, and oversees the training and certification program for appraisers. Individual education is tracked utilizing a spreadsheet, which includes course titles, completion dates, and hours received for each appraiser. An additional spreadsheet is maintained, which includes a list of all of the appraisers, hours completed, and hours needed to maintain their certificates. Although there is no financial incentive to obtain an advanced certificate, appraisers are encouraged to take the necessary courses to obtain the certificate.

San Joaquin County has contracted with a private consulting firm to provide services to the assessor for the appraisal of oil and gas properties within the county. The most recent agreement contains the language required by section 674 regarding confidentiality and compensation fees. In addition, the contract appraisers who appraise the oil and gas properties hold BOE appraiser's certificates and are current in continuing education hours.

During the course of our review, we found one area in the assessor's appraiser certification program in need of improvement.

RECOMMENDATION 1: Ensure appraisers meet section 671 annual training requirements.

During our review, we noted that several of the appraisers were deficient in continuing education hours. Section 671(a) provides that in order to retain a valid appraiser's certificate, an appraiser must complete 24 hours of training conducted or approved by the BOE each year. Section 671(b) provides that appraisers with an advanced appraiser's certificate must complete 12 hours of training annually.

The BOE's training unit provides each assessor with an annual report, summarizing each appraiser's training and certification status. The assessor should ensure that all appraisers are current in their continuing education requirements. Failure to maintain the required continuing education could lead to confusion about current appraisal procedures and practices, and could possibly result in providing misleading information to taxpayers. Moreover, according to section 671(a) and (b), failure to receive such training shall constitute grounds for revocation of an appraiser's certificate or advanced certificate.

Staff Property and Activities

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

The assessor is in compliance with section 672 and has ensured that all staff have completed Form 700. In addition, employees are required to report any change in ownership interest, new construction or alteration to property, filing of an application for an informal review or an exemption, a request for a decline in value, an application for changed assessment, or any other employee-initiated event of their property that may result in a change to an assessment or property record.

The assessor has limited written procedures for the assessment of staff-owned property; however, the assessor's policy is that no employee shall perform work that will result in changing assessment roll data, such as, but not limited to, ownership, values, exemptions, comparable benchmarking, and property characteristics for properties owned by the employee.

When an appraisal for either a change in ownership or completed new construction is required on a staff-owned property or business, the assignment is given to the principal appraiser of the Standards Division, who then assigns it to the appraiser responsible for that geographic area. If the staff-owned property is located in their own geographic area, the appraisal is assigned to another appraiser or a supervising appraiser. Upon completion of the appraisal, it is forwarded to a principal appraiser and then to the assessor for review and approval.

The assessor has policies and procedures in place to prevent conflicts of interest. *San Joaquin County Work Rules* limit an employee's employment in other jobs if: (a) the outside employment interferes with the performance of the employee's county job, or (b) there is a conflict of interest as specified in Government Code section 1126. An activity that employees are not allowed to engage in is non-assessor office appraisals or appraisal related activities within San Joaquin County. Employees are required to notify their department heads of outside employment, so a determination can be made as to whether the outside employment would interfere with the employee's county job or if there would be a conflict of interest. The county's policy states that violation of the work rules could result in disciplinary action or dismissal of such employee by the assessor.

We reviewed a number of staff-owned properties and found no problems with their valuation for changes in ownership and completed new construction. However, based upon our review, we have the following recommendation:

RECOMMENDATION 2: Improve the assessment of staff-owned property by developing more detailed written procedures for the assessment of staff-owned property

We found the assessor does not have detailed written procedures to fully address the assessment of real and personal property in which staff in the assessor's office holds an interest.

Although our review revealed no problems when assessing staff-owned property, detailed written procedures addressing the assessment of not only staff-owned property, but property owned by a spouse, a family member, or a dependent child is considered sound management and is recommended. Development of and adherence to written procedures would promote an acceptable level of oversight regarding the assessment of staff-owned property. The lack of in-depth written procedures does not address the risk that property owned by an employee or relative could be assessed by the employee, which may result in an appearance of impropriety.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with

the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

San Joaquin County has two assessment appeals boards (AAB) and one temporary AAB. They consist of three members and two alternates appointed by the board of supervisors. The AAB was created by Ordinance No. 4371, passed and adopted June 16, 2009. Rules governing its proceedings were subsequently adopted. The members of the board have successfully completed the training required by section 1624.02.

To appeal an assessment on the regular roll in San Joaquin County, a taxpayer must file an application with the clerk between July 2 and November 30. For supplemental assessments and other assessments made outside the regular assessment period, the application must be filed no later than 60 days after the date on which the assessee was notified of the assessment. A supervising appraiser tracks appeals and watches their progress closely to ensure that none are held for more than two years without an extension or waiver being filed.

The following table sets forth the overall assessment appeals workload for recent years.⁵

YEAR	2009-10	2008-09	2007-08	2006-07	2005-06
Appeals Filed	3,501	5,826	3,195	648	347
Appeals Carried Over From Prior Year	4,829	583	572	231	345
Total Appeals Workload	8,330	6,409	3,767	879	692
Resolution:					
Withdrawn	785	408	591	223	295
Stipulation	1,691	664	118	36	98
Appeals Reduced	11	9	4	0	11
Appeals Upheld	30	9	5	0	2
Appeals Increased	0	0	2	0	0
Other Determination*	1,375	476	263	48	55
Total Resolved	3,892	1,566	983	307	461
To Be Carried Over**	4,438	4,843	2,784	572	231

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

** "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

Over the last three years, the number of assessment appeals filed has substantially increased from prior years; however, there has been a decrease in the number filed most recently. The majority of these appeals were the result of declining values.

For assessment appeals purposes, a computer-assisted valuation program is used to value many residential properties, with an appraiser preparing all other valuations. If a decline-in-value assessment is found to be appropriate, the taxpayer will be contacted and the county will recommend a stipulation for a taxable value reduction. Approximately 43 percent of the assessment appeals that were resolved for the 2009-10 assessment roll were by stipulation. All stipulated values are approved by the AAB.

If no agreement can be reached between the assessor and applicant, the clerk schedules the appeal for hearing. An appraiser or auditor-appraiser prepares an appeal fact sheet for each appeal hearing. The supervising appraiser presents all computer-assisted valuation appeals, while an appraiser or auditor-appraiser presents all other appeals.

During our survey, we were able to attend an AAB hearing. In general, we found the assessor's presentations to be well organized and the assessor's assessment appeals program to be well administered. However, we found an area of concern.

⁵ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities* for years 2005-06 through 2009-10. It should be noted that the number of "Appeals Carried Over From Prior Year" reported for years 2008-09 and 2009-10 were reported incorrectly and do not match the number of appeals "To Be Carried Over" as reported in the prior year.

RECOMMENDATION 3: Instruct applicants to return the withdrawal letter directly to the clerk of the assessment appeals board (AAB).

When a taxpayer notifies the assessor of their intent to withdraw their application for appeal, the assessor mails a withdrawal form to the applicant. The withdrawal form and cover letter are printed on the assessor's letterhead. The cover letter instructs the taxpayer to sign the withdrawal form and return it in the self-addressed envelope (with the assessor's return address) or by fax (which is located within the assessor's office). Once a withdrawal form is received by the assessor's office, it is logged and scanned into a database, which can also be accessed by the clerk. The assessor's office maintains all the original withdrawals it receives.

Forty-five days prior to the appeals hearing, applicants receive a notice of hearing from the clerk with the clerk's contact information. Some applicants submit their withdrawal form to the clerk as a result of this notice. Once a withdrawal form is received by the clerk, it is scanned into the same database shared by the assessor's office. The clerk maintains all the original withdrawal documents it receives.

The AAB is an independent entity, whose function is to resolve value disputes between taxpayers and the assessor. Therefore, it is inappropriate for the assessor to act as an intermediary between the AAB and taxpayers by requesting taxpayers to submit withdrawal forms to the assessor.

The assessor's procedure could give an appearance that the assessor is intervening in the independent third-party review to which every appellant has the right. The assessor should revise the withdrawal letter to instruct the applicant to submit the request for withdrawal directly to the clerk rather than the assessor's office. The clerk should then timely forward a copy of the withdrawal letter to the assessor.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The relief is available to any assessee whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assesseees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by

\$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The San Joaquin County Board of Supervisors updated the county's disaster relief ordinance on July 13, 2004. The ordinance does not specify a termination date. The ordinance applies to any taxable property damaged through no fault of the owner, where the amount of damage equals or exceeds \$10,000. This is consistent with the requirements of section 170.

Calamities are discovered through newspaper articles, building permits issued for repairs, field canvasses, and taxpayer initiated contact. The appraisal staff also carries disaster relief applications with them in the field. The assessor appears to have procedures in place for discovering calamities as they occur in the county.

Upon the discovery of a calamity, the assessor mails an application to the property owner and tracks the status of the application through his mail register. Returned applications are date stamped upon receipt, logged in, and returned to the supervising appraiser responsible for the geographical area of the calamity. After the initial review, the supervising appraiser forwards the application to an appraiser for analysis and valuation. Once processed, qualifying property owners are sent a *Notice of Proposed Escape/Correction to Assessment Roll* after a negative assessment is processed through a roll change order for the decrease in taxable value. When the assessment is enrolled, the assessor sends a *Notice of Supplemental Assessment*.

The following table shows the number of claims processed in recent years:

YEAR	APPLICATIONS PROCESSED
2009-10	49
2008-09	55
2007-08	41
2006-07	44
2005-06	24

We reviewed a number of claims having been approved and processed for disaster relief and found that the assessor handled most aspects properly. The assessor processes disaster relief claims timely, and his policies and procedures for the processing of disaster relief claims are correct and in compliance with section 170. However, we noted areas for improvement in the assessor's disaster relief program.

RECOMMENDATION 4: Modify disaster relief procedures by: (1) revising the notice of reassessment for disaster relief to conform to the requirements of section 170(c), and (2) calculating the proration of taxes due on damaged property to include the month in which the damage occurred.

Revise the notice of reassessment for disaster relief to conform to the requirements of section 170(c).

When the assessor grants a taxpayer disaster relief and reassesses their property, the assessor notifies the taxpayer by sending either a *Notice of Proposed Escape/Correction to Assessment Roll* or a *Notice of Supplemental Assessment*, depending on how relief was granted. However, these notices indicate that the deadline to file a formal appeal is within 60 days of the date of mailing of the notice. According to section 170(c), the notice must state that the taxpayer may appeal the reassessment within six months of the date of mailing the notice.

Failure to properly notify taxpayers of their assessment appeal rights may lead taxpayers to believe they have missed the deadline to file an appeal when in fact they may have an additional four months to file.

Calculate the proration of taxes due on damaged property to include the month in which the damage occurred.

In the calculation of the prorated tax due on damage property after reassessment, the assessor is not granting tax relief for the month in which the damage occurred. We found the assessor's computer system automatically prorates the relief as of the month following the date of event of the disaster or calamity.

Section 170(e) provides that relief shall include the month in which the damage occurred. The assessor's practice violates the taxpayer's right to receive tax relief for the entire month in which the damage occurred.

Exemptions

For the exemptions portion of the San Joaquin County survey, we reviewed a sampling of church, religious, welfare, and disabled veterans' exemptions.

The exemptions program is administered by two staff members; the exemptions supervisor and one support staff. New claims are coded by the supervisor to identify the type of exemption and are entered into the database. If it is a welfare exemption claim, additional information identifying whether or not a supplemental affidavit is required is entered. In 2008, the assessor added bar codes to the church, religious, and welfare exemption claim forms that identify the account number of the claim. Thus, as claims are date stamped as received, bar codes are also scanned, so the date received is also entered in the database mail log. This log identifies the date a claim form is mailed, as well as the date the form is received.

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The following table sets forth religious and church exemption data for recent years:

YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2010-11	104	\$111,157,626	421	\$237,384,278
2009-10	97	\$107,300,266	415	\$226,780,646
2008-09	110	\$119,996,063	447	\$219,633,336
2007-08	103	\$110,831,922	450	\$196,630,828
2006-07	101	\$97,766,995	441	\$197,215,835

The assessor maintains church and religious exemption claim files in alphabetical order by claimant's name. Each file includes claim forms, notes providing evidence of physical inspection (if physical inspection conducted), and other county staff notes.

We reviewed a number of church and religious exemption claims and discovered several areas where improvement is needed.

RECOMMENDATION 5: Improve the administration of church and religious exemptions by: (1) granting the church exemption only for religious worship and church parking, (2) mailing both the church exemption claim forms and annual religious exemption notices prior to January 1, and (3) conducting field inspections on all new claims filed for church and religious exemptions.

Grant the church exemption only for religious worship and church parking.

We found that the assessor is granting the church exemption on property for uses other than religious worship or church parking. For example, claims reviewed indicated that the church exemption was granted on property used for a caretaker home and office space, property leased to a different entity and used as education and administrative offices, vacant land, and in a few cases the use is not identified on the claim form or in the file. Section 206 provides the church exemption for property used exclusively for worship purposes and section 206.1 provides for the exemption of church parking. The county is granting the church exemption on property used outside the scope of the statute.

Mail both the church exemption claim forms and annual religious exemption notices prior to January 1.

We found that the assessor mails both the church exemption claim forms and the annual religious exemption notices after January 1 each year. Section 256(b) provides that each year before the lien date, the assessor shall mail a claim form for the church exemption to all recipients of such exemption in the prior year. Section 257.1 provides that prior to the lien date, the assessor shall annually mail a notice to every person who received the religious exemption for the previous fiscal year. The assessor's practice of mailing the forms and notices after January 1 is not in compliance with statute and also may not provide a sufficient amount of time for claimants to file timely.

Conduct field inspections on all new claims filed for church and religious exemptions.

We found that the assessor does not conduct field inspections on all new church and religious exemption claims. Section 256 provides that the affidavit for a church exemption shall show that the building and equipment are used solely for religious worship, while section 257 provides that any person claiming the religious exemption shall submit to the assessor an affidavit and the affidavit shall show that the building, equipment, and land are used exclusively for religious purposes.

In order to verify the use of property as reported by claimants on church or religious claims, the assessor should conduct a field inspection on property on which an exemption is claimed for the first time. A field inspection is essential to ensure that the property use meets exemption requirements and to determine what portion of the property is eligible for exemption. The assessor's failure to conduct field inspections on all church and religious exemption claims may result in an improper exemption of property being granted.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table sets forth welfare exemption data for recent years:

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2010-11	547	\$1,382,117,767
2009-10	558	\$1,316,686,275
2008-09	449	\$1,062,857,149
2007-08	434	\$964,839,087
2006-07	471	\$927,005,444

The assessor maintains welfare exemption claims in alphabetical order by claimant's name. Each file includes claim forms, notes providing evidence of physical inspection (if physical inspection conducted), and other county staff notes.

We reviewed a number of welfare exemption claims and discovered several areas where improvement is needed.

RECOMMENDATION 6: Improve the administration of the welfare exemption by: (1) requiring nonprofit claimants that own and operate low-income housing property to meet all filing requirements, and (2) denying the welfare exemption on personal property put to an exempt use after the lien date.

Require nonprofit claimants that own and operate low-income housing property to meet all filing requirements.

We found that the assessor does not require nonprofit claimants filing exemption claims on low-income housing property to file supplemental affidavits and provide a copy of a regulatory agreement, deed restriction, or other legal document.

BOE-267-L, *Welfare Exemption Supplemental Affidavit, Housing – Lower Income Households*, must accompany the first-time filing claim BOE-267, *Claim for Welfare Exemption (First Filing)*, when requesting a welfare exemption on low-income housing property owned and operated by a nonprofit organization. The exemption cannot be granted unless all information requested in the affidavit is provided and the signed affidavit is filed with the assessor. Additionally, pursuant to the BOE's authority in section 254, which provides that the claimant shall submit to the assessor annually an affidavit giving any information required by the BOE, the BOE requires that the claimant provide a copy of the regulatory agreement, deed restriction, or other legal document with the assessor of the county where the property is located. The document should be filed along with first filing claim BOE-267, the supplemental affidavit BOE-267-L, and any other relevant documents.⁶

When the assessor does not require the claimant to meet all filing requirements, the assessor may be granting an exemption on property that is not eligible for an exemption.

Deny the welfare exemption on personal property put to an exempt use after the lien date.

We found that the assessor granted a welfare exemption on personal property used at locations leased by the claimant, where the lease started after the lien date. Although the property was not put to an exempt use until after the lien date, the assessor granted a welfare exemption for the year. Pursuant to section 401.3, the assessor shall assess all property subject to general property taxation on the lien date as provided in articles XIII and XIII A. Consistent with this mandate, section 405(a) provides that the assessor shall annually assess all taxable property in his county, except state-assessed property, to the persons owning, claiming, possessing, or controlling it on the lien date. In California, the lien date is January 1, which is the date that property taxes are levied and the date when property taxes for that year become a lien on the property pursuant to section 2192. In general, the taxable status of property, for purposes of property taxation, is determined as of the lien date.

Under California law, all property is subject to property taxation unless specifically exempt under federal or state statutory law.⁷ Section 214 is the primary welfare exemption statute. Entities claiming the welfare exemption on their properties must meet all of the requirements for

⁶ See Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*, page 70.

⁷ California Constitution, article XIII, section 1; section 201.

the exemption under section 214 on the January 1 lien date in order to receive the exemption for the upcoming fiscal year (July 1 – June 30). The exemption may be pro-rated if it is real property and it is put to an exempt use within 180 days of acquisition of the property (exempt use includes construction).⁸

Granting the welfare exemption on personal property not put to an exempt use until after the lien date may result in an exemption of property that is not eligible for an exemption until the next lien date.

Late-Filing Provisions, Church, Religious, and Welfare Exemptions

Section 255(a) provides that a claim for exemption must be filed with the county assessor where the property is located between the lien date (January 1) and 5 p.m. on February 15.⁹ Where a timely claim is not filed on or before February 15, section 270(a) provides that: (1) 90 percent of any tax, penalty, or interest shall be canceled or refunded if the claim is filed on or before January 1 of the next calendar year, or (2) 85 percent of any tax, penalty, or interest shall be canceled or refunded if the claim is filed after January 1 of the next calendar year. If a claim is not filed timely, the combined tax, penalty, and/or interest may not exceed \$250. The \$250 should not be based on each parcel in a claim or on each claim if there is more than one claim, but on the claimant's total property that is exempt in the county.

We reviewed several late-filed claims to verify appropriate application of the late-filing penalty. Although we found most late-file penalties were properly calculated and applied, we did note areas for improvement.

RECOMMENDATION 7: Improve the exemptions program by applying the penalty to all late-filed claims.

We found that the assessor does not apply a penalty to all late-filed claims. We discovered claims that were date stamped after February 15 and had dates received in the database mail log after February 15, but a penalty was not applied to the exemption. Section 270 provides late-filing provisions for exemption claims not filed timely. The assessor's failure to apply the penalty to all late-filed claims results with the granting of property tax exemptions greater than allowed by statute.

Disabled Veterans' Exemption

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both of these amounts are adjusted annually by a cost of living index.

⁸ Section 75.24.

⁹ If February 15 falls on a Saturday, Sunday, or legal holiday, the claims are due at 5 p.m. on the next business day.

The disabled veterans' exemption at the \$100,000 basis requires a one-time filing, while the low-income exemption at the \$150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The assessor processed 531 disabled veterans' exemption claims for the 2010-11 roll year, an increase of 19 percent over the past five years, with exempted values increasing 29 percent during the same time frame.

The following table sets forth disabled veterans' exemption data for recent years:

YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2010-11	531	\$55,616,527
2009-10	506	\$52,942,518
2008-09	485	\$49,269,308
2007-08	474	\$47,104,963
2006-07	446	\$42,953,450

We reviewed several files, primarily new claims filed in 2007 through 2010. In our review, we discovered the assessor created a useful "Eligibility Record" to summarize and note pertinent information for the determination of a claimant's date of eligibility and the amount of exemption eligible based upon proration of the exemption and timeliness in filing the claim.

During our review of the disabled veterans' exemption claims, we found several areas in need of improvement.

RECOMMENDATION 8: Improve the administration of the disabled veterans' exemption by: (1) imposing appropriate late-filing penalties pursuant to sections 276 and 276.2, (2) granting the disabled veterans' exemption on a prorated basis in accordance with sections 276.1 and 276.2, (3) granting the full amount of the disabled veterans' exemption to the extent of the interest owned by the claimant pursuant to section 205.5(d), (4) removing the disabled veterans' exemption as of the date the property is no longer the claimant's principal place of residence, and (5) requiring documentation that the disabled veteran has been honorably discharged.

Impose appropriate late-filing penalties pursuant to sections 276 and 276.2.

We found that the assessor grants first-time filers 100 percent of the eligible exemption amount on their property, even though they have filed outside the deadlines for a timely filed claim. For a timely filed claim, section 276.2 (a) provides that if property becomes eligible after the lien date, and an appropriate application for that exemption is filed on or before the lien date in the calendar year next following the calendar year in which the property became eligible, there shall

be canceled or refunded the amount of any taxes levied on that portion of the assessed value of the property that would have been exempt under a timely and appropriate application.

Accordingly, section 276 requires the assessor to grant a partial exemption of 85 percent of the eligible amount when an exemption for a prior tax year is claimed. Additionally, when a first time claim is filed retroactively for prior years, the exemption for the year in which the claim is filed may be reduced to 90 percent if the claim is filed after February 15, but on or before December 10. Numerous claims reviewed indicated late-filings with no corresponding late-filing penalties imposed, resulting in a loss of property tax revenue.

Grant the disabled veterans' exemption on a prorated basis in accordance with sections 276.1 and 276.2.

We found that in some cases the assessor has based the effective date of the exemption on the next lien date following the year of qualification, in which case the exemption would not be reflected until the ensuing fiscal year. We also found that in one case the exemption was granted for the entire fiscal year when it should have been prorated for the number of days eligible for that fiscal year. Section 276.1(b) provides that the disabled veterans' exemption applies beginning on the effective date, as determined by the United States Department of Veterans Affairs (USDVA), of a disability rating that qualifies the claimant for the exemption. Additionally, section 276.2(b) provides that, "The entire amount of the exemption applies to any property tax assessment, including a supplemental and escape assessment, that was made and that served as a lien against the property. The exemption amount shall be appropriately prorated from the date the property became eligible for the exemption."

The denial of the full exemption as of the date of qualification deprives claimants of the full amount of exemption and any refunds to which they are entitled. In addition, granting the exemption for the entire fiscal year when the claimant only qualifies for a portion of the year allows the claimant a benefit for which they do not qualify. Both practices are contrary to statute.

Grant the full disabled veterans' exemption to the extent of the interest owned by the claimant pursuant to section 205.5(d).

We discovered claims in which the assessor reduced the amount of the eligible exemption by 50 percent, rather than granting the full exemption up to the claimant's share of the property's value when the claimant owned 50 percent interest in the property. In a few of the claims, the maximum exemption could have been granted because 50 percent of the property's value exceeded the maximum exemption allowed. In one claim, the assessor correctly granted the exemption in the first eligible year based upon 50 percent of the interest owned (assessed value); however, in the two subsequent years, the exemption was based upon 50 percent of the maximum scheduled exemption amount. Section 205.5(d)(3) provides that "property that is owned by a veteran" or "property that is owned by the veteran's unmarried surviving spouse" includes, in part, "... (3) Property owned with one or more other persons to the extent of the interest owned by the veteran, the veteran's spouse, or both the veteran and the veteran's spouse. (4) Property owned by the veteran's unmarried surviving spouse with one or more other persons to the extent of the interest owned by the veteran's unmarried surviving spouse."

The assessor's practice of granting only 50 percent of the exemption denies taxpayers the full amount of the exemption to which they are entitled and is contrary to statute.

Remove the disabled veterans' exemption as of the date the property is no longer the claimant's principal place of residence.

We found that the assessor does not always remove the disabled veterans' exemption from the principal place of residence as of the date the claimant no longer occupies the residence. Of several claims reviewed in this situation, when claimants notified the assessor of a change, the exemptions were not removed as of the date the property was vacated. Instead, the exemption remained on the original property through the last day of the fiscal year in which the property became disqualified, and the exemption was applied to the new principal place of residence at the beginning of the next fiscal year, even though the claimants occupied the new residence prior to that date. Section 279 provides that the disabled veterans' exemption shall remain in continuous effect unless specified conditions occur, one being that the owner does not occupy the dwelling as their principal place of residence. Section 276.3(b) provides that when property is no longer used by a claimant as their principal place of residence, the exemption shall cease to apply on the date the claimant terminates residency at that location. Finally, section 276.2(b) provides that if a property becomes eligible for the exemption after the lien date, the exemption shall be appropriately prorated from the date the property became eligible for the exemption.

The practice of not cancelling the exemption when the claimant moves out of the principal place of residence and not prorating the exemption on the substitute property is contrary to statute and may result in the exemption of property not eligible for an exemption, as well as delaying an exemption to eligible property.

Require documentation that the disabled veteran has been honorably discharged.

We found that the assessor does not require proof that the disabled veteran was honorably discharged. The assessor's policy is that such proof is not required because generally the claimant would not be eligible to receive 100 percent disability compensation if not honorably discharged.

Article XIII, section 3 of the California Constitution specifically states the veteran must be discharged under honorable conditions. Although the Department of Veterans Affairs has indicated that a veteran would not typically be eligible to receive a 100 percent disability rating if the discharge conditions were dishonorable, they are eligible to receive compensation if they are discharged under "general" or "other than honorable conditions." The assessor's practice of not requesting a *Certificate of Release or Discharge from Active Duty* (DD Form 214) or some other verification of honorable discharge may result in the assessor granting exemptions to ineligible claimants.

ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, taxable possessory interests, and mineral property.

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

Change in Ownership

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

Document Processing

The following table shows the total number of recorded documents received and the total number resulting in reappraisable events in San Joaquin County in recent years.

YEAR	RECORDED DOCUMENTS RECEIVED	REAPPRAISABLE EVENTS
2009-10	35,566	30,530
2008-09	38,853	34,572
2007-08	N/A	25,645
2006-07	N/A	22,191
2005-06	N/A	25,778

The assessor's primary means of discovering properties that have changed ownership is through the analysis of deeds and other documents recorded at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, to accompany documents submitted for recordation for the transfer of ownership of real property. PCORs are

available at both the assessor's and recorder's offices, as well as on the county's website. Local ordinance requires the assessor's parcel number (APN) on all deeds.

The San Joaquin County Assessor also functions as the County Recorder and County Clerk. Recorded documents are not initially screened at the recorder's office before they are sent to the assessor. All recorded documents are coded by type and scanned into a shared computer system. PCORs are also scanned and merged with the related recorded document. Each morning, the assessor prints the documents that recorded the day before that relate to the assessor's functions, along with the corresponding PCORs. Transfer technicians in the transfer section review PCORs for completeness and confirm the document numbers are correct. The sale price is verified against the documentary transfer tax noted on the deed and the PCOR is attached to the related document.

Unique documents, such as mineral deeds, water rights, easements, and entity documents filed with the Secretary of State, are routed to the principal appraiser of the Standards Division, who determines if the document should be filed as informational only or if the document creates a change in ownership. All other documents are sent to the mapping section to verify the legal description, and to identify any parcel splits or taxability changes.

Once reviewed and processed by the principal appraiser or the mapping department, the documents are routed back to the transfer section. Technicians key transfer information into the computer, determine if the transfer qualifies for direct enrollment, decide if an exclusion claim form should be sent to the property owner, and conclude if the transfer results in a reappraisable event. Printed documents and PCORs are then routed to the Valuation Division to be assigned to an appraiser for valuation and ultimately filed with the property record.

The assessor also discovers potential changes in ownership through change of address requests, field checks by appraisers, and correspondence from transferors, transferees, attorneys, or family members. For deaths occurring within the county, discovery of potential changes in ownership are also obtained through review of death records with the county clerk and a check of a social security number database. For subsequent changes in ownership resulting from the death of a property owner, the assessor properly uses the date of death as the event date.

We examined several recorded documents and found the assessor conducts a proper and thorough review of reappraisable events.

Leases

The assessor typically discovers lease transactions through recorded documents. Attempts are made to obtain copies of all long-term leases, unless a memorandum of lease with all necessary information is received. The principal appraiser of the Standards Division initially receives and reviews all change in ownership documents pertaining to long- and short-term leases. The principal appraiser determines the commencement date and term of the lease. If the term plus options is less than 35 years, the principal appraiser makes note of the conditions in the computer system and routes the document to an appraiser for informational purposes. Lease terms plus options over 35 years are sent to a transfer technician to process the change in ownership before being forwarded to an appraiser for valuation.

We reviewed several files involving leases and found all were properly handled in accordance with section 61(c).

Penalties

Upon deed recordation, if a PCOR is not filed with the recorded document, BOE-502-AH, *Change in Ownership Statement* (COS), is sent to the property owner to obtain transfer information. If there is no reply from the property owner within 30 days, a second COS is sent with penalty and abatement language. Technicians track mailing dates of COSs and hold the recorded documents creating the change in ownership until the second mailing. Once the second COS is sent, the recorded documents are released to the Valuation Division to be reappraised.

We found two areas where improvement is needed when processing penalties for failure to file a COS.

RECOMMENDATION 9: Improve the penalty process by: (1) removing misleading language from the *Notice of Penalty for Failure to File Completed Change in Ownership Statement*, and (2) correctly implementing the penalty abatement process in compliance with section 483.

Remove misleading language from the *Notice of Penalty for Failure to File Completed Change in Ownership Statement*.

The assessor initially allows a property owner 30 days to return a COS before sending a second COS and a *Notice of Penalty for Failure to File Completed Change in Ownership Statement*. While we found no examples where the assessor applied a penalty prior to the 45 days allowed under section 482(a),¹⁰ the notice of penalty contains misleading language indicating the penalty is already in effect and the property owner has 60 days as of the date of the notice to have the penalty abated under section 483(b), even though the notice was issued 15 days prior to the 45-day deadline.

During the time of our survey, section 482(a) provided that if a person or legal entity required to file a statement described in section 480 failed to do so within 45 days from the date of a written request by the assessor, a specific penalty shall be added to the assessment made on the roll.¹¹ In addition, section 482(f) provided that the assessor shall mail to the property owner a notice of any penalty added to the secured or unsecured roll pursuant to section 482.

Even though the assessor did not actually apply the penalty prior to the 45-day deadline allowed under the provisions of section 482(a), the assessor's practice of sending a notice of penalty 15 days prior to the filing deadline with incorrect language regarding penalties and the penalty

¹⁰ During the time of our survey, section 482(a) allowed property owners 45 days to return a completed COS when requested by the assessor before penalties were applicable. Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

¹¹ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

abatement process may mislead property owners into believing they have less time to file the COS than what is allowed by statute.

Correctly implement the penalty abatement process in compliance with section 483(b).

The San Joaquin County Board of Supervisors adopted Resolution 01-825 pursuant to section 483(b), allowing for the automatic abatement of section 482 penalties if the assessee files the COS with the assessor no later than 60 days after the date of notification of the penalty.

We examined several property records in which a penalty was applied for failure to file a COS. In many instances, the property owner returned the COS after the automatic abatement period had lapsed; however, the penalty was still abated by the assessor.

The assessor's practice of abating penalties when the COS is received after the 60 day filing deadline is not in compliance with section 483(b). Also, not applying applicable penalties could result in a loss of revenue.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The public is able to access information from computers in the lobby of the assessor's office. As required by section 408.1(b), the transfer list is divided into geographical areas by APN and revised quarterly. Pursuant to section 408.1(c), the transfer list includes the transferor, transferee, APN, address of the property, date of recording, recording reference number, and consideration paid. The confidentiality provisions of section 481 are observed.

Legal Entity Ownership Program (LEOP)

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

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of

change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.¹² The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

Monthly LEOP reports from the BOE are reviewed by the principal appraiser of the Standards Division to determine the effective date and what change(s) occurred. The mapping department identifies all real property held by the entity within the county by conducting a name search to discover any parcels affected by the change. In addition, the mapping department conducts a search on all other entities listed in the LEOP report by company name to determine if any of these entities own property located in San Joaquin County. Once the real property parcels have been identified and the change in control or ownership has been determined to be a reappraisable event, the information is given to an appraiser for valuation.

The assessor also discovers potential changes in control or ownership of legal entities through business property statements and appraisers' observations during fieldwork. We found the assessor processes LEOP notices properly and promptly revalues properties having undergone a change in control or ownership. Our review of several records showed the assessor does a thorough job in reviewing the LEOP reports and in reassessing all property interests identified on the BOE-100-Bs. In recent years, the assessor has not discovered any late-filings for the BOE-100-Bs; however, if a late-filing is discovered, the assessor's office reported they will impose an appropriate late-filing penalty.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first \$1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. Even if an assessor opts not to report quarterly to the BOE, however, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

¹² Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website. The following table represents section 63.1 claims filed in recent years:

YEAR	SECTION 63.1 CLAIMS
2009-10	1,152
2008-09	889
2007-08	1,410
2006-07	1,962
2005-06	2,068

Fluctuation in the number of claims over the past few years may be a result of changing market conditions. In recent years, there are more instances where current market value is lower than the base year value to be transferred and it is not advantageous to file a claim. Transfer technicians review all section 63.1 applications and determine if the exclusion will be accepted or denied. The property owner is notified in writing if a claim is denied.

The assessor is proactive regarding public awareness of potential change in ownership exclusions. If a PCOR or COS indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, a technician will send a claim form and cover letter to the taxpayer advising of a possible exclusion from reassessment. The technician holds transfer documents until information is received from the property owner or after 45 days have elapsed. Once a claim form is received or the time has elapsed, the information is sent to the Valuation Division to apply the exclusion or reappraise the property.

The San Joaquin County Board of Supervisors passed Resolution 09-324 allowing a one-time processing fee of \$175.00 to recover costs incurred by the assessor due to failure of an eligible transferee to file a section 63.1 claim after two written requests. In compliance with section 63.1(j), the assessor sends the eligible transferee a claim form and allows 45 days for a response. If no response after 45 days, the assessor sends a second claim form indicating a processing fee of \$175.00 may be charged if the claim is filed more than 60 days after the second notice. The assessor correctly applies and collects the \$175.00 fee for claims received after the time period.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the principal appraiser of the Standards Division ensures the dates are correct, reviews the total value of transfers, disallows exclusions made after the limit has been exceeded, and notifies appraisers of any reappraisable percentage. If necessary, contact is made with other counties to determine which property to exclude and which to reappraise.

Pursuant to section 63.1(i), claim forms are kept in file cabinets away from public access in order to protect property owner confidentiality.

We reviewed several accepted and denied section 63.1 claim forms and found them to be properly handled.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

The following table represents section 69.5 claims filed in recent years:

YEAR	SECTION 69.5 CLAIMS
2009-10	2
2008-09	72
2007-08	107
2006-07	179
2005-06	121

San Joaquin County does not accept base year value transfers from other counties. Section 69.5 information and applications are available to the public at the assessor's office and website. If a PCOR indicates a transfer may involve a base year value exclusion, the process of notifying the property owner is similar to section 63.1 claims.

Submitted claim forms are routed to the appropriate appraiser, who determines the fair market value of both the replacement and original properties, computes the value comparison of the replacement property as needed, and determines if a section 69.5 claim will be granted. The property owner is notified in writing if a claim is denied.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. When the *Duplicate SSN Report* is received from the BOE, the report is reviewed to determine if any claims are duplicated within the county, may have been made previously in another county, or may qualify for a second section 69.5 exclusion due to a severe and permanent disability.

In compliance with section 69.5(n), information furnished on the section 69.5 claim form is protected in the same manner as a section 63.1 claim form.

We reviewed several accepted and denied section 69.5 claim forms and found them to be properly handled.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is typically sent to an appraiser for valuation. Every reappraisable event is reviewed to determine if the reported sale price reflects market value. The sale price is not automatically enrolled and may be overridden when data is available to rebut the presumption stated in Rule 2.

Appraisers maintain in-house residential and commercial databases to assist with the valuation process. Appraisers also have access to Multiple Listing Service (MLS) information. Residential properties are typically valued using the comparative sales approach or cost approach, and the income approach is considered when valuing commercial properties. For partial interest transfers, the reappraisable portion is valued at market value and added to the factored base year value of the non-reappraisable portion. The partial interest is given a separate base year value and the correct inflation factor is applied. Market value conclusions are well documented on the appraisal record. Any supporting documents are placed in the paper file. Field inspections are conducted at the appraiser's discretion. Computer programs and MLS tools typically allow an appraiser to view a subject property at their desk.

Our review of several files indicates the assessor properly values most changes in ownership and correctly processes supplemental assessments.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraiser involvement. San Joaquin County has a direct enrollment program for residential properties, which also includes condominiums, duplexes, triplexes, fourplexes, and vacant residential lots.

In recent years, direct enrollments have represented approximately 10,000 of the total annual reappraisable transfers in the county. In order to qualify for direct enrollment, the transfer must involve a residential use code, it must involve a 100 percent change in ownership, and the reported sale price on the PCOR or COS must be within \$4,999 of the sale price indicated by the amount of documentary transfer tax paid as shown on the recorded document.

Sales meeting the criteria are run through the direct enrollment system. Summary sheets, deeds, and MLS listings, if available, are printed and given to the appropriate appraiser for review. The appraiser reviews the summary sheet, recorded documents, and MLS listings; confirms the use code and property characteristics; and determines if the reported sale price needs a cash equivalent adjustment. Any adjustments made are included on the summary sheet. Appraisers do not make any comments or enter any valuation decisions on the appraisal record. Once the review is complete the appraiser routes the sales acceptable for direct enrollment to the Valuation Division to be entered into the computer.

If the appraiser's review cannot be completed quickly, indicates more research is needed, or if the sale price falls outside the acceptable market range, the appraiser rejects the direct enrollment for manual valuation at a later time.

Improvement Bonds

San Joaquin County has approximately 75,000 parcels encumbered by improvement bonds, with an outstanding balance of approximately \$88,110,000. In accordance with section 163, entities receiving revenue derived from payments created by an improvement bond annually notify the assessor of required statistics. The assessor does not maintain a bond study or regression analysis. Upon a change in ownership, each transfer is reviewed separately and the bond amount is presumed to be included in the purchase price unless market conditions prove otherwise.

New Construction

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

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

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

The assessor has written procedures, policies, and forms dealing with the discovery and assessment of new construction. Information regarding the assessment of new construction is provided on the assessor's website.

Discovery

Building permits are the assessor's primary means of discovering new construction. The assessor receives permits from nine permit issuing agencies: San Joaquin County Building Inspection Division of the Community Development Department, San Joaquin County Environmental Health Department, City of Lodi Building Division, City of Manteca Building Safety Division, City of Stockton Building & Life Safety Division, City of Tracy Building Division, City of Ripon Building Department, City of Escalon Building Department, and City of Lathrop Building Division. Other discovery methods include performing field canvassing by appraisers in their assigned areas, the review of business property statements, newspaper articles, aerial photos, and information received from taxpayers.

Permit Processing

The assessor's office has computer access to retrieve building permits and final notices from some agencies. If computer access is not available, the permits are received by electronic mail. If final notices are not available electronically, a telephone call is made to the appropriate agency. The information is processed by the assessor's office on a monthly basis. Property technicians are responsible for picking up building plans from the agencies. Building plans are kept with the property record.

The following table shows the number of building permits received and the number of building permits that resulted in new assessments in recent years:

YEAR	BUILDING PERMITS	NEW ASSESSMENTS
2009-10	12,256	1,520
2008-09	12,681	2,371
2007-08	16,429	3,506
2006-07	20,490	4,395
2005-06	24,286	5,737

Once the permits and final notices are received, the information is entered into the computer system. Although not required by ordinance, the assessor's parcel number (APN) is listed on the permit. Each appraiser is responsible for monitoring the computer system, and reviewing permits and finals based on the appraiser's assigned area. It is the responsibility of the supervising appraiser to discard any permits that add no value, such as repair and maintenance, and re-roofing projects. For permits indicating potential business property, the assessor uses a *Leasehold Improvement Communiqué* or the electronic mail system to refer these permits to the Personal Property Section.

Any unpermitted new construction is enrolled as of the date of completion. If the appraiser is unable to determine the date of completion from the taxpayer or from a permit issued after the new construction is completed, the appraiser uses their best judgment as to when the new construction was complete. The assessor enrolls supplemental assessments, as allowed by law, for unpermitted new construction when discovered.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For CIP, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We reviewed

property records and found the assessor is correctly valuing CIP by determining the market value using published costs, reported costs, and market analysis.

Valuation

Appraisers typically value new residential construction using the comparative sales and cost approaches. The income approach, as well as the comparative sales and cost approaches, is used in determining the value of new construction for commercial and industrial properties. The assessor uses a variety of sources to develop a cost indicator of value for new construction, which includes the Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), the owner's reported costs, and *Marshall Valuation Service* for commercial and industrial properties. Appraisers also utilize an income and expense questionnaire for some properties to assist in an accurate valuation.

Appraisers can elect to mail a *Property Owner's Statement on New Construction* to gather information to assist in the valuation of items such as new additions to a residence, a newly built garage, remodeling projects, and swimming pools. Once this form is returned, a property technician adds the information to the property record and sends it to an appraiser for review and approval. If the form is not returned, a field inspection may be initiated depending upon the type of new construction. All newly constructed buildings are verified by field inspection and the use of the building plans. Supplemental assessments are issued based on the date of completion for new construction activity that adds value.

We reviewed several new construction records and found the assessor's program for the assessment of new construction to be thorough and values reasonable. We have no recommendations for the new construction program.

Declines in Value

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

The following table shows the number of decline-in-value assessments in San Joaquin County for recent years:

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2009-10	97,864
2008-09	105,575
2007-08	58,465
2006-07	23,262
2005-06	1,758

With the downturn of the housing market, San Joaquin County has experienced a notable decline in property values. Consequently, there has been a significant increase in the total number of properties eligible for decline-in-value assessment. While most recently the number of decline-in-value assessments has decreased from the prior year, the overall number of decline-in-value assessments has dramatically increased over the last four years, going from 1,758 for the 2005-06 year to 97,864 for the 2009-10 year. These numbers represent a major workload increase for the assessor and his staff. The assessor estimates 85 percent of the properties in the decline-in-value program are valued using an automated valuation program.

Discovery and valuation of properties with declines in value are high priority for the assessor. The assessor has been pro-active in adjusting the assessments of properties affected by declines in value. The assessor's primary methods of discovering declines in value are through the computer-assisted valuation program, taxpayer requests, and appraiser's familiarity with their assigned areas. The computer program is used to review all residential properties in the county. Commercial, industrial, and agricultural properties are identified and valued on an individual basis.

The assessor's decline-in-value computer-assisted valuation program takes market sales data from homogeneous areas within the county to perform a comparison between the subject property roll value and recent sales using weighted data, such as living area, lot size, age, bedroom and bath count, and other data. The program uses the most comparable properties to estimate market value. The program then compares the current roll value, FBV, and the estimated current market value (computer-assisted value), and enrolls the lower of the three. Properties that are not reviewed by the program, due to lack of recent sales information or other criteria, are reviewed manually. The appraisal staff also reviews the computer-generated decline-in-value properties and can override the computer's valuation based on the appraiser's knowledge of their area.

All assessments reduced for declines in value are identified and tracked by code in the computer system. This prevents the annual inflation factor from being applied to these properties. Reports are generated from the computer system to make sure the properties are reviewed each subsequent lien date. The assessor's notices to taxpayers informing them of their assessed value and decline-in-value status contain the required information. The assessor's website can be accessed by taxpayers to check their decline-in-value status and their values.

The assessor's value estimates on the parcels reviewed were well documented and appear reasonable. We have no recommendations for the decline-in-value program.

California Land Conservation Act Property

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, for example, hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

For the 2010-11 roll year, San Joaquin County had 6,172 parcels totaling approximately 476,900 acres encumbered by CLCA contracts, and 462 parcels totaling 62,630 acres restricted under Farmland Security Zone (FSZ) contracts, which are a more restrictive form of the CLCA contract. The total assessed value for restricted land and living improvements for the 2010-11 roll year was approximately \$2.3 billion. Roughly 46,000 acres of the total restricted acreage was in nonrenewal status; an unknown number of contracts were cancelled since our prior survey. Our review of both nonrenewal and cancellation procedures found them compliant with statutory provisions and recommended practices. The assessor has also adopted the provision of section 423.3, which provides that the assessed value of CLCA property shall not exceed a specified percentage of its factored base year value.

Most of the rural property in San Joaquin County consists of irrigated field and vegetable crops, irrigated fruit and nut orchards, and livestock production. The bulk of the agricultural revenue is derived from fruit and nut crops, followed by irrigated field and vegetable crops. The county reported over \$2 billion in gross production value of agricultural commodities in 2009, which was a decrease of approximately 6 percent from the 2008 production value. The decreased agricultural revenue can be mostly attributed to lower prices for milk, which has historically been the county's leading commodity. Grape production has now become the leading commodity in the county. Cattle and calves prices were down 33.8 percent for the year, reducing livestock production value. The production value of vegetable crops increased 32.9 percent, bolstering the county's total production value for 2009.

CLCA property valuation in the county is the responsibility of the principal appraiser of the Valuation Division. She gathers income and expense information from a variety of sources, including annual open-space questionnaires, annual crop and crush reports, and interviews with

property owners and farm managers. She uses this information to determine income and expense rates for crop types throughout the county.

The assessor utilizes an automated computer system to value restricted properties in the county. The principal appraiser enters the income and expense information into the computer system, which then calculates the restricted values. We found that restricted values are determined using the correct capitalization rate, which includes components for property taxes and risk. The system also performs the required annual three-way value comparison.

The assessor correctly treats homesites and related homesite improvements as separate appraisal units when reviewing for declines in value and enrolls the lower of factored base year value or current market value in accordance with section 428.

The assessor properly issues supplemental assessments on unrestricted portions of CLCA properties that undergo changes in ownership and for any completed new construction. Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land or living improvements.

We reviewed several CLCA and FSZ properties and found the assessor's procedures comply with most applicable statutes; however, we found several areas where improvement is needed.

RECOMMENDATION 10: Improve the valuation of CLCA properties by: (1) including all potential income available to the property when determining the value, (2) properly allocating restricted value between land and living improvements, (3) valuing commercial use portions of restricted property using the restricted rate, (4) using current market rents to estimate the income utilized in the valuation of restricted properties, and (5) properly calculating nonliving improvement expenses.

Include all potential income available to the property when determining the value.

After reviewing several properties under CLCA contract, we found the assessor is not recognizing all of the potential income available to the property. For example, we found that the assessor is not recognizing compatible use income from hunting available to property subject to a conservation easement that disallows agricultural use.

Property encumbered by a CLCA contract is assessed on the basis of its agricultural income producing ability and any compatible use income. In defining the income to be capitalized, section 423(a)(3) provides that revenue shall be the amount of money that the land can be expected to yield to an owner-operator from any use of the land permitted under the terms by which the land is enforceably restricted. AH 521 provides that an appraiser may estimate an economic rent for a property not currently producing income if the property has income-producing capabilities. The income that can be generated and is attributable to the land must be capitalized in the manner specified for restricted properties.

By not including compatible use income in the valuation process, the assessor is undervaluing those open-space properties that have additional income from allowed compatible uses.

Properly allocate restricted value between land and living improvements.

The assessor correctly performs a three-way value comparison involving factored base year value, current market value, and restricted value. As noted previously, San Joaquin County has adopted section 423.3, which provides that the assessed value may not exceed a specified percentage of the factored base year value. The percentages the county has adopted are 70 percent for prime lands and 90 percent for non-prime lands.

In cases where the section 423.3 value is the lowest value in the three-way comparison, the assessor correctly enrolls that value. However, we found that the assessor is incorrectly allocating the section 423.3 value between land and living improvements. The assessor enrolls the land value determined under section 423 on the land portion, removes that value from the total section 423.3 value, and then enrolls the remainder of the section 423.3 value on the living improvements.

Section 423.3 allows a city or county by agreement to limit assessments of land restricted by the Williamson Act to a value no higher than a given percentage of the property's factored base year value as if unrestricted. This limitation is applicable to restricted improvements (both living and nonliving), as well as restricted land. Restricted improvements are subject to the same limiting percentage as the land on which they are located. In addition, section 429 provides that when valuing land restricted by the Williamson Act, "...fruit-bearing or nut-bearing trees and vines on the land and not exempt from taxation shall be valued as land. Any income shall include that which can be expected to be derived from such trees and vines and no other value shall be given such trees and vines for the purpose of assessment."

The assessor's practice of enrolling incorrect value allocations between land and living improvements for properties where the section 423.3 value is determined to be the enrolled value could result in inaccurate direct assessments based on those incorrect values. In addition, proper value allocation is critical in the event an improvement is removed or destroyed.

Value commercial use portions of restricted property using the restricted rate.

We found that the assessor values sites for compatible commercial uses using the correct commercial land rent, but capitalizes the rent using a market-derived rate.

If a portion of a restricted property is used for a permitted compatible commercial use, such as a cold storage or produce-packing shed, a greenhouse for nursery stock, or a winery, the assessor must value that portion used for the commercial enterprise by capitalizing a commercial economic rent using the open-space capitalization rate. The estimate of the economic rent can be made either by using actual rents of comparable commercial sites or by multiplying the market value of comparable commercial land by a market-derived capitalization rate.

The assessor's practice of using a market-derived capitalization rate to value sites for permitted compatible commercial uses has resulted in incorrect assessments.

Use current market rents to estimate the income utilized in the valuation of restricted properties.

We found numerous instances where the assessor is using below-market cash rents to establish the income to be capitalized for restricted properties.

Section 423 provides that the fair rent attributable to the land being valued shall be based upon rent actually received for the land by the owner and upon typical rents received in the area for similar land in similar use, where the owner pays the property tax. Any cash rent or its equivalent considered in determining the fair rent of the land shall be the amount for which comparable lands have been rented, determined by average rents paid to owners as evidenced by typical land leases in the area, giving recognition to the terms and conditions of the leases and the uses permitted within the leases and within the enforceable restrictions imposed.

Section 423 goes on to state where sufficient rental information is not available, the income shall be that which the land being valued reasonably can be expected to yield under prudent management and subject to applicable provisions under which the land is enforceably restricted. When the land is planted to fruit-bearing or nut-bearing trees, vines, bushes, or perennial plants, the revenue shall not be less than the land would be expected to yield to an owner-operator from other typical crops grown in the area during a typical rotation period, as evidenced by historic cropping patterns and agricultural commodities grown.

The assessor's practice of underestimating income has undervalued some properties under CLCA contract.

Properly calculate nonliving improvement expenses.

We found that when estimating improvement charges, the assessor makes the "return on" portion of the charge on a different basis than the "return of" portion. The assessor correctly determines the "return on" portion of the charge by multiplying a market-derived rate including a tax component by the replacement cost new of the improvements less depreciation (RCNLD). However, in determining the "return of" portion of the charge, the assessor uses the replacement cost new of the improvements (RCN) with a different rate of return from that used for the "return on" portion.

AH 521 states that in addition to a fair "return on" an investment, a property owner must earn a sufficient amount to provide a "return of" the value of wasting assets. The handbook further provides that in the application of the sinking fund technique to estimate the "return of" the investment, the rate of return should be the same for both the "return on" and "return of" calculations.

The assessor's practice of incorrectly using a different rate of return for the "return on" and "return of" portions when determining improvement charges for nonliving improvements under the sinking fund method has resulted in incorrect valuations for properties that have living improvements.

Taxable Possessory Interests

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

For the 2010-11 roll year, the assessor enrolled 476 taxable possessory interests, with a total assessed value of \$481,917,034. The majority of these taxable possessory interests are various private uses at the Port of Stockton and the Stockton Municipal Airport. Other types of taxable possessory interests include private interests at the fairgrounds, cable television franchises, slips at public marinas, hangars at the Tracy Municipal Airport, and grazing rights.

An appraiser and a supervising appraiser in the Special Properties Section of the Valuation Division are responsible for the assessment of all taxable possessory interests in the county. Each year the assessor contacts 58 public agencies. As a primary means of discovering taxable possessory interests, the assessor sends a county-created form, *Request of Possessory Interest Information*, which lists all existing possessory interests for each agency. The assessor requests the agency provide any changes to tenancy and rent. The assessor typically has a good response rate from the agencies, with 84 percent responding in 2010.

The assessor maintains possessory interest details in a database. The database tracks lease terms and options, annual contract rent, roll values, remarks, and, to assist with change in ownership decisions, the expiration of the reasonably anticipated term of possession. Once annual information is received from an agency, remarks for those reporting no changes are input into the database by a property technician. For agencies reporting changes, their annual information is routed to an appraiser to determine whether any adjustments need to be made and what value will be enrolled. Once complete, the information is entered into the database.

Data provided by the reporting agency is typically used in the valuation process if reflective of market and, if not, economic rent is considered. The assessor deducts appropriate operating expenses and uses a rate of return based on data from published services, governmental agencies, and from similar privately-owned properties. The stated term of possession is used as the reasonably anticipated term of possession. The assessor requests copies of all leases for newly created possessory interests with a stated term of possession. For taxable possessory interests lacking a stated term of possession, as well as month-to-month interests, the assessor estimates a reasonably anticipated term of possession based on the history and relationship between the public agency and the tenant.

San Joaquin County adopted and approved Ordinance 4125 in accordance with section 155.20 to exempt real property having a base year value of \$2,000 or less. The resolution does not provide for an increase in the exemption to \$50,000 for uses at the fairground.

We reviewed a number of taxable possessory interest records. We commend the assessor for maintaining an effective database to track terms and conditions of taxable possessory interests; however, we did find two areas for improvement.

RECOMMENDATION 11: Improve the taxable possessory interest program by:
(1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and
(2) properly issuing supplemental assessments.

Periodically review all taxable possessory interests with stated terms of possession for declines in value.

We reviewed several taxable possessory interests with stated terms of possession. We found several instances where taxable possessory interests were not adjusted for declines in value. Instead, the assessor enrolled the factored base year value each year.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review assessments of long term taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

Properly issue supplemental assessments.

We discovered taxable possessory interests where the assessor failed to issue a supplemental assessment upon a change in ownership. We also found taxable possessory interests where the assessor incorrectly calculated the supplemental assessment upon a change in ownership by offsetting the fair market value against the prior value on the roll.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction. According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll when one taxable possessory interest is terminated during an assessment year and a second (but distinct) taxable possessory interest is created involving the same land and improvements during the same assessment year.¹³

The assessor's failure to properly issue supplemental assessments results in a loss of revenue.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

San Joaquin County has no assessable high temperature geothermal properties.

Petroleum Property

The total value of petroleum properties in San Joaquin County is \$102,339,000. The assessor contracts with a mineral appraisal consultant to review and value the petroleum properties located in the county. There are no recommendations regarding the petroleum properties in San Joaquin County.

Mining Property

According to the United States Geological Service, there are eleven mining properties located in San Joaquin County. The assessor's Special Properties Section of the Valuation Division appraises these properties. While we noted that the assessor is in the process of implementing new procedures to properly assess mining properties, we found the following area still in need of improvement.

RECOMMENDATION 12: Annually determine reserves and their value pursuant to Rule 469.

We found that the assessor does not make adjustments to the base year quantity of reserves for any reason other than depletion. Annual reports filed by the taxpayer include information regarding reserve estimates, and these reports are a good source of information for checking the assessor's reserve estimates against the taxpayer's estimates. If the assessor questions the

¹³ Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, December 2002, pages 59-60.

reliability of this data or chooses to ignore it, there should be documentation or a detailed explanation in the appraisal file. The assessor is makes adjustments to the base year value of the mineral rights to account for production in the prior year (depletion); however, no other adjustment is made. There is no reconciliation of the differences in the assessor's reserve estimates with the changes reported by the taxpayer. In one file, the taxpayer had even specifically noted that there was a change in reserves attributable to a re-evaluation of the geological information available.

Over the economic life of a mineral property, estimates of reserves will change. These changes are the result of depletion, new discoveries, and changes in economics. Rule 469(e)(2)(A) requires that the assessor annually determine reserves and their current market value so that the value of additions or deletions unrelated to depletion can be reflected in the adjusted base year value. After determining the current reserves of the property, they are compared to the prior year's reserve base. Changes for other than depletion should be made to the adjusted base year value according to the procedure laid out in Rule 469(e)(1)(B).

There is no documentation in the appraisal records of the assessor reviewing the reserve estimates, either his own or those of the operator, or of determining the current market value of these reserves. Taxpayers are required to annually file production reports with the assessor detailing reserves, volumes produced and sold, and details regarding operating costs.

Accurate reserve determinations are critical to ensure the proper value for the property is assessed. Failure to annually determine reserves and their value may cause an underassessment and loss of revenue.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

The assessor's staff assigned to the business property program consists of 11 auditor-appraisers, with two of those auditor-appraisers acting in a supervising capacity. The business property program is divided into two sections, the Personal Property Audit Section and the Personal Property Section, and both sections are part of the Valuation Division.

In this section of the survey report, we review the assessor's programs for conducting audits and processing business property statements, as well as assessing business equipment, manufactured homes, aircraft, and vessels.

Audit Program

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

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer had assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually,

assessors now have some flexibility in determining which accounts will comprise this mandated workload.

As noted previously, effective January 1, 2009, section 469 specifies a minimum audit workload. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 179 audits per year. After some staff health issues, the assessor has gradually increased audit production during recent years. During the 2009-10 roll year, the assessor completed 217 audits and projects the completion of 281 audits for the 2010-11 roll year. Given recent and projected audit production levels, it appears the assessor will meet the minimum number of audits threshold as defined by section 469.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed-time period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

We found a weakness in the assessor's policy in presenting waivers to property owners when it is anticipated that the audit will not be completed within the statutory deadline.

RECOMMENDATION 13: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

The assessor is currently requesting waivers of the statute of limitations from taxpayers only when he anticipates an audit will not be completed in a timely manner and differences will be discovered. Section 532 provides that when the assessor discovers property that has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment. We reviewed a number of examples where a lack of a waiver resulted in the loss of an escape assessment due to the expiration of the statute of limitations. In each of these examples, the assessor complied with section 532 by not correcting the roll to reflect the audit differences, but tax revenue was lost. Staff productivity and health issues have contributed to the lack of obtaining waivers on all audits that will not be completed timely.

A waiver of this nature protects the taxpayer during the audit process should an overassessment be discovered and allows the assessor to enroll an escape assessment if a reporting deficiency is found. By failing to obtain waivers, the assessor may allow taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit. Consequently, revenue could be permanently lost.

Audit Quality

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

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. Audit quality is further enhanced by a standardized review process where every audit completed by the assessor's office is reviewed by the supervising appraiser.

We sampled several recently completed audits and found that, overall, the assessor's audit quality is consistent and effectively managed. However, there are two areas where we found room for improvement.

RECOMMENDATION 14: Improve the audit program by: (1) using a comprehensive audit checklist as a standard component of all audits, and (2) enrolling all escape assessments and overassessments discovered during the course of an audit.

Use a comprehensive audit checklist as a standard component of all audits.

During our review of sampled audits, we found frequent examples where we could not determine the scope of the assessor's audit investigations because an audit checklist was not included in the work papers. The assessor's audit program does not include the routine use of a comprehensive audit checklist indicating the areas of investigation.

An audit checklist can serve to remind auditor-appraisers of the various issues to research and procedures to follow during an audit. It may also provide an outline of topics and pertinent issues covered in the audit. Furthermore, it serves as a useful research tool when preparing for subsequent audits of the same entity. Most importantly, without a comprehensive audit checklist, it is difficult for a reviewer to know what topics were covered during the course of the audit and whether the findings are sufficiently supported.

Enroll all escape assessments and overassessments discovered during the course of an audit.

The assessor typically does not enroll escape assessments that amount to differences reflecting five percent or less of the original value of audited business property. Section 531.9 allows a county board of supervisors to adopt an ordinance to prohibit the assessor from making an escape assessment of an appraisal unit where the assessment would result in an amount of taxes due which is less than the cost of assessing and collecting the tax; however, San Joaquin County does not have such an ordinance in place. While the assessor's practice may be expedient, the

assessor does not have the authority that would allow him to fail to enroll escaped property discovered by audit.

Section 531 specifically states, "If any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment." Furthermore, section 469 provides that if the result of an audit discloses property subject to an escape assessment, the assessee is entitled to appeal the assessment of all the property at the location of the trade, profession, or business. The assessor's failure to enroll escapes makes it very difficult for the assessee to exercise that right of appeal.

The current arbitrary minimum audit enrollment policy fails to meet the assessor's obligation to assess all property subject to taxation.

Business Property Statement Program

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

Workload

The following table displays the assessor's workload of secured and unsecured BPSs and assessments for the 2010-11 assessment roll:

TYPE OF PROPERTY STATEMENTS	TOTAL	SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
General Business	9,957	\$2,206,179,892	\$2,283,540,287	\$4,489,720,179
Agricultural	1,982	\$150,362,251	\$126,829,213	\$277,191,464
Apartments	1,882	\$39,534,342	\$9,793,714	\$49,328,056
Financial	182	\$9,124,905	\$23,900,006	\$33,024,911
Leased Equipment	1,617	\$5,657,363	\$300,849,578	\$306,506,941
Direct Billing	2,451	\$8,060,197	\$26,420,228	\$34,480,425
Totals	18,071	\$2,418,918,950	\$2,771,333,026	\$5,190,251,976

General processing of the BPSs falls under the direction of the supervising auditor-appraiser of the Personal Property Section. The Personal Property Section also includes five senior office assistants and one property technician. During BPS processing season, the Personal Property Section receives assistance from the Personal Property Audit Section, which consists of nine auditor-appraisers and a supervising auditor-appraiser.

General Statement Processing

Once completed property statements are submitted, a senior office assistant date stamps the front page, and reviews them for completeness and the inclusion of an authorized signature. Sufficiently completed statements are then color-coded and batched for valuation. Incomplete statements or those submitted without an authorized signature are flagged in the mainframe and returned to the property owner, along with a letter indicating the reason for the statement's rejection. Once screened and batched, submitted property statements are assigned to auditor-appraisers, who highlight new entries or changes and make notes regarding any processing instructions. Processed statements are then forwarded to an office assistant, who keys in the data updates to the mainframe. The date of submission is reflected in the computer mainframe. The system automatically applies a section 463 penalty to all statements that do not reflect a submission date by the statutory deadline of May 7.

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, application of penalties, real property division coordination, and record storage and retention. In addition, we reviewed several recently processed BPSs. We found that all statements sampled that were accepted by the assessor evidenced the proper usage of Board-prescribed forms, were completed in sufficient detail, and were properly signed. However, we did find two areas for improvement.

RECOMMENDATION 15: Improve the business property statement (BPS) program by: (1) properly valuing and assessing landlord-owned personal property in apartments, and (2) valuing taxable business property in accordance with section 501 when a taxpayer fails to file a BPS or files late.

Properly value and assess landlord-owned personal property in apartments.

We found cases where the assessor used a pre-determined allocation of value for apartment personal property instead of relying on costs reported on property statements.

Landlord-owned personal property in apartment complexes used in the course of a business is taxable. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, exercise equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, draperies, and common area furniture.

Information supplied on BOE-571-R, *Apartment House Property Statement*, should be the starting point for the assessment of apartment personal property. Because the historical information on the property statement will reflect variations in the age, quality, and quantity of personal property from one apartment property to the next, using this information to develop a current value estimate will be more accurate and equitable than using a fixed amount per apartment unit or an arbitrary value allocation. The assessor's current valuation methodology rests upon unreliable indicators of value and likely results in inaccurate assessments of personal property in apartments.

Value taxable business property in accordance with section 501, when a taxpayer fails to file a BPS or files late.

Our review included verifying the assessor's procedures for processing late and non-filed statements. We found that when the business owner fails to file a BPS or when the statement is submitted late, the assessor applies a pre-determined escalation rate of 10 percent to the previous year's enrollment inclusive of any previously applied penalties. A 10 percent penalty is then applied to this escalated assessment.

If an assessee does not file a property statement by May 7, section 501 provides that the assessor shall estimate a value based on available information and add a 10 percent penalty to that estimated assessed value. By escalating the previous year's enrollment by a pre-determined rate, the assessor is enrolling an arbitrarily determined value with no supporting basis. Any estimated assessment should be supported by available information in conformance with section 501.

The assessor's current calculation methodology likely leads to erroneous value conclusions and leads to improper application of the late or non-filing penalty provided for in section 463.

Discovery

The assessor utilizes an adequate range of tools in discovering taxable business property. In addition to taxpayer self-reporting, the assessor reviews city and county business licenses, real property appraiser referrals, landlord reports of tenants, sales tax permits, and BOE notifications. We found the assessor employs a sufficiently diversified program for discovering business personal property.

Direct Billing

Many California assessors utilize an assessment procedure known as "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a BPS. The assessor establishes an initial value and continues it for several years. Property statement filing is required periodically. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements that must be processed annually by the assessor's staff, thereby increasing time available for the auditor-appraisers to perform other required duties.

In San Joaquin County, the assessor maintains a significant direct billing program with 4,083 accounts during the 2010-11 roll year. The program is well regulated and appropriate controls are in place to reduce the chance of escape assessments. One such control is the assessor's requirement that participating businesses file a property statement every four years in order to update taxable equipment information. The assessor allows only businesses with costs totaling less than \$100,000 to participate in the direct billing program.

Business Equipment Valuation

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

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

The assessor uses standardized industry codes included in his *Equipment Category List* to classify business property accounts by industry type. We reviewed the written procedures and standardized valuation policies related to business property valuation and found them to be current and sufficiently detailed.

Application of BOE Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581, with the exception of specific types of equipment, such as pagers, facsimile equipment, and high tech medical equipment, that the CAA recommends should not be trended. We reviewed the assessor's valuation tables and a number of processed property statements. We found the assessor's application of BOE recommended valuation tables to be both consistently and accurately applied.

Mobile Construction and Agricultural Equipment Valuation Factors

The assessor currently utilizes separate and appropriate factor tables for new and used mobile agricultural and construction equipment in accordance with the instructions on Table 5 and Table 6 in AH 581. Section 401.16(a)(2) allows the assessor to average the new and used percent good factors for both mobile agricultural and mobile construction equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. Where the condition is indicated, the assessor should use the "new" or "used" table. We reviewed the assessor's factor tables related to this issue and found the BOE recommended cost index and depreciation tables to be correctly compiled.

Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. We found two areas in need for improvement concerning the way the assessor classifies and values taxable business property.

RECOMMENDATION 16: Properly classify and value taxable business property by:
(1) correctly classifying machinery and equipment reported on the business property statement (BPS), and (2) valuing structural improvements reported on the BPS in the same manner as other real property structures.

Correctly classify machinery and equipment reported on the business property statement (BPS).

We found the assessor has made improvements to the valuation program by standardizing the fixed machinery and equipment proration estimates for some industries, but does not properly prorate machinery and equipment reported in bulk for all commercial and industrial operations.

We found a number of instances where machinery and equipment reported on Schedule A of the BPS was assessed entirely as personal property, even when it was highly likely that fixed equipment was included in the reported cost. Appraisal staff often does not classify any reported machinery and equipment as fixtures.

Classification is an important element of the local assessment function for several reasons. Principally, it is important because property tax law requires the assessment roll to show separate values for land, improvements (including fixtures), and/or personal property. It is also significant because of the assessment differences between real property and personal property. Those differences include: (1) only real property receives special assessments, (2) the tax rate on the unsecured roll is the rate of the prior year's secured roll, (3) personal property is appraised annually at market value, (4) fixtures are a separate appraisal unit when measuring declines in value, and (5) fixtures normally valued as a separate appraisal unit are not subject to supplemental assessment.

For assessment purposes, machinery and equipment costs reported on Schedule A of the BPS may represent either personalty or fixtures, or both. A fixture is an item of tangible property that was originally personalty, but is physically or constructively annexed to realty with the intent that it remain annexed indefinitely.

The assessor can use specific identification or estimation to allocate machinery and equipment costs reported on the BPS Schedule A between personalty and fixtures. For estimation, the assessor could establish percentages based on a physical inspection or by using percentages for the specific types of businesses. The assessor can adjust that estimate based on an audit, physical inspection, or new data.

The assessor's current proration practices are inconsistent and result in both inaccurate and inequitable treatment of similarly installed taxable property.

Value structural improvements reported on the BPS in the same manner as other real property structures.

We found that the assessor applies business equipment depreciation schedules to structural improvements reported under Column 1, Schedule B of the BPS. Structural improvements made by the secured property owner should be assessed in the same manner as other real property

structures enrolled to the parcel. A base year value should be established and, for subsequent roll years, these costs should be treated the same as other structural improvements owned by the secured property owner.

By valuing these reported properties in a manner similar to business personal property and trade fixtures rather than real property structures, the assessor may be underassessing this taxable property. This, in effect, would produce a significant valuation difference between similar structural improvements being assessed on competing real property parcels. If these same structural improvements that were valued in a similar manner to business personal property and trade fixtures were instead valued as real property structures, the structural improvements would probably not be depreciated at all, but would more than likely increase in taxable value each year due to the application of the inflation factor in accordance with article XIII A. The resulting effect of the assessor's current practice is a lack of consistent treatment of similar taxable property.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

The following table sets forth the number of manufactured homes assessed by the assessor and their total assessed value for recent years:

YEAR	MANUFACTURED HOMES	TOTAL ASSESSED VALUE
2010-11	3,334	\$94,597,213
2009-10	3,314	\$102,584,826
2008-09	3,273	\$102,999,198
2007-08	3,263	\$102,380,544
2006-07	3,210	\$97,330,277

The assessor has written procedures, policies, and forms dealing with manufactured homes. Parcel numbers in the 700 map book series are used to identify manufactured homes classified as personal property. In compliance with sections 5801 and 5830, the assessor enrolls manufactured homes on the secured roll and classifies them as improvements with a special personal property tax code.

Discovery

The assessor has assigned countywide discovery and valuation of manufactured homes to two real property appraisers and one property technician. The assessor discovers new manufactured homes and transfers of manufactured homes primarily through periodic lists provided by the

Department of Housing and Community Development (HCD). In addition, he investigates dealer reports of sale, building permits, tax clearance certificates, Multiple Listing Service (MLS), Change in Ownership Statements (COS), and Preliminary Change of Ownership Reports (PCOR).

The assessor sends a questionnaire to owners of recently transferred manufactured homes, which aids in the discovery of taxable manufactured home accessories, such as awnings, carports, and porches. The assessor may also discover accessories through permits and site checks.

Manufactured homes affixed to land on permanent foundation systems are classified as real property. The assessor verifies a manufactured home has been affixed to an approved foundation system pursuant to Health and Safety Code section 18551 and requires proof the affixation has been recorded. HCD forms 433A, *Notice of Manufactured Home (Mobilehome) or Commercial Coach, Installation on a Foundation System*, and 433B, *Notice to Assessor*, as well as certificates of occupancy, are attached to the cover of the file. The manufactured home remains on the roll with the personal property tax code until recordation is final.

Valuation

Pursuant to section 5803, site value is not included in the manufactured home assessment. In determining the full cash value of a manufactured home on rented or leased land, the assessor considers sale prices listed in recognized value guides for manufactured homes. The assessor's primary valuation tool is the National Automobile Dealers Association *Manufactured Housing Cost Guide* (NADA). The assessor also uses sale prices and BOE unit cost factors when estimating the value of manufactured homes.

Manufactured home accessories are valued as part of the manufactured home. Authorized by an ordinance adopted by the board of supervisors, the assessor exempts any real property or personal property with a base year value or full value of \$2,000 or less. This low-value exemption is applied to manufactured homes and accessories with a base year value or full value of \$2,000 or less.

Each year, the assessor reviews several manufactured home sales in each park to determine whether manufactured homes are declining in value. In addition, the assessor discovers manufactured homes that have declined in value through taxpayer reviews. Once a manufactured home is in decline-in-value status, the values are reviewed on an annual basis.

The assessor correctly issues supplemental assessments for manufactured homes sold new, and he does not issue supplemental assessments for manufactured homes voluntarily converted from vehicle license fee to local property taxation or taxable manufactured homes newly moved into San Joaquin County from another county or state. Exemptions are correctly handled for the assessment of manufactured homes held in dealers' inventory and those held or owned by financial institutions and insurance companies.

In general, the assessor has a well administered manufactured homes assessment program.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business, but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2010-11 roll year, the assessor enrolled 406 aircraft with a total assessed value of \$178,972,901.

The following table provides a breakdown of aircraft enrolled in San Joaquin County during the 2010-11 roll year:

AIRCRAFT TYPE	NUMBER OF ASSESSMENTS	VALUE
General Aircraft	388	\$176,379,906
Commercial Aircraft Fleets	1	\$170,414
Historical Aircraft – Exempt	12	\$523,473
Fractionally Owned Aircraft	5	\$1,899,108
Total Aircraft Assessments	406	\$178,972,901

The assessor discovers aircraft through airport operators' reports, FAA registry, airport field checks, and referrals from other counties.

Each year, the assessor mails BOE-577, *Aircraft Property Statement*, to the known owners of aircraft in the county, requesting current information. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The aircraft statement has a filing deadline of May 7, and the assessor imposes a 10 percent penalty for failure to file and late filings.

The assessor's staff uses the required primary value guide, *Bluebook*, to appraise general aircraft. In accordance with Letter To Assessors (LTA) No. 97/03, the assessor's staff adjusts downward the listed retail values by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date.

During our survey, we reviewed several general aircraft records for valuation methodology, including sales tax, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found that the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines set forth in Assessors' Handbook Section 577, *Assessment of General Aircraft (AH 577)*, and

LTA No. 97/03. Our current review also disclosed the assessor has filed all necessary aircraft information with the California Department of Transportation, Division of Aeronautics.

Fractionally Owned Aircraft

Fractionally owned aircraft are fleets of aircraft managed and maintained by an operating company where ownership is distributed on a fractional basis similar to a timeshare in real property. The management company handles all operating requirements of the aircraft, including availability, maintenance, billings, shareowner usage, training, and flight crews.

Pursuant to section 1161, fractionally owned aircraft are assessed on a fleet-wide basis to the manager in control of the fleet. Like certificated aircraft, fractionally owned aircraft are assessed on an allocated basis using an "allocation factor." This allocation factor is a fraction, the numerator of which is the total number of landings and departures made by the fleet type in the county during the previous calendar year, and the denominator of which is the total number of landings and departures made by the fleet type worldwide during the previous calendar year.

Section 1162 contains a provision for the appointment of a lead county assessor's office to facilitate property reporting, allocation calculations, the transmittal of allocated values to other jurisdictions where situs has been established, and provide for coordinated multi-county audits.

We reviewed the assessor's procedures for the valuation of fractionally owned aircraft. We found that the allocated value was accurately calculated on the basis of arrivals and departures in the county in accordance with section 1161.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time, and the number of arrivals and departures during a representative period (designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

One commercial aircraft flew in and out of Stockton Metropolitan Airport in the 2010 calendar year. The auditor-appraisers responsible for the appraisal of certificated aircraft process the annual business property statements (BPS) and pro-rate the value for the aircraft according to the methodology set forth by the Revenue and Taxation Code. Appraisals of this type are predicated upon the reported costs indicated on the air carrier BPSs and indicated wholesale values from the *Airline Price Guide*.

We reviewed the assessor's certificated aircraft appraisal procedures and found the program to be correctly administered and the estimates of values to be accurately calculated pursuant to section 401.17.

Historical Aircraft

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

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

There were 12 historical aircraft assessed for the 2010-11 roll year in San Joaquin County, with a total assessed value of \$523,473. For those historical aircraft, the assessor properly obtained signed affidavits in the format prescribed by the BOE, and certification of attendance pursuant to section 220.5(c). We reviewed several historical aircraft assessments and exemption claims and found that the assessor has properly granted the exemption when the legal conditions are met.

We have no recommendations for the assessment of aircraft.

Vessels

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

Assessors are required to annually appraise all vessels at market value, except as provided in section 228, which provides that vessels with a market value of \$400 or less shall be exempt from taxation as long as the vessel is not used or held for commercial purposes. This section does not apply to more than one vessel owned, claimed, possessed, or controlled by an assessee on the lien date.

The following table details the number of pleasure vessel assessments processed and their assessed values for recent years:

YEAR	VESSELS	ASSESSED VALUE
2010-11	10,308	\$132,430,744
2009-10	10,846	\$157,236,892
2008-09	11,254	\$162,407,795
2007-08	11,160	\$144,964,815
2006-07	11,071	\$137,886,085

The assessor uses the following information to value vessels entering the county: reported purchase price, DMV values, National Automobile Dealers Association *Marine Appraisal Guide* (NADA), *ABOS Marine Blue Book*, *BUC Used Boat Price Guide*, or other information sources. Most vessels are valued using an ABOS computer-based system. Trends in market values for all other vessels are categorized into cruisers, sail boats, runabouts, houseboats, and jet skis. Samples from NADA and *ABOS Marine Blue Book* are used to determine the percentage of depreciation for each category.

We have no recommendations for the assessor's vessel program.

APPENDIXES

A. County-Assessed Properties Division Survey Group

San Joaquin County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Pamela Bowens

Supervising Property Appraiser

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Ladeena Ford

Business Taxes Specialist II

Margie Wing

Senior Specialist Property Appraiser

Tammy Aguiar

Associate Property Appraiser

Angie Berry

Associate Property Appraiser

Michael Brennan

Associate Property Appraiser

Julie Warren

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Paul Stueber

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹⁴ 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-Assessed Properties Division (CAPD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹⁵

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

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

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

¹⁴ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

¹⁵ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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

Non-Proposition 13 properties. Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, Timberland Production Zone property, and taxable government-owned property.

Unsecured properties. Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, that is, the "unexpanded" sample, to over-represent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

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

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

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

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

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

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

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

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

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 CAPD. 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 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 ten 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 ten 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 ten 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 audits in accordance with Revenue and Taxation Code section 469.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.

- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



Kenneth W. Blakemore, MAI
San Joaquin County
Assessor – Recorder – County Clerk

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Debra Leonardini
Chief of Standards
Recorder – County Clerk

Teresa Williamson
Operations Manager
Recorder – County Clerk

December 7, 2012

Mr. Dean R. Kinnee, Chief
County Property Tax Division
State Board of Equalization
Sacramento, CA 94274-0062

Dear Mr. Kinnee

Pursuant to California Government Code section 15645, please find enclosed our response to the findings and recommendations contained in the post-conference draft of the recently completed Assessment Practices Survey for San Joaquin County.

I would like to start by acknowledging the hard work and dedication of the entire San Joaquin County Assessor's Office. The "Great Recession" brought on great challenges to an area some called "Ground Zero" in the nationwide foreclosure crises. Because of the hard work and dedication of every employee in this office a credible and accurate roll was completed on time every year during this difficult period. The taxpayers of San Joaquin County can be proud of their work.

We acknowledge the professional and considerate manner in which the Board survey crew conducted themselves while surveying our office, performing the sampling program, and interviewing our staff. We appreciate their constructive comments and suggestions for improvement regarding our operations.

We generally agree with most of the Board's recommendations and we have either already implemented your recommendations or are in the process. There are differing views on some points that we feel better serve our constituents without being out of compliance with law. On that point we feel there are a couple cases that even though our practices may not be a method preferred by Board staff, or as other counties may perform, they are not out of compliance with law or best practices.

Again I would like to commend the San Joaquin County Assessor's staff as well as the work of the Survey team. The commitment of both insures continued excellent service to the taxpayers of San Joaquin County.

Sincerely

Kenneth W. Blakemore
Assessor, Recorder, County Clerk

RESPONSES TO SBE RECOMMENDATIONS

RECOMMENDATION 1: Ensure appraisers meet section 671 annual training requirements:

We agree that a small percentage of our staff was delinquent in continuing education hours. All appraisers are now current with the training requirements of section 671.

RECOMMENDATION 2: Improve the assessment of staff-owned property by developing more detailed written procedures for the assessment of staff-owned property:

We agree. We will develop detailed written procedures to support our current processes and investigate methods of electronically tracking employee-owned properties and any changes to the same.

RECOMMENDATION 3: Instruct applicants to return the withdrawal letter directly to the clerk of the assessment appeals board (AAB)

We agree. We have already corrected the process instructing taxpayers to return the withdrawal forms to the Clerk of the Board.

RECOMMENDATION 4: Modify disaster relief procedures by: (1) revising the notice of reassessment for disaster relief to conform to the requirements of section 170(c), and (2) calculating the proration of taxes due on damaged property to include the month in which the damage occurred

- (1) We agree.
- (2) We agree. Changes have already been made to correct the proration.

RECOMMENDATION 5: Improve the administration of church and religious exemptions by: (1) granting the church exemption only for religious worship and church parking, (2) mailing both the church exemption claim forms and annual religious exemption notices prior to January 1, and (3) conducting field inspections on all new claims filed for church and religious exemptions:

- (1) We disagree. The procedures in place apply this exemption correctly.
- (2) We agree and will mail claim forms prior to January 1.
- (3) We agree and have already implemented an improved field inspection program; designating a Property Technician for field inspection of exempt properties.

RECOMMENDATION 6: Improve the administration of the welfare exemption by: (1) requiring nonprofit claimants that own and operate low-income housing property to meet all filing requirements, (2) denying the welfare exemption on personal property put to an exempt use after the lien date.

- (1) We agree and are implementing the recommendation and updating our procedures.
- (2) We agree and are implementing the recommendation and updating our procedures.

RECOMMENDATION 7: Improve the exemptions program by applying the penalty to all late-filed claims:

We disagree. Penalties are applied to all late filed claims in the proper amounts. The only occurrences where penalties were not applied to a late filed claim were due to Assessor error and were therefore justifiably not applied.

RECOMMENDATION 8: Improve the administration of the disabled veterans' exemption by: (1) imposing appropriate late-filing penalties pursuant to sections 276 and 276.2, (2) granting the disabled veterans' exemption on a prorated basis in accordance with sections 276.1 and 276.2, (3) granting the full amount of the disabled veterans' exemption to the extent of the interest owned by the claimant pursuant to section 205.5(d), (4) removing the disabled veterans' exemption as of the date the property is no longer the claimant's principal place of residence, and (5) requiring documentation that the disabled veteran has been honorably discharged:

- (1) We agree and are implementing the recommendation and updating our procedures.
- (2) We agree and are implementing the recommendation and updating our procedures.
- (3) We agree and have already implemented the recommendation and updated our procedures.
- (4) We agree and have already implemented the recommendation and updated our procedures.
- (5) We agree and have already implemented the recommendation and updated our procedures.

RECOMMENDATION 9: Improve the penalty process by: (1) removing misleading language from the Notice of Penalty for Failure to File Completed Change in Ownership Statement, and (2) correctly implementing the penalty abatement process in compliance with section 483:

- (1) We agree. The language of the notice has been revised and clarified.
- (2) We agree and have already implemented the recommendation and updated our procedures.

RECOMMENDATION 10: Improve the valuation of CLCA properties by: (1) including all potential income available to the property when determining the value, (2) properly allocating restricted value between land and living improvements, (3) valuing commercial use portions of restricted property using the restricted rate, (4) using current market rents to estimate the income utilized in the valuation of restricted properties, and (5) properly calculating nonliving improvement expenses.

- (1) We disagree. We have found that any income from hunting that is attributable to the land is insignificant. The farmers that don't have hunting clubs don't usually charge for hunting if they allow it at all. The farmers with clubhouses have membership fees and the majority of the income is attributable to the structures which are assessed under Section 110.1.
- (2) We disagree. This is an issue of allocation, not assessment. Section 423.3 does not indicate a preferred method of allocation and we feel our method gives more stable land assessments for properties that are assessed under 423 one year and 423.3 the next.
- (3) We agree and will discontinue using market rates when determining commercial sites.
- (4) We agree. We discovered through this survey process that on some parcels or rents were less than those reported. We are in the process of correcting this.
- (5) We agree.

RECOMMENDATION 11: Improve the taxable possessory interest program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (2) properly issuing supplemental assessments.

- (6) We disagree. We review all possessory interest files for annual decline in value. We have found that properties with remaining terms of greater than 20 years the factored base value is usually still less than the calculated value using the remaining term and the current market rent. Therefore these accounts get a cursory review each year.
- (7) We disagree. We believe the Board's method of supplemental assessments creates double assessments of the same possessory interest in certain instances.

RECOMMENDATION 12: Annually determine reserves and their value pursuant to Rule 469.

We agree that annual reserves are to be valued pursuant to Rule 469. We disagree with the conclusion that we aren't doing this. The one example was actually an obscure additional phase to an existing extraction property that we

missed back in 2002. One missed event does not make us non-compliant. We feel it would be more appropriate to include this in the sampling process, but of course it is out of the time-frame. We continue to annually determine reserves and their value pursuant to Rule 469.

RECOMMENDATION 13: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

We agree.

RECOMMENDATION 14: Improve the audit program by: (1) using a comprehensive audit checklist as a standard component of all audits, and (2) enrolling all escape assessments and overassessments discovered during the course of an audit.

- (1) We agree.
- (2) We agree.

RECOMMENDATION 15: Improve the business property statement (BPS) program by: (1) properly valuing and assessing landlord-owned personal property in apartments, and (2) valuing taxable business property in accordance with section 501 when a taxpayer fails to file a BPS or files late

- (1) We disagree. We do not see this recommendation as cost beneficial and, in our opinion, would tend to cause additional administrative burden and confusion for the owners of small, multi-unit residential buildings. The actual value of personal property included in the sale of small apartments is typically minimal. We allocate personal property from the total value upon transfer or valuation. As a portion of total value that value rarely changes. At one time when we processed these as recommended there was a high number of fail-to-files causing an inordinate number of penalty assessments.

All multiple residential properties assessed over \$100,000 are sent property statements and processed, if filed. If they are not filed they are penalized as required by law. We don't send statements to those under \$100,000 and don't penalize in compliance with the law.

- (2) We agree. We will correct our business property value estimations in accordance with section 501.

RECOMMENDATION 16: Properly classify and value taxable business property by: (1) correctly classifying machinery and equipment reported on the business property statement (BPS), and (2) valuing structural improvements reported on the BPS in the same manner as other real property structures

- (1) & (2) We Agree. We have procedures and our past practices were in compliance with past surveys. However, we attribute this as growing pains with SDR. At that time our SDR programming did not adhere to our policy. This has been corrected.