

SAN JOAQUIN COUNTY ASSESSMENT PRACTICES SURVEY

JUNE 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

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June 18, 2001

TO COUNTY ASSESSORS:

No. 2001/037

SAN JOAQUIN COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Honorable Gary W. Freeman, San Joaquin County Assessor-Recorder-Clerk, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, the assessor's response, and the BOE's comments on the assessor's response constitute the final survey report which, pursuant to Government Code section 15646, is distributed to the Governor, Attorney General, and State Legislature; and to the San Joaquin County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed the fieldwork for this survey of the San Joaquin County Assessor's Office from September 1999 through February 2000. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

Richard C. Johnson
 Deputy Director
 Property Taxes Department

RCJ:jm
 Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial impact comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding. The assessment practices survey program is one of the State's major efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office and publishes a report of its findings. This report reflects the BOE's findings in its periodic survey of the San Joaquin County Assessor's Office.

We have reformatted our Assessment Practices Survey Report so that no multi-part recommendations are included. This has the effect of increasing the number of recommendations in the reports. In addition, we have eliminated all formal suggestions. Some of these suggestions will be included in the new format as recommendations while others will be either dropped or simply stated within the text of the report. This too has the effect of increasing the number of recommendations within any given report.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, and to the San Joaquin County 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 Gary W. Freeman, San Joaquin County Assessor-Recorder-Clerk,¹ elected to file his initial response prior to the publication our survey; that response is included in this report following the Appendices.

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

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by BOE's survey team.

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

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

This survey also included an assessment sample of the 1999-2000 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

An assessment practices survey is not an audit of the assessor's entire operation. We did not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment, nor did we review or report on the assessor's duties relating to the functions of county clerk and county recorder.

² All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

EXECUTIVE SUMMARY

This report presents several recommendations for improvement, but it also attempts to note those program elements that are particularly effective and efficient. It also highlights areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

- In our 1995 assessment practices survey of San Joaquin County, we made eight recommendations to address problems we found in the assessor's policies and procedures. The assessor has fully implemented two of these recommendations. Of the remaining six, the assessor has taken no action with regard to four of them; one was based upon incorrect analysis and has been dropped and one was rendered obsolete by recent legislation. The four that have not been addressed are repeated in this report.
- The assessor's staff appraisers are current in their mandatory training requirements.
- During survey fieldwork, we found that business property statements were processed and values were enrolled without the review of certified appraisers.
- The office lacks a formal policy and procedures manual for assessment functions. Few departmental units have written procedures, which in some cases leaves employees without guidance for valuation.
- The assessor has developed and implemented several enhancements in technology since our last survey. Workstations were upgraded to provide for safety and to accommodate personal computers (PC's). Each appraiser and auditor-appraiser now has a PC, and most of the staff have access to the network. The computer system is expanded to provide discounted cash flow analysis, exemption calculations, and digital aerial photos. Although reasonable security measures are in place for the office and mainframe computer, documentation of upgraded programs should be established. In addition, the disaster recovery plan needs to be more detailed.
- We found the record maintenance and confidentiality safeguards to be adequate.
- The assessor has participated in the State-County Property Tax Administration Program (PTAP) since 1996. PTAP funds have been used for additional staffing, data processing equipment and programs, and efficient workstations. The assessor has met all contractual obligations of PTAP as verified by the auditor-controller.
- The assessor's staff needs training in applying penalties and interest to escaped assessments on personal property tax change orders.
- We found no problems with assessment appeals administration.
- The assessor responded to a previous recommendation by seeking to have the San Joaquin County Board of Supervisors correct the low value ordinance, but the correction contains language that is still incorrect.

- The assessor's disaster relief program is well run, but it would be helpful to obtain all fire reports to aid in discovery of damaged property. In addition, the specified lien date in county ordinance number 3895 should be changed to January 1.
- The assessor's office does not issue supplemental assessments on possessory interests for roll changes that have a value of \$4,000 or less. Values should not be exempted above \$2,000, the low value limit stated in the county's property exemption ordinance.
- With the exception of taxable possessory interests, the supplemental assessment program complies with the Revenue and Taxation Code.
- We found no significant problems with the assessor's exemption program.
- The assessor's staff processes over 30,000 documents a year in determining changes in ownership. When change in ownership statements are not returned, the required penalty is not applied in a timely manner.
- We reviewed the processing of claims for sections 63.1 and 69.5 exclusions from change in ownership and found adequate compliance with statutory requirements.
- We found no problems with the processing of Legal Entities Ownership Program notifications.
- The assessor has developed two direct enrollment programs that helped in the appraisal of about 30 percent of the single-family properties that have transferred.
- Overall, the assessor's office processes new construction well, but there is a need to request that all permits issued in the county be forwarded to the assessor.
- The San Joaquin County Assessor is thorough and adheres to proper appraisal techniques in dealing with declines in value.
- Certain possessory interests are being reappraised annually. By law, they are to be reappraised only when a change in ownership occurs or for a decline in value.
- We found several properties listed on the roll under the name of "USA." The assessor should identify the specific agency that manages the property and the use of the land. This will assist the assessor in identifying taxable possessory interests.
- We found the files for taxable government-owned property to be well documented and in compliance.
- California Land Conservation Act Properties are valued using a computer-assisted program. We found this program to be well administered.
- We found that structural improvements reported on the business property statement and valued by the business property section have not been supplementally assessed.
- The water company appraisals we examined were performed correctly. However, we recommend that the income approach be considered when valuing the one regulated company.
- Mineral properties are being valued using the royalty method. Sufficient information is available for use of an income approach, which is the preferred method.

- The San Joaquin County Assessor is properly assessing pipeline rights-of-way.
- In our 1995 survey we recommended that fixed machinery and equipment be classified as improvements. We repeat this recommendation in this report.
- The assessor's staff uses the BOE-recommended equipment valuation tables correctly.
- Our review of the audit program found that there is no audit checklist, that there is no mention of changes in control of legal entities, that some escapes and refunds are not processed, and that reviews of completed audits are infrequent.
- The backlog of mandatory audits continues, but it appears to be coming under control since vacant positions have been filled.
- The audit staff incorrectly offsets assessments, rather than offsetting tax refunds against tax liabilities.
- The assessor's staff does not review the BOE forms V-600B sent by the BOE Valuation Division. These forms contain lists of leased equipment reported by public utilities for local assessment.
- The assessor's staff utilizes value guides when valuing aircraft. Penalties are assessed for failure to file. However, we found that historical aircraft are being exempted even though affidavits are not timely filed.
- The assessor does not require owners of vessels costing \$100,000 or more to annually file Vessel Property Statements.
- The assessor is currently conducting studies to develop trending factors for vessels.
- In our 1995 survey we recommended that manufactured homes be valued as personal property. The assessor implemented this recommendation.
- The assessor does not require apartment owners to file annual property statements when the aggregate cost of personal property is \$100,000 or more. Large apartment complexes should be field canvassed for discovery of personal property.
- We found no problems with service station valuation.
- Despite the problems noted above, we found that most properties are being assessed correctly.
- The county assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 1999/2000 assessment roll indicated an average assessment ratio of 100.03 percent, and the sum of absolute differences was 1.00 percent. Accordingly, the BOE certifies that San Joaquin County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Ensure that certified staff review all value estimates as required by law. 11

RECOMMENDATION 2: Develop a formal policy and procedures manual..... 11

RECOMMENDATION 3: Document all in-house computer software. 12

RECOMMENDATION 4: Ensure that staff follows the written assessment roll change procedures. 14

RECOMMENDATION 5: Enroll all roll corrections. 15

RECOMMENDATION 6: Request that the board of supervisor correct the language of the existing low-value property exemption ordinance. 15

RECOMMENDATION 7: Request that the board of supervisors revise the county disaster relief ordinance to conform to section 2192. 16

RECOMMENDATION 8: Obtain fire department reports to discover damaged properties. 16

RECOMMENDATION 9: Process all supplemental assessments. 17

RECOMMENDATION 10: Apply the section 482 penalty in a timely manner..... 20

RECOMMENDATION 11: Obtain authorization from the board of supervisors to abate the section 482 penalty for nonresponse to *Change in Ownership Statements*. 20

RECOMMENDATION 12: Request that the County Environmental Health Services Department forward copies of all permits issued..... 22

RECOMMENDATION 13: Revalue possessory interest assessments only when a change in ownership or decline in value occurs. 24

RECOMMENDATION 14: Research properties identified as “USA.” 24

RECOMMENDATION 15: Supplementally assess all new construction. 26

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RECOMMENDATION 22: Grant exemptions to historical aircraft only when authorized by
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RECOMMENDATION 24: Require certain apartment owners to file an annual business
property statement as required by law. 35

OVERVIEW OF SAN JOAQUIN COUNTY

As the northern-most county in the San Joaquin Valley, San Joaquin County is at the center of California's Central Valley farmland. Today San Joaquin County is ranked among the top ten agriculture producing counties in the U.S., with dairy products accounting for 20 percent of the total production in the county. With lower relative operating costs, a large and expanding labor force, good utility service, and ample sites and facilities, the county is also gaining momentum as an industrial center. The City of Stockton is the county seat.

The Port of Stockton became a major link to San Francisco in the 1930's when the deep-water channel was dredged to accommodate ocean-going vessels. Today the Port serves ships from around the world through the 37-foot deep Stockton Channel to San Francisco Bay. Ocean-going vessels regularly make the 75 nautical mile voyage from the Golden Gate Bridge into Stockton.³

San Joaquin County's population is approximately 554,400. Approximately 245,700 persons reside in Stockton, the largest incorporated city in the county.⁴

The following chart displays pertinent information from the 1999-2000 assessment roll.⁵

Property Type	Number of Assessments in County	Enrolled Values (000)
Residential	146,246	
Miscellaneous	2,783	
Rural	12,126	
Commercial/Industrial	<u>12,107</u>	
Total Secured Roll	173,262	\$24,351,820
Total Unsecured Roll	<u>23,038</u>	<u>\$1,837,001</u>
Total Roll	<u>196,300</u>	<u>\$26,188,821</u>

³ Chamber of Commerce of San Joaquin County web site.

⁴ *California Statistical Abstract*, <http://www.dof.ca.gov>

⁵ Values by property type were not available.

RESULTS OF THE 1995 SURVEY

Disaster Relief

We recommended that the assessor request that the county board of supervisors revise the county disaster relief ordinance to comply with the provisions of section 170. The county board of supervisors made the revision, but the current ordinance needs to be changed to reflect the new lien date.

Taxable Possessory Interests

We recommended that the assessor recognize statutory changes in ownership of possessory interests. Section 61(b) was amended in 1996 (effective January 1997) to provide that renewals and extensions do not cause a change in ownership until the end of the reasonably anticipated term used by the assessor. We find that the assessor is not following this statute. We recommend that the assessor revalue possessory interests whenever a change in ownership, as currently defined by section 61, occurs.

Taxable Government-Owned Property

We recommended that the assessor research, appraise, and enroll properties owned by government agencies and located outside the agencies' boundaries. We have now discovered that the properties in question were actually privately owned water companies. We drop this recommendation.

Valuation of Business Personal Property

We recommended that the assessor classify fixed machinery and equipment as improvements. We find that the assessor continues to misclassify machinery and equipment. We repeat this recommendation.

Property Statement Processing

We recommended that the assessor require companies to report all equipment by location and assess property in the tax-rate area where situated. Due to the enactment of section 623 and the amendment of Rule 204⁶, this recommendation is no longer applicable.

Vessels

We recommended that the assessor require certain vessel owners to file annual vessel property statements. The assessor has not changed his procedures. We repeat our recommendation.

⁶ All Rule references refer to Property Tax Rules, Title 18, Public Revenues, California Code of Regulations.

Manufactured Homes

We recommended that the assessor properly classify manufactured homes on the assessment roll. This recommendation has been implemented and manufactured homes are now classified as personal property.

Apartments

We recommended that the assessor require owners of apartment buildings to file a business property statement or audit the business property at least once every four years. The assessor has not changed his policy. We again recommend that owners of apartment buildings be required to file a property statement or be audited.

ADMINISTRATION

Training

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours of annual training if an appraiser holds an advanced certificate.

We found that the appraisal staff is current in their mandatory training requirements.

RECOMMENDATION 1: Ensure that certified staff review all value estimates as required by law.

Presently, and for the last few years, non-certified staff, such as office assistants and technicians, has processed the more routine business property statements and associated estimates of value without review by a certified auditor-appraiser. Section 670 requires that:

No person shall perform the duties or exercise the authority of an appraiser for property tax purposes as an employee of the state, any county or city and county, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificate issued by the State Board of Equalization.

Certified appraisers or auditor-appraisers should value and/or review all valuations of reported taxable business or personal property.

RECOMMENDATION 2: Develop a formal policy and procedures manual.

Other than the recently completed *General Audit Procedures* manual, the assessor does not have a formal procedures manual. We found that although some written memorandums, directives, and guidelines were used, there are few written procedures and no formal procedures manual. Procedures are needed for other aspects of audit-appraisal as well as all aspects of real property appraisal and assessment, assessment roll processing, appeals, exemptions, and other functions of the assessor's operation.

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

A written policy and procedures manual would be very useful in ensuring continuity, standardization, and equal treatment of all taxpayers. We recommend that the assessor develop a written policy and procedures manual.

Computer Systems

The assessor's staff created OASIS (Office of Assessor Information System) in 1980 using flat files on a Unisys System 80/6-mainframe computer. The system was rewritten to an Oracle relational data base system (RDBS) in 1992. Currently, hardware includes a Hewlett Packard 9000 G-70 by Unix for a central server, a dump terminal, workstations, personal computers (PC's), and Macintosh computers. The Macintosh computers are gradually being replaced with PC's. All of the appraisers and auditor-appraisers have PC's and most of the staff has access to the central server. The staff has expanded and improved the use of the computer systems to provide discounted cash flow analysis, exemption calculations, and digital aerial photos. The system is located in the assessor's office in a room occupied by only the Systems Division staff. Entry to the room is by key or code.

Backup procedures are comprehensive and thorough. Backup disks are stored for short periods of time off-site and then stored permanently in Sacramento. Security measures are adequate with each user having a password for access. Additionally, OASIS keeps a transaction table that tracks changes made in the system.

Ten other county departments have access to OASIS. Some are read-only and others are able to download data for their uses. The assessor's office has a website that is maintained by the county's central data processing department. It contains general information and telephone numbers as well as information on real property, business property, boats, aircraft, exemptions, mapping, and change in ownership.

In an effort to better manage the increasing workload in the assessor's office, the mapping section is in the process of developing the parcel map layer for a geographic information system for the entire county.

Documentation

RECOMMENDATION 3: Document all in-house computer software.

Since the last survey, the assessor has enhanced the direct enrollment program to include a second direct enrollment process involving the use of multiple regression analysis. Special assessment programs include a tracking system for appeals, building permits, and new business licenses; two direct enrollment programs; and databases for single-family, multi-family, commercial, and agricultural property sales. The systems division staff plans to update the documentation of the programs in the near future. However, there is inadequate documentation of some in-house computer software programs.

The original programs within OASIS are documented. However, upgrades to OASIS are not documented. In some cases, the person who designed the program is no longer an employee and there is no flowchart or other documentation available to describe the logic or purpose of the various lines of the program code. Without adequate documentation, it may be extremely difficult or impossible to make future changes to the program.

We recommend documentation of upgraded programs, including flowcharts and listings.

Disaster Recovery Plan

While computers allow an organization to reduce time-consuming manual functions, an organization dependent on computers is extremely vulnerable to a catastrophic event. When there is heavy reliance on automation, the loss of computer capabilities, for even a short period of time, could have significant impact.

The San Joaquin County Assessor's Office has a very brief recovery and relocation plan establishing recovery priorities. However, the plan is very generalized and does not provide itemized procedures to re-establish computer capabilities. The plan should address an off-site location and define the specific steps and a timetable for complete recovery of computer operations, programs, and data after a disaster. This will ensure that the assessor's office has the capacity to recover quickly from a catastrophic event, should one occur.

Record Maintenance

In our previous survey, we suggested that the county purge old data from the business files. The county conducted an office-wide purge in 1996. We commend the assessor for cleaning up the business files, creating room for expansion.

State-County Property Tax Administration Program

Section 95.31 provides that upon recommendation of the assessor and by resolution of the county board of supervisors, the county may elect to participate in the State-County Property Tax Administration Program (PTAP).⁷ The majority of California counties participate in the program.

To participate, a county must enter into a loan agreement or contract with the State Department of Finance to enhance its property tax administration system, reduce backlogs of assessments, and maximize enrollment capabilities. The loan cannot be used to supplant the assessor's current level of funding, and the county must maintain a base staffing level, independent of the loan proceeds.

In January 1996, the San Joaquin County Board of Supervisors, upon the recommendation of the assessor, elected to participate in the State-County Property Tax Administration Program for the period beginning with the 1996 calendar year and ending June 30, 2000. Under the contract, the State agreed to loan \$818,686 for each of the calendar years 1996, 1997, and 1998. The assessor agreed to use the funds to reduce enrollment backlogs of mandatory audits and defend scheduled assessment appeals. The contract was amended in 1998 to include the review of properties for reduction in assessment in accordance with section 51(e) and the reduction of delinquent unsecured property taxes by the tax collector. To address these areas, the assessor used the PTAP funds to recruit more appraisers and clerical staff, create safe and efficient workstations, and upgrade some data processing hardware and software. In addition, some of the funds were allocated to the treasurer-tax collector's office to improve their relative functions that coordinate with the assessor's office.

⁷ PTAP was brought about by AB 818 and continued with AB 719.

San Joaquin County's contract specifies the performance measures required to have the loan amount forgiven. The assessor must report the actual workload, the number of reassessments completed, and the average increment of assessed value change generated by the assessment. Under the contract terms, the county's auditor-controller must verify the assessor's reported figures and the calculations. The assessor reported, and the auditor-controller verified by audit, that the required "percentage of success," as defined in the contract, was achieved for each of the assessment categories.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change an assessment unless authorized by statute or by the board of supervisors and the county counsel.

Escape assessments are assessments made after the assessor has certified that the local assessment roll was prepared pursuant to section 601. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penal assessment to the roll. Additionally, the assessor must also cite the Revenue and Taxation Code section that mandates the escape assessment. This action notifies the auditor-controller and treasurer-tax collector whether additional interest is required on the unpaid tax.

In the San Joaquin County Assessor's Office, changes to the roll are processed by property technicians. The following table shows the number of records processed annually over recent years.

ROLL YEAR	TOTAL NO. OF RECORDS
1995	4,916
1996	5,333
1997	4,032
1998	2,689
1999	724*
* Year to date as of 10/21/99	

During our survey of the San Joaquin County Assessor's Office, we reviewed the records of properties where assessment roll changes were processed.

Procedures

RECOMMENDATION 4: Ensure that staff follows the written assessment roll change procedures.

We found that staff lacked the knowledge to properly process interest on roll changes associated with escape assessments. The assessor has written guidelines for roll changes, but staff is not following them.

We recommend that the assessor ensure that the staff is familiar with the written roll change procedures and that the procedures are followed.

Roll Correction

RECOMMENDATION 5: Enroll all roll corrections.

The assessor does not process roll corrections with value changes of less than \$4,000. Also, the assessor's written procedures for roll changes for real property valuation specify that roll corrections to the regular 601 roll are not required if the value is less than \$4,000. There is no statutory authority for exempting roll corrections due to low value.

We recommend that the assessor enroll all roll corrections.

Assessment Appeals

The assessment appeals function is required by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory references to guide county assessment appeals boards in the appeals function. Government Code section 15606(c) directs BOE to prescribe rules and regulations to govern local boards of equalization, and BOE has adopted Property Tax Rules 301 through 326. The assessor has a backlog of 276 appeals. Funding from the PTAP being is used to reduce this backlog. In all cases of carry-over appeals (e.g., extensions, postponements), the property owners have signed waivers extending the statutory time limit for which appeals must be heard. No appeals have ever exceeded the time limit.

In all of the appeal files we examined, the assessor's position was well documented. Accepted appraisal methods were applied and values were well supported by market data.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to enact a resolution exempting from property tax all real property with a base year value and all personal property with a full value so low that the total taxes, special assessments, and subventions would amount to less than the cost of assessing and collecting them.

Our previous survey suggested that the county's existing low-value exemption ordinance be revised to include personal property. The San Joaquin County Board of Supervisors passed Ordinance No. 3825, amending the low-value ordinance, as we suggested. However, the language of the current ordinance is not correct.

RECOMMENDATION 6: Request that the board of supervisor correct the language of the existing low-value property exemption ordinance.

The language of the current low-value property exemption ordinance provides in part that "all real or personal property with a base year value of \$2,000 or less shall be exempt from assessment and taxation." Personal property is valued at fair market value and the reference to base year value for personal property should be amended.

We recommend that the assessor request that the board of supervisors correct the language of the low-value property exemption ordinance.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to both.

San Joaquin County adopted Ordinance Number 3895, effective July 23, 1996. This ordinance enables the county assessor to apply the provisions of section 170.

In our 1995 assessment practices survey of San Joaquin County, we recommended that the assessor request the county board of supervisors to revise the county disaster relief ordinance to include all taxable property—not just personal property—and to reduce the value loss limit from \$15,000 to the statutorily required \$5,000. The county has implemented these revisions. But one further revision is needed.

RECOMMENDATION 7: Request that the board of supervisors revise the county disaster relief ordinance to conform to section 2192.

Chapter 499 of the Statutes of 1995 changed the lien date to January 1. The lien date in the current county ordinance is designated as March 1. We recommend that the assessor request that the board of supervisors change the lien date in the ordinance to January 1.

RECOMMENDATION 8: Obtain fire department reports to discover damaged properties.

In our review of properties damaged by misfortune or calamity, we found that the assessor made every effort to provide disaster relief for qualifying flood victims, including providing disaster relief forms for them at several locations. The assessor does not put forth the same effort for the fire victims. Fire victims receive a disaster relief form only if they request one.

The appraisal staff usually discovers calamities through building permits, newspaper articles, taxpayer notification, or field investigation. Fire department reports prepared by the various city and county fire departments are an untapped source of discovery available to the staff. An estimate of the dollar amount of damage is usually provided in these reports, which can be helpful to the assessor when screening claims.

We recommend that the assessor's staff contact all fire departments in the county and arrange to obtain copies of all fire reports on a regular basis.

Supplemental Assessments

Chapter 498 of the Statutes of 1983, (Senate Bill 813) and other statutes relating to the supplemental roll were enacted to provide additional funding for public schools and to promote equitable treatment of taxpayers. Section 75.10 provides that whenever a change in ownership occurs or qualifying new construction is completed, the assessor shall appraise the property changing ownership or that has been recently constructed. Such property is to be appraised at its full cash value on the date the change in ownership occurs or the new construction is completed.

In the San Joaquin County Assessor's Office, supplemental assessments are computer generated once the appraisal staff has completed a value change due to a change in ownership or completed new construction. The following table shows the number of supplemental assessments processed by the assessor's office for the last five years:

Assessment Year	Number of records	Value Increase	Value Decrease
1999	16,173	\$828,628,449	(\$74,781,424)
1998	13,411	\$613,588,035	(\$86,966,644)
1997	13,297	\$577,578,247	(\$98,554,437)
1996	12,603	\$619,625,997	(\$94,543,950)
1995	14,325	\$681,680,719	(\$88,103,486)

Section 75.55(b) allows the county board of supervisors to adopt an ordinance authorizing the assessor to cancel small supplemental assessments producing less than \$20 in taxes, or \$50 in taxes in the case of eligible manufactured home accessories. San Joaquin County has not adopted such an ordinance.

RECOMMENDATION 9: Process all supplemental assessments.

We found that the assessor was not processing supplemental assessments on possessory interests or roll changes below \$4,000. The assessor has no authority to cancel any small supplemental assessments without an enabling ordinance. We recommend that the assessor process all supplemental assessments.

Exemptions

Article XIII, section 3(f) of the California Constitution exempts from property taxation buildings, the land on which they are situated, and equipment used exclusively for religious worship. The California Constitution, in section 4(b) of article XIII, authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes, owned by non-profit entities. California Constitution article XIII, section 5, provides that the exemption granted under section 3(f) and section 4(b) can be applied to buildings under construction and land required for their convenient use. Buildings used, or under construction and intended to be used, exclusively for religious worship are eligible for exemption.

The assessor's staff processed the following number of parcels over the past five years.

Roll Year	Number of parcels with exemption	Exempt Value in Dollars
1999	89,145	\$1,573,412,116
1998	88,323	\$1,436,049,816
1997	87,707	\$1,399,877,936
1996	85,632	\$1,359,057,458
1995	85,022	\$1,328,536,557

The assessor, in conjunction with BOE, processes welfare exemption claims. In our review of records, we did not find any instances where the assessor had granted a claim for exemption which the BOE had denied.

The assessor's staff does a good job of processing exemption claims and maintaining records for all the various exemption types. However, we believe that better documentation is needed on the appraisal records. At times it was difficult to determine why an exemption was denied or how the allocation between exempt and non-exempt property was determined.

ASSESSMENT OF REAL PROPERTY

As of October 1999, the assessor's staff assigned to perform the duties of the real property program consisted of 34 employees, including a chief appraiser, 4 supervising appraisers, 24 appraisers, and 5 property technicians.

Appraisal crews are organized first by function and then by geographic area. Each crew has a computerized sales database and worksheets that are customized by property type. The residential crew also has on-line access to the local multiple listing service. The assessor also utilizes two direct enrollment programs. Over the last three years an average of 30 percent of the transfers were directly enrolled (see discussion beginning on the next page).

Change in Ownership

Section 50 requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. In 1998, the assessor's staff processed 33,897 deeds for possible changes in ownership. The following table shows an increasing number of deeds processed over the past five years.

NUMBER OF DEEDS PROCESSED

YEAR	DEEDS PROCESSED
1998	33,897
1997	29,134
1996	25,118
1995	24,013
1994	22,770

It follows that the number of parcels transferred and the number of reappraisals have also been increased over recent years. The following table summarizes the change in ownership workload over the past five years.

SUMMARY OF REAL PROPERTY CHANGE IN OWNERSHIP WORKLOAD

ROLL YEAR	PARCELS TRANSFERRED	APPRAISALS COMPLETED
1999/2000	21,813	15,775
1998/1999	17,796	11,392
1997/1998	14,423	8,468
1996/1997	16,432	9,613
1995/1996	17,756	10,375

We reviewed the assessor's procedures for processing transfers and selected appraisal records of properties that had changed ownership. Overall, the assessor's operations in these areas are efficient and in compliance with acceptable practices. However, a few problems were noted that need to be addressed.

Change in Ownership Statements

Section 480 requires all transferees of real property to submit a Change in Ownership Statement (COS) upon a change in ownership of either real property or a manufactured home subject to local property taxation. Should a transferee fail to file a COS pursuant to section 480, section 482 requires the assessor to add a penalty to the new assessment. Under section 482, failing to respond to a COS notice requires the assessor to apply a penalty of either (1) one hundred dollars (\$100), or (2) 10 percent of the tax applicable to the new base year—whichever is greater—but not to exceed two thousand five hundred dollars (\$2,500).

RECOMMENDATION 10: Apply the section 482 penalty in a timely manner.

In the San Joaquin County Assessor's Office, penalties for not completing and returning a COS are applied once a year in July. In effect, the taxpayer may be allowed more than one year to return a COS without penalty. Also penalties are abated if the COS has not been returned and there has been a subsequent transfer of the property.

We recommend that the assessor properly and promptly apply the penalty upon expiration of the 45-day period. By not applying the penalty in a timely manner, the assessor is, in effect, extending the filing period without legal authorization.

RECOMMENDATION 11: Obtain authorization from the board of supervisors to abate the section 482 penalty for nonresponse to *Change in Ownership Statements*.

Occasionally, penalties for not completing and returning a COS are abated by the assessor's office, particularly in the instance when there has been a subsequent sale of the property. The assessor does not have legal authorization to do this. Section 483(b) allows for the assessor to abate the penalty if the board of supervisors has adopted a resolution to that effect, and then only if a COS statement is received within 60 days after the date on which the assessee was notified of the penalty.

We recommend that the assessor obtain authorization from the board of supervisors to abate the section 482 penalty.

Direct Enrollment

The assessor has two direct enrollment programs. The programs are set up by areas where property characteristics have been gathered. Only sales of single-family residential properties where the sale price is reported are eligible for direct enrollment. In the first program, comparable sales are retrieved and compared to the reported sale price for the subject. Over the last five years, 75 to 85 percent of the transfers entered into this program were accepted. The second program is the multiple regression analysis enrollment program. In this system, the

program calculates an estimated value. Direct enrollments from both programs represent about 30 percent of the transfers reappraised.

The assessor is in the process of expanding the multiple regression direct enrollment system. Staff has been trained to use the program to help reappraise transfers. Approximately one-third of single-family residential properties are currently in the program. This program has greatly improved the efficiency of enrolling properties with a change in ownership.

Exclusions from Change in Ownership

Section 63.1 excludes from change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first one million dollars of other real property between parents and children when a claim is timely filed. Such claims must be filed within three years of the purchase or transfer or prior to the transfer of the real property to a third party, whichever is earlier, or within six months after the date of mailing of a notice of supplemental or escape assessment issued as a result of the purchase.

Section 69.5(a)(1) allows qualified homeowners 55 years of age or older or severely and permanently disabled residing in a house eligible for a Homeowners' Exemption to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county on or after November 6, 1986, provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling.

Section 69.5(a)(2) provides a one-time property tax relief for qualified homeowners by allowing them to transfer their current base year value to a newly acquired residence if they sell their existing home and buy another of equal or lesser value in another county that has passed an ordinance authorizing such transfers. San Joaquin County has not adopted such an ordinance.

We reviewed the processing of section 63.1 claims and found adequate compliance with statutory requirements.

Legal Entity Ownership Program (LEOP)

Section 64(c) provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity, as of the date of the change in control. Discovery of real property transferred by a change in control can be difficult because ordinarily there is no recorded notice of changes in control of a legal entity. While such notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records.

The BOE's Legal Entity Ownership Program (LEOP) learns of changes in control through responses to questions appearing on corporate and partnership income tax returns filed with the State Franchise Tax Board. The LEOP staff passes information related to these transfers to county assessor's offices by sending to each assessor a listing with the corresponding property schedules of legal entities that have reported a change in control. The listing includes the names

of acquiring entities, the date stocks or partnership interests transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

Accuracy of the data reported to LEOP is not guaranteed. Assessors are advised to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly appraised.

We reviewed a number of properties on the assessor's LEOP list and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor's legal entities staff is processing LEOP notices and identifying changes in control.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from building permits. Other discovery methods include business property statements, aerial photographs, news reports, and field inspections.

Building Permits

Section 72 requires building permit issuing agencies to transmit copies of the permits to the assessor as soon as possible. In San Joaquin County, the assessor is currently receiving building permits on a regular basis from eight different issuing agencies, seven cities and the county. These eight agencies transmit to the assessor's office permit information on a monthly basis. Permits are also received from the State of California Office of Statewide Health Planning and Development for new construction of hospitals and skilled nursing facilities. The following table shows the permit workload of the assessor:

Tax Year	Total Number of Permits Received	Total Number of Permits entered into SERS ♦	Total Value added from new construction*	Total number of permits that generated value.
1999/2000	14,982	3,452	\$186,725,088	2,176
1998/1999	13,846	2,971	\$161,735,589	1,880
1997/1998	13,968	3,081	\$134,882,194	2,111
1996/1997	13,630	2,669	\$185,932,324	1,902
1995/1996	12,496	2,455	\$161,073,275	2,141

♦ The assessors self-reporting assessment system (see the next section).

* These figures do not include value of completed new construction for parcels covered under the builders inventory exclusion.

RECOMMENDATION 12: Request that the County Environmental Health Services Department forward copies of all permits issued.

The San Joaquin County Environmental Health Services Department issues permits for the installation of wells, pumps, and septic systems throughout the county. It currently is not

forwarding copies of these permits to the assessor. These permits could help discover new construction associated with the installation of wells or septic systems, especially in a major agricultural county such as San Joaquin. We recommend that the assessor request that the County Environmental Health Services Department forward copies of all permits.

New Construction Valuation

Property Tax Rule 463(a) provides that new construction shall be reappraised at its full value. Section 110.1 defines “full cash value” as the fair market value of the newly constructed property on the date on which it is completed, or if uncompleted, on the lien date.

The assessor has a self-reporting program for lower value new construction, such as swimming pools, patios and covers, garages, carports, garage conversions, additions, and remodels. This program includes using a questionnaire to obtain appraisal data from the taxpayer. For the 1999 tax year, there were a total of 3,452 permits included in this program. There is no tracking of returned questionnaires. The assessor’s staff estimates a return rate of 50 percent for the questionnaires.

Overall, the assessor’s staff does a good job of valuing completed new construction. The residential crews utilize the cost tables in the Assessors’ Handbook Section 531, *Residential Building Costs* (AH 531) in arriving at their cost estimates. The commercial crew uses the cost data from Marshall Valuation Service. The appraisers attempt to acquire historical costs and compare them with costs from the Marshall Valuation Service. The commercial appraisers attempt to correlate the cost approach with at least one other approach to value, either the market or income approach. Typically reliance is placed on the cost approach, preferably historical costs.

Declines in Value

When preparing the assessment roll, section 51 requires the assessor to enroll the lesser of either (1) a property’s factored base year value (FBYV) or (2) its current market value as defined in section 110. When a property’s current market value falls below its FBYV on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property’s market value rises above the FBYV, then the assessor must re-enroll the FBYV.

An increasing number of properties in San Joaquin County declined in value during the early 1990’s due to the economic recession and subsequent declining real estate market in California. The number of decline-in-value properties continued to increase into the mid and late 1990’s. Close to 55,000 properties had declines in value last year.

In order to handle such a large workload of properties, the San Joaquin County assessor developed a regression analysis program. We reviewed a number of separate decline-in-value assessments and found them to be well documented, complete, and the values to be reasonable. The tracking system monitors existing declines in value, and appropriately prevents them from being indexed by the yearly inflation factor.

Taxable Possessory Interests

A taxable possessory interest (PI) is a private property interest in publicly owned real property. For property tax purposes, the term possessory interest includes either the possession or the right to possession of real property when a tax-exempt government agency holds the fee title of that property.

The assessor conducts an aggressive possessory interest discovery program that regularly contacts 60 government agencies that own property in San Joaquin County. As a result, there are 514 separate possessory interest assessments on the 1999/00 roll. Overall, the possessory interest assessment program is well managed and thorough. Terms of possession utilized are reasonable and based on past history rather than relying exclusively on contract terms. However, reappraisals of short-term possessory interests do not conform to law.

RECOMMENDATION 13: Revalue possessory interest assessments only when a change in ownership or decline in value occurs.

Many possessory interests are based on month-to-month tenancies or other short-term contracts, although the anticipated terms of possession may be for periods of several years (e.g., due to a history of renewals or other evidence that the likely terms of possession will be longer than the stated contract term). Until 1997, each renewal was a change in ownership, which required the assessor to establish a new base year value at fair market value. Typically, assessors reappraised these short-contract possessory interests annually.

Effective January 1, 1997, section 61 was amended to provide, in subdivision (b)(2) that:

Any “renewal” or “extension” of a possessory interest during the reasonably anticipated term of possession used by the assessor to value that interest does not cause a change in ownership until the end of the reasonably anticipated term of possession used by the assessor to value that interest. At the end of the reasonably anticipated term of possession used by the assessor, a new base year value, based on a new reasonably anticipated term of possession, shall be established for the possessory interest.

During our review of possessory interest assessments, we found a number of possessory interests that were valued for a term greater than one year, but the assessed values were not being indexed by the inflation factor each year. These properties were also not identified on the roll as experiencing declines in value. The assessor’s staff stated that possessory interest assessments resulting from by month-to-month tenancies were still being revalued each year.

We recommend that in order to be in compliance with section 61(b)(2) staff should revalue these possessory interests only when a change in ownership occurs.

RECOMMENDATION 14: Research properties identified as “USA.”

During our review of possessory interest properties, we became aware of several real property parcels owned by governmental agencies, many of which are listed under the general ownership title of “USA.” Such general titles do not identify the specific federal agency that controls the use of the property. Proper identification of the specific governmental agency and the designated

use of the parcel will make it easier to identify any possible taxable possessory interests in the properties.

We recommend that the assessor obtain the names of the specific agencies that manage these federal properties and contact them to determine whether any taxable possessory interests exist on these properties.

Currently the San Joaquin County Assessor's Office has one appraiser assigned to process all possessory interest appraisals. We suggest that a policy and procedures manual for the assessment of possessory interests be developed to ensure consistency and uniformity in case this one appraiser is reassigned or leaves.

Taxable Government-Owned Property

Article XIII, section 3(b), of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11(a). Section 11(a) provides that land, and the improvements thereon, located outside an agency's boundaries, are taxable if the property was subject to taxation at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as "section 11" properties.

In 1995, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to Section 11 properties (*City and County of San Francisco v. County of San Mateo, et al*, (1995) 10 Cal.4th 554). Prior to this decision, these lands were assessed at the lower of either their fair market value, or the 1967 taxable value of the land multiplied by the factor described in section 11 of the California Constitution. The Court's ruling means that such property must be assessed using the lowest of (1) the current fair market value, (2) the 1967 taxable value of land multiplied by the factor described in section 11 of the California Constitution, or (3) the factored base year value.

Our 1995 survey recommended that the assessor research, appraise, and enroll properties owned by government agencies and located outside the agencies' boundaries. It was determined that the particular agencies referenced in the prior recommendation are not government agencies but private water districts. The assessor is in compliance on this issue.

The county discovers Section 11 properties through deed recordings. Our investigation did not discover any escaped Section 11 properties.

The county's computer printout of Section 11 properties included 88 parcels. A review of ten parcel records indicated that they were well documented and complied with tax law. The Section 11 valuation program is well administered.

California Land Conservation Act Properties

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural reserve may choose to enter into a contract restricting the use of their land. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use

income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current unrestricted market value, or the factored base year value, as defined in article XIII A of the California Constitution. Sections 422 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts.

San Joaquin County had approximately 6,800 parcels (551,349 acres, which is 60.4 percent of the total acreage in the county) encumbered by the California Land Conservation Act (CLCA) as of the 1999-00 lien date. The assessor's CLCA program is a substantial part of the San Joaquin County assessment roll; it totals about \$1.6 billion in assessed value.

This program is a computer-assisted program, which is well administered, and processes all CLCA parcels annually, in keeping with current tax law. Rents, risk rates (1 percent for pastures and 1.5% for orchards and crops), and market rates are derived by analysis of *Rural Property Income and Production* questionnaires, interviews, *Preliminary Change of Ownership Statements*, the annual crop report, the grape crush report, and other published material. Although we did not verify the conclusions reached as a result of these studies, the assessor's procedures are in accord with recommended appraisal and assessment principles.

Response to the income and production questionnaires is excellent. The county has a computerized agricultural sales database (AG 40) that can develop comparables using several criteria: date, soil type, crop, and acreage. A computerized aerial photo program allows appraisers to view cropping patterns, perennial plantings, and improvements. It also allows for year-to-year comparisons. This program has been beneficial in the discovery of escaped improvements.

We found that the computer-assisted CLCA non-renewal calculations were accurate and parcels with CLCA cancellation filings were valued in accordance with tax law.

Tenant Improvements

Tenant improvements are defined as fixed improvements to land or structures installed and paid for by the tenant/lessee or landlord. Tenant improvements are also called leasehold improvements.

The assessment of leasehold improvements typically requires coordination between the real property and business property divisions. The assessor's staff has developed a leasehold communiqué to transmit information between the real property and the personal property sections.

RECOMMENDATION 15: Supplementally assess all new construction.

Costs reported on schedule B-1 of the business property statement are for structural improvements to real property but are assessed by the assessor on the unsecured roll. As structural items, they are subject to supplemental assessment as of the date of completed new construction or when they change ownership. We discovered that items under schedule B-1 enrolled by the audit section without real property review were not being supplementally-assessed.

We recommend that the assessor supplementally assess all newly constructed improvements, whether on the secured roll or unsecured roll.

Water Companies

Water company property on the local assessment roll may be municipal district water systems, private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water companies. Each type presents different assessment problems.

We obtained a list of all water supply sources annually inspected by the county's Department of Environmental Health, the State Department of Health Services' branch of Drinking Water Field Operations, and the CPUC. Also we contacted several of the water companies inspected by both the state and the county's environmental health department. Each water company appeared to be valued correctly. However, the program could be improved by employing the income approach for the one water company regulated by the CPUC.

RECOMMENDATION 16: Consider the income approach in valuing private water companies.

In the appraisal of regulated private water companies, the assessor uses two approaches to value: the sales comparison approach and the historical cost less depreciation approach. Comparable sales are tracked and analyzed and the annual reports filed by private water companies are obtained and analyzed for use in the Historical Cost Less Depreciation (HCLD) method.

Because private water companies are income-producing properties, we believe that an estimate of value by the income approach may provide a very important indicator of value, especially for those properties where comparable sales are unavailable.⁸ We recommend that the assessor consider the income approach to value in addition to the sales and HCLD approaches. Income data can be obtained from the same CPUC financial report used to develop the HCLD estimate of value.

Mineral Properties

Mineral properties located in the county are appraised by the supervising auditor-appraiser. Many of the properties in the county are held in fee and converted to residential use after the minerals (sand and gravel) have been extracted.

RECOMMENDATION 17: Use an income approach when valuing mineral properties.

We reviewed the property tax filings for several mining properties in the county and found sufficient information to utilize an income approach. The county has been determining the value of these properties using the royalty method.

⁸ Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, December 2000, was adopted by the BOE subsequent to our fieldwork. It provides that the HCLD and income approaches to value are generally the most reliable indicators of value for regulated water companies.

The royalty method capitalizes the payment of mineral royalties to assist in developing the value of the mineral right interest. In some cases, royalty information may not reflect the current market or the method may not entirely account for the value of the leasehold interest. Given that many of the county's quarry properties are held in fee and there is a lack of quality royalty information, the royalty method is not recommended.

The income approach capitalizes the entire net operating income from the property into an indication of value. When sufficient information is available, the income method provides a more accurate estimate of property value. Records examined in the county indicated that the necessary information to make an income appraisal was available from the companies.

Historical Properties

Revenue and Taxation Code section 439.2 requires the assessor to use specific valuation methods when calculating the assessed value of qualifying historic property. Its purpose is to encourage the renovations and maintenance of historical properties throughout California by providing a property tax incentive to the owners of historic properties.

San Joaquin County has many properties that qualify as historical properties under the Mills Act. Assessor's office staff reported that taxpayers have not applied, even though their properties could meet the qualifications.

Pipeline Rights-of-Way

There are six intercounty pipeline rights-of-way in San Joaquin County, totaling 150.49 miles of pipeline rights-of-way with a total assessed value of \$2,271,509. San Joaquin County does not have multiple pipelines in rights-of-way. San Joaquin County is properly assessing the pipeline rights-of-way for the six pipelines in its county.

ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY

The San Joaquin County Assessor's Office presently has nine auditor-appraisers, an increase of one from last year. Additionally, the Business Division has a clerical staff consisting of five and one-half permanent positions and various temporary positions throughout the year as workload demands. The assessor divides unsecured property accounts into six categories. Statistics for the categories are as follows:⁹

DESCRIPTION	COUNT	LAND VALUE	IMPROVEMENT VALUE	PERSONAL PROPERTY VALUE	TOTAL NET VALUE
General Business	9632	\$ 2,675,593	\$ 417,980,008	\$1,014,823,976	\$1,427,486,611
General Aircraft	317			\$ 33,943,970	\$ 33,943,970
Vessels	9715			\$ 100,591,641	\$ 100,055,170
Direct Billing	2413	\$ 8,160	\$ 22,001,300	\$ 34,530,481	\$ 56,466,633
Possessory Interests	458	\$39,216,393	\$ 114,278,892	\$ 12,129,838	\$ 153,403,894
Improved Land Lease	153	\$ 204,478	\$ 62,242,362	\$ 5,763,204	\$ 67,891,831
TOTAL	22688	\$42,104,624	\$ 616,502,562	\$1,201,783,110	\$1,839,248,109

The net taxable value of the 1999 unsecured roll is 4.42 percent greater than in 1998.

Discovery

The assessor utilizes several methods to discover taxable business property. They include business directory services, a Haines cross-reference phone directory, Board of Equalization (BOE) sales tax permits, fictitious business name filings, city and county business licenses, building permits, transfers from other counties, and leasehold improvement communiqués. Methods not generally used for discovery include field canvassing, field checking, BOE listing of pollution control equipment, and landlord's updated listing of lessees.

Business Property Statement Processing

Section 441 requires each person owning taxable personal property in excess of \$100,000 to file an annual business property statement with the assessor. Annual property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types including businesses, agriculture, boats, and aircraft.

The clerical staff of the San Joaquin County Assessor's Business Property Division processes statements in accordance with written procedures. The policy includes returning the statement to the taxpayer or his/her representative if it is unsigned or improperly signed, or if it is incomplete. Other than having a certificated appraiser review the value estimates made by clerical staff (Recommendation 1), we found no other problems with the processing of business property statements.

⁹ The "Total Net Value" column is net of exemptions.

Valuation of Business Machinery and Equipment

Assessors' offices use business property value factors that are produced by combining replacement cost equipment index factors (trend factors) with percent good factors. The BOE has developed annual equipment index factors and percent good factors; these are published in Assessors' Handbook Section 581 (AH 581), *Equipment Index and Percent Good Factors*. We found that the assessor is using the AH 581.

Valuation of Non-Production Computers

BOE has developed computer valuation factors for use in valuing non-production computers. There are three valuation factor tables: (1) small or personal computers whose historic cost is \$25,000 or less; (2) midrange computers whose historic cost is over \$25,000 and up to \$499,999; and (3) large or mainframe computers whose historic cost is \$500,000 or more.

The value factors are applied directly to historical costs. It is very important to understand the types of computer equipment to be valued because there is a significant difference in the valuation factor for each table, especially after the first year after acquisition. We found no problems with the valuation of computer equipment.

Classification

Machinery and equipment must be classified as either personal property or improvements, depending on its use and affixation to the realty. Many provisions in the law require a different treatment of personal property and real property.

RECOMMENDATION 18: Classify fixed machinery and equipment as improvements.

In our prior survey report, we recommended that the assessor properly classify fixed machinery and equipment as improvements. In our current review, we found that the assessor has not changed his policy. Many manufacturing accounts have all machinery and equipment classified as personal property.

Article XIII of the California Constitution requires proper classification of property when it requires different valuation procedures to be used for real and personal property. For real property, a base year value is determined upon a change in ownership or new construction, with an annual 2 percent maximum inflationary factoring limit. Personal property is valued annually.

An allocation of machinery and equipment value between personal property and fixtures can be done several ways. Typical classification percentages for various business types can be used or a percentage can be estimated based on a physical review of the equipment.

We repeat our recommendation that the assessor assess fixed machinery and equipment as improvements so that the enrolled value will conform to the law and reflect the status of the property being appraised.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that depends on information supplied by taxpayers. A good audit program discourages deliberate underreporting and helps educate those property owners who unintentionally misreport.

Prior to August 25 1999, the assessor did not have formal written general audit procedures. The audit procedures consisted mainly of loose-leaf instructions, memorandums, and oral directives. In a joint management and audit staff effort, general audit procedures were developed.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more. The business division has a total workload of approximately 730 mandatory audit accounts. For 1999-2000 alone, the audit load is approximately 190 audits, of which 59 are held over from previous years.

RECOMMENDATION 19: Bring the mandatory audit program to current status.

Our review of the San Joaquin County Assessor's audit program indicated an audit problem for the last four fiscal years just ended, 1996-1999. This backlog is broken down as follows:

	1995-96	1996-97	1997-98	1998-99
Total Mandatory Audits To Be Completed				
This Year (Workload)	281	287	269	281
Cancellations	<u>31</u>	<u>26</u>	<u>0</u>	<u>29</u>
Net to be Completed	250	261	269	252
Less: Mandatory Audits Completed This Year	<u>177</u>	<u>232</u>	<u>257</u>	<u>228</u>
Mandatory Audits Not Completed (Backlog)	73	29	12	24

Although the assessor has been successful in reducing his mandatory audit backlog from a high 73 in fiscal year 1995-96 to a manageable 24 in fiscal year 1998-99, the mandate of section 469 is to have all mandatory audits completed on time.

RECOMMENDATION 20: Follow statutory requirements when determining audit results and enrolling escape assessments.

In a multiple year audit, there are often underassessments resulting in tax liabilities for some years and overassessments resulting in tax refunds in another. The current practice in San

Joaquin County is to offset assessment differences from one year to the next. This practice does not conform to the provisions of section 533.

This section provides in part:

If the assessments are made as a result of an audit . . . the tax refunds resulting from the incorrect assessments shall be an offset against proposed tax liabilities, including accumulated penalties and interest, resulting from escaped assessments for any tax year covered by the audit.

There is no legal provision for assessment offsets; rather, section 533 allows the offset of tax refunds against tax liabilities, not assessments.

Tax liabilities include the correct tax rate and applicable interest for the appropriate length of time. To accurately determine the correct tax liability, the proposed tax liabilities and the tax returns must be made in the correct year. We recommend that the audit staff process the full amount of the underassessments and overassessments by year incurred as indicated in the *General Audit Procedures* dated August 25, 1999.

Assessment of Leased Equipment

Taxpayers are asked on the annual business property statement to report all leased equipment. We found the assessor's leasing assessment program to be well managed with appropriate controls. There are adequate procedures for discovering, mailing, and processing of leased equipment statements.

However, BOE's Valuation Division Form V-600B is not annually processed.

RECOMMENDATION 21: Review form V-600B to discover locally assessable equipment.

BOE's Valuation Division assesses public utilities and railroads in California. Certain equipment that is used by these assessees, but leased from others, is to be assessed by the county assessor. The assessees report this property to the Valuation Division on Form V-600B. Annually, the Valuation Division furnishes every applicable county assessor's office with a copy of Form V-600B, listing equipment that is leased by public utilities but which is not included in the utility's unitary or nonunitary value assessed by BOE. The local county assessor should assess this equipment.

We found no documented reference to Form V-600B in the lessor files. In some cases, reported leased equipment was not assessed. Interviews conducted with the staff disclosed that these forms are not processed. These forms complement the annual reporting that is available through the locally filed business property statement. We recommend that the assessor review the unprocessed Form V-600B's, value the equipment, and enroll appropriate escape assessments.

Valuation of Other Taxable Personal Property

General Aircraft

Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook. On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. As stated in Letter To Assessors No. 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

For lien date January 1, 1999, there were 351 aircraft on the master listing, 16 of which qualified as historically significant. The assessor's staff values aircraft by correctly utilizing the recommended value guide. On rare occasions, the auditor-appraiser will contact aircraft dealers to obtain information to help determine the value of certain aircraft.

Historical Aircraft

To be considered an historical aircraft, criteria are applied per section 220.5. The assessor's staff verifies schedules of public displays as listed and attested to by the aircraft owner. The assessor also collects a \$35 filing fee for the first year an aircraft owner applies for exemption.

RECOMMENDATION 22: Grant exemptions to historical aircraft only when authorized by statute.

The assessor's practice is to grant historical status to aircraft even though affidavits are not timely filed. Under sections 255 and 259.11, exemptions must be filed between the lien date and 5 p.m. on February 15. The assessor may not grant exemptions to aircraft owners filing late affidavits.

Vessels

The principal means of discovering assessable vessels is through Department of Motor Vehicle reports. In addition, the assessor sends a list of enrolled vessels to marina operators and requests information on changes. The discovery program is adequate in all aspects except for the lack of a proactive field-canvassing program. The assessor's staff does not use the BOE prescribed forms; instead staff uses an in-house form.

RECOMMENDATION 23: Mail an annual *Vessel Property Statement* to certain vessel owners as required by law.

The *Vessel Property Statement*, BOE Form 576-D is not sent to all vessel owners required under section 441 to file a property statement. Effective January 1, 1994, section 441 requires owners of taxable personal property with an aggregate cost in excess of \$100,000 to file a property statement. The assessor should mail out Form 576-D to all owners of vessels with an original

cost of \$100,000 or more. This will provide current and accurate information regarding replacement engines and new accessories when assessing higher-valued vessels.

Vessels with values of less than \$2,000 are exempt under the county's low-value ordinance. Boat value guides are primarily used to value vessels. In cases of new vessels, the purchase price is used. Depreciation is allowed for all valuation guide values. Vessels with values greater than \$100,000 and personal watercraft are valued annually.

The assessor is currently conducting a study to more efficiently assess vessels. For purposes of the study, he is analyzing about 50 boats per category. The categories of boats scheduled to be sampled for preparing trending factors are cruisers, runabouts, sailboats, and houseboats. Last year the assessor's staff sampled cruisers. Currently they plan to sample runabouts.

Section 227 provides that documented vessels engaged or employed exclusively in (1) taking and possession of fish or other living resource of the sea, (2) instruction or research studies as an oceanographic vessel, or (3) carrying or transporting seven or more people for hire for commercial fishing purposes and holds a current certificate of inspection issued by the United States Coast Guard. There are only eight vessels in the county that qualify for the 4 percent assessment—all are commercial fishing boats. The total assessed value of all eight is \$3,512. All eight boats are below the \$2,000 minimum threshold of the low-value ordinance. The assessor continues to track these vessels.

Manufactured Homes

San Joaquin County has approximately 2,000 manufactured homes and a total of 75 manufactured home parks.

In our previous survey, we recommended that manufactured homes be valued as personal property. We now find that the manufactured homes assessment program is in compliance with property tax law.

Declines in value are considered annually and applied where appropriate. Supplemental assessments are correctly applied. Every record was well documented. Voluntary conversion of manufactured homes from license to property taxes is properly handled.

One problem with the manufactured home assessment program is out of the assessor's control. The State Department and Housing and Community Development is as much as 18 months behind in notification to the assessor of new registrations. When the lists arrive, a great deal of extra work is created in the form of tax change orders and penalty abatements to correct the roll. This is a statewide problem.

Apartment Property

The real property staff usually discovers apartment taxable personal property. After deducting land and structure values from total values, the residual is assessed as apartment personalty.

There are very few large apartment complexes in San Joaquin County. The prior year's roll is the predominant source for current enrollment.

RECOMMENDATION 24: Require certain apartment owners to file an annual business property statement as required by law.

The assessor does not require apartment owners to file a property statement if the cost of the apartment personal property is less than \$100,000. Under section 441, each person owning taxable personal property with an aggregate cost of \$100,000 or more is required to file a signed business property statement annually with the assessor. The assessor's staff should field-cavass and otherwise identify apartment complexes in the county with taxable personal property of \$100,000 or more and require those property owners to file property statements that include all taxable personal property.

Service Stations

The assessor properly segregates fixtures from structures. Car wash property is segregated—the building is appraised as structures and the car wash equipment is appraised as fixtures. Dispensers, pumps, signs, air and water wells, and hoists were reclassified from structures to fixtures. Improvements such as paving, lighting, canopies, trash enclosures, and islands remained as structures.

All segregation of fixtures is done on an actual basis. All of the major oil companies that own service stations in the county report real and personal property on one statement. Audits for all properties are on file.

Pollution Control Equipment

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

The assessor's staff must make a determination as to whether the equipment or facility should be assessed as a taxable possessory interest, or as equipment owned by the assessee. As stated in BOE's notifications to county assessors from 1990 to 1999, CPCFA issued six pollution control bonds for the acquisition of pollution control equipment for five industrial business entities in San Joaquin County.

The assessor has reviewed our notifications and appraised either the equipment or facilities financed by these bonds. However, there is no documentation in the files stating this fact. Only one business entity had a copy of the BOE notification in its file. We suggest that a copy of the CAO letter be placed in each company's business property file and that the auditor document the review in the file to inform the reviewer that the notification from CPCFA has been considered.

APPENDICES

A: County Property Tax Division

San Joaquin County Assessment Practices Survey

Chief, County Property Tax Division

Charles Knudsen

Survey Program Director:

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Lois Adams

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and
Mining Appraisal Engineer

Sally Boeck

Senior Specialist Property Appraiser

Andy Anderson

Associate Property Appraiser

Ancil Aydelott

Associate Property Auditor Appraiser

Glenn Danley

Associate Property Appraiser

Manny Garcia

Associate Property Auditor Appraiser

Ron Louie

Associate Property Appraiser

Les Morris

Associate Property Appraiser

Denise Owens

Tax Technician II

Kim Trotto

Tax Technician II

B: The Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹⁰ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹¹
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

¹⁰ 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.

¹¹ 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 \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?

- d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
 8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

C: Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

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

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

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

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

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

Title 18, California Code of Regulations**Rule 370. Random selection of counties for representative sampling.**

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

Rule 371. Significant assessment problems.

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

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

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The San Joaquin County Assessor's response begins on the next page.

Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our comments follow the assessor's response



Gary W. Freeman
San Joaquin County
Assessor - Recorder - County Clerk

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David Leonard
Assistant Assessor -
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Robert Andersen
Chief of Valuation

Debra Wilson
Chief of Standards

Doris Jackson
Assistant Recorder

March 20, 2001

RECEIVED

MAR 22 2001

County Property Tax Division
State Board of Equalization

Mr. Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
Post Office Box 942879
Sacramento, CA 94279-0062

Dear Mr. Knudsen

In accordance with Section 15645 of the Government Code, attached is my official response to the Assessment Practices Survey of San Joaquin County. Please include my response in your final published report.

I believe the State's Report reflects the hard work and dedication my staff provides to the citizens of San Joaquin County. We strive to provide a fair, accurate and equitable assessment roll. I am in agreement with most of the Board's recommendations; however, there are some recommendations which I feel are impractical and unfeasible to implement with the resources available to my office.

I would like to thank Arnold Fong and his staff for the professional manner in which the Survey was conducted.

Sincerely,

Gary W. Freeman
San Joaquin County Assessor-Recorder-Clerk

RECOMMENDATION 1: Ensure that certified staff review all value estimates as required by law.

We disagree with this recommendation. Certified staff has developed a procedure, which is reviewed annually, to process Business Property Statements. The staff follows a series of "if-then" steps, similar to a computer system program, to process the statements. A certified staff member has determined the impact on the valuation process based on their judgement and professional training. Non-certified staff makes no judgement decisions in following the procedure except that any significant deviations or problems are referred to certified audit staff for review.

RECOMMENDATION 2: Develop a formal policy and procedures manual.

Office policies and guidelines are available to the staff. We utilize the SBE manuals to deal with the various assessment functions throughout the office and how they should be processed. I will ask for an additional office position to formalize the office policies and procedures.

RECOMMENDATION 3: Document all in-house computer software.

We concur with this recommendation and software is being acquired to assist us with this project.

RECOMMENDATION 4: Ensure that staff follows the written assessment roll change procedures.

We concur with this recommendation and will continue to train and update our staff on roll change procedures.

RECOMMENDATION 5: Enroll all roll corrections.

We implemented the policy of not enrolling roll corrections of less than \$4,000 several years ago, when budgets were reduced, to improve the efficiency of the office. The auditor-controller's office has done a study that indicates the cost is more than \$40 to process a tax bill. We have also found that these small tax bills generate a lot of confusion to the taxpayers. Currently we do not have the resources to implement this recommendation; however, when resources are available we will reconsider our position.

RECOMMENDATION 6: Request that the board of supervisors correct language of the existing low-value property exemption ordinance.

We will make the Board of Supervisors aware of this recommendation.

RECOMMENDATION 7: Request that the board of supervisors revise the county disaster relief ordinance to conform to section 2192.

We will make the Board of Supervisors aware of this recommendation.

RECOMMENDATION 8: Obtain fire department reports to discover damaged properties.

Although we feel this reporting is a duplication of the building permits and other sources of notification we already receive and process, we will implement this recommendation when resources are available.

RECOMMENDATION 9: Process all supplemental assessments.

Low value supplemental assessments of possessory interests have proven to be administratively not very cost effective. The assesseees of these unsecured assessments are often transient by nature, causing tax bills to go undeliverable and unpaid, and leaving behind tax liens to be dealt with for many years in the future. Explanations of possessory interest assessment and subsequent supplemental assessments are very difficult for the average taxpayer to comprehend and results in staff having to spend an inordinate amount of time administering. Should workload demands decrease or new resources are made available, we will reconsider the valuation of these low value assessments.

RECOMMENDATION 10: Apply the section 482 penalty in a timely manner.

We concur with this recommendation and will update our procedure regarding change of ownership penalties.

RECOMMENDATION 11: Obtain authorization from the board of supervisors to abate the section 482 penalty for nonresponse to Change in Ownership Statements.

We concur with this recommendation and will attempt to get authorization from the Board of Supervisors.

RECOMMENDATION 12: Request that the County Environmental Health Services Department forward copies of all permits issued.

We concur with this recommendation and it has already been implemented.

RECOMMENDATION 13: Revalue possessory interest assessments only when a change in ownership or decline in value occurs.

We concur and are in the process of implementing this recommendation.

RECOMMENDATION 14: Research properties identified as "USA."

We discontinued using USA to identify all federal property in 1992. We currently contact many federal agencies to identify possible possessory interests. I don't believe this would be very productive; however, if resources are available, we will implement the recommendation.

RECOMMENDATION 15: Supplementally assess all new construction.

We concur with this recommendation and will review our procedures for processing schedule B-1 costs on the business property statement.

RECOMMENDATION 16: Consider the income approach in valuing private water companies.

Although there is no indication that our valuation for the one water company we have is incorrect, we will consider utilizing an income approach in addition to the cost and market approaches that we currently use. With the limited resource available to local government, I am constantly evaluating priorities to make the most efficient use of those resources.

RECOMMENDATION 17: Use income approach when valuing mineral properties.

We concur with this recommendation and will implement as resources are available. However, there is no evidence cited in the State Board's sample that any of our mineral properties were valued incorrectly.

RECOMMENDATION 18: Classify fixed machinery and equipment as improvements.

We have had a long-standing dispute on this issue. The line between portable and affixed personal property is broad and gray. The State Board of Equalization chooses to classify as much personal property as possible as fixed equipment and we do not. We will review our allocation procedure.

RECOMMENDATION 19: Bring the mandatory audit program to current status.

We disagree with this recommendation. It is our goal to complete all mandatory audits in the year they are to be audited. However, it is not practical to do so. There are a number of reasons to not rush through the completion of an audit for the sake of being current. It is not fair to the taxpayer or fair to my staff. There are many reasons audits should not be rushed to completion, including staff changes, records incomplete or unavailable, and complex valuation issues coming up late in the audit. Waivers, as authorized in Revenue and Taxation Code 532.1(a), are always obtained from the taxpayer to extend an audit beyond one year. Accuracy of the audit is my primary concern, not speed.

RECOMMENDATION 20: Follow statutory requirements when determining audit results and enrolling escape assessments.

We concur with this recommendation and are in the process of revising our procedures.

RECOMMENDATION 21: Review form V-600B to discover locally assessable equipment.

We have reviewed this report in the past and will review our procedures for proper handling of this report in the future.

RECOMMENDATION 22: Grant exemptions to historical aircraft only when authorized by statute.

We concur with this recommendation and will train our staff on the current procedure.

RECOMMENDATION 23: Mail an annual Vessel Property Statement to certain vessel owners as required by law.

We concur with this recommendation and will implement it with our next mailing.

RECOMMENDATION 24: Require certain apartment owners to file an annual business property statement as required by law.

We concur with this recommendation and will implement when resources are available.

BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Board's staff has elected to comment on the assessor's response. Our comments concern the assessor's responses to Recommendations 5, 9, and 19. Since the issues concerning Recommendations 5 and 9 are the same, we combine our comments for them.

Recommendation 5: Enroll all roll corrections.

Assessor's Response:

We implemented the policy of not enrolling roll corrections of less than \$4,000 several years ago, when budgets were reduced, to improve the efficiency of the office. The auditor-controller's office has done a study that indicates the cost is more than \$40 to process a tax bill. We have also found that these small tax bills generate a lot of confusion to the taxpayers. Currently we do not have the resources to implement this recommendation; however, when resources are available we will reconsider our position.

Recommendation 9: Process all supplemental assessments.

Assessor's Response:

Low value supplemental assessments of possessory interests have proven to be administratively not very cost effective. The assesseees of these unsecured assessments are often transient by nature, causing tax bills to go undeliverable and unpaid, and leaving behind tax liens to be dealt with for many years in the future. Explanations of possessory interest assessment and subsequent supplemental assessments are very difficult for the average taxpayer to comprehend and results in staff having to spend an inordinate amount of time administering. Should workload demands decrease or new resources are made available, we will reconsider the valuation of these low value assessments.

While the Legislature has provided statutory authority for counties to exempt low-valued properties, there is no provision in law that allows an assessor to omit making corrections to the assessment roll when errors are discovered.

In the case of supplemental assessments, section 75.55 authorizes a county board of supervisors to provide for cancellation of a supplemental assessment or tax bill where the cost is greater than the tax. However, except for manufactured home accessories, section 75.55 states that *in no event* shall any supplemental assessment or tax bill be canceled where the tax bill exceeds \$20. Since the Legislature placed a specific upper limit on the amount that may be exempted, it is clear that supplemental assessments must be made (and the taxes collected) if the tax bill exceeds \$20, regardless of whether it is cost effective to do so.

We agree that in many cases, minor roll corrections and small supplemental assessments may not be cost effective. The solution is not to ignore the law but to ask the Legislature to provide

counties the authority to cancel small corrections and to increase the exemption level for small supplemental assessments.

Finally, we note that the county's low-value ordinance for lien date assessments places an upper limit of \$2,000. If the cost to process a tax bill exceeds \$40, as indicated in the assessor's response to Recommendation 5, we suggest the county increase its low value ordinance to an appropriate level.

Recommendation 19: Bring the mandatory audit program to current status.

Assessor's Response:

We disagree with this recommendation. It is our goal to complete all mandatory audits in the year they are to be audited. However, it is not practical to do so. There are a number of reasons to not rush through the completion of an audit for the sake of being current. It is not fair to the taxpayer or fair to my staff. There are many reasons audits should not be rushed to completion, including staff changes, records incomplete or unavailable, and complex valuation issues coming up late in the audit. Waivers, as authorized in Revenue and Taxation Code 532.1(a), are always obtained from the taxpayer to extend an audit beyond one year. Accuracy of the audit is my primary concern, not speed.

Section 469 of the Revenue and Taxation Code requires that mandatory accounts must be audited once each four years. Although the waiver provision of section 532 provides an avenue for escapes, corrections, and refunds to be made after normal time limitations expire, it does not waive the requirement for the assessor to complete mandatory audits timely.

We urge the assessor to make whatever plans that may be necessary to complete mandatory audits timely.