

# SAN LUIS OBISPO COUNTY ASSESSMENT PRACTICES SURVEY

**MAY 2019**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2019/013

May 24, 2019

TO COUNTY ASSESSORS:

**SAN LUIS OBISPO COUNTY  
ASSESSMENT PRACTICES SURVEY**

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

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division in March of 2018. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

Sincerely,

/S/ David Yeung

David Yeung  
Deputy Director  
Property Tax Department

DY:dcl  
Enclosure

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## **INTRODUCTION**

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

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

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

## OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."<sup>1</sup> The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

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

## SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code<sup>2</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey examined the assessment practices of the San Luis Obispo County Assessor's Office for the 2017-18 assessment roll. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.

Our survey methodology of the San Luis Obispo County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in San Luis Obispo County who provided information relevant to the property tax assessment program.

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, available on the BOE's website at

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<sup>1</sup> Government Code section 15642.

<sup>2</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

<http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

We conducted reviews of the following areas:

- Administration

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

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as mineral property.

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, and business equipment valuations.

## **EXECUTIVE SUMMARY**

We examined the assessment practices of the San Luis Obispo County Assessor's Office for the 2017-18 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit - the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

In the area of administration, the assessor is effectively managing staffing and workload, staff property and activities, assessment appeals, and exemptions.

In the area of real property assessment, the assessor has effective programs for new construction and declines in value. However, we made recommendations for improvement in the change in ownership and mineral property programs.

In the area of personal property and fixtures assessment, we made recommendations for improvement in the audit, business property statement, and business equipment valuation programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly, and that the overall quality of the assessment roll meets state standards.

We found no significant assessment problems as defined in Rule 371. Since San Luis Obispo County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, San Luis Obispo County continues to be eligible for recovery of costs associated with administering supplemental assessments.

## **OVERVIEW OF SAN LUIS OBISPO COUNTY**

San Luis Obispo County is located along the central coast of California. The county encompasses 3,298.56 square miles of land area and 316.98 square miles of water area. Created in 1850, San Luis Obispo County was one of California's original 27 counties. The county is bordered on the north by Monterey County, on the east by Kern County, on the south by Santa Barbara County, and on the west by the Pacific Ocean.



As of 2016, San Luis Obispo County had a population of 282,887. There are seven incorporated cities in San Luis Obispo County. These cities include Arroyo Grande, Atascadero, Paso Robles, Grover Beach, Morro Bay, Pismo Beach, and San Luis Obispo. The county seat is San Luis Obispo.

The San Luis Obispo County local assessment roll ranks 22<sup>nd</sup> highest in assessed value of the 58 county assessment rolls in California. The total assessed roll value has increased by an annual average of 5.3 percent over the last five years.<sup>3</sup>

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<sup>3</sup> Statistics provided by Table 7 – Assessed Value of County-Assessed Property Subject to General Property Taxes, 2017-18.

## FINDINGS AND RECOMMENDATIONS

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

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

- RECOMMENDATION 1:** Use the BOE-prescribed form in place of county-generated form for a change in ownership relating to death of a property owner as required by Government Code section 15606.....7
- RECOMMENDATION 2:** Measure declines in value for mining properties using the entire appraisal unit as required by Rule 469.....8
- RECOMMENDATION 3:** Improve the audit program by: (1) Performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, and (2) enrolling the audit results for each year of a multiple year audit.....9
- RECOMMENDATION 4:** Value taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement (BPS).....11
- RECOMMENDATION 5:** Improve the application of the BOE recommended index, percent good, and valuation factors by: (1) Using supportable minimum percent good factors, and (2) consistently issuing supplemental assessments for structural leasehold improvements enrolled on the unsecured roll.....12

## ASSESSMENT OF REAL PROPERTY

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

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.<sup>4</sup>

### Document Processing

We examined several recorded documents and found the assessor conducts a proper and thorough review for identifying and processing changes in ownership, however, we found an area in need of improvement.

**RECOMMENDATION 1:** Use the BOE-prescribed form in place of county-generated form for a change in ownership relating to death of a property owner as required by Government Code section 15606.

The assessor does not utilize Board prescribed form, BOE-502-D, *Change of Ownership Statement Death of Real Property Owner*. We found that the assessor is using a county-generated version of the form, *Death of Real Property (Or Manufactured Home) Owner*, in cases when there is a death of a real property owner. Subdivision (d) of Government Code 15606 empowers the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. In addition, Letters to Assessors (LTA) No. 2004/049, *Board-Prescribed Forms Approval Process*, dated September 7, 2004 advises that an assessor may not use locally developed forms if there is a BOE-prescribed form available.

Since a BOE-prescribed form, BOE-502-D, *Change in Ownership Statement Death of Real Property Owner*, is available in this instance, the assessor must use this form as required by statute. Failure to use current forms may result in not requesting enough information from taxpayers to determine a change of ownership. It may also result in a lack of sufficient instructions for the taxpayer to fill out the form. Additionally, it may not provide information regarding the penalty for late or non-filing of the form.

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<sup>4</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/cio\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

## **Mineral Property**

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.<sup>5</sup>

### **Mining Property**

**RECOMMENDATION 2:** Measure declines in value for mining properties using the entire appraisal unit as required by Rule 469.

A current review of the mining property assessments indicates that the assessor does not track base year values of fixtures and include them in the appraisal unit for measuring declines in value; a procedure that is necessary to determine the proper enrollment value. The actual application of the assessor's procedures also contradicted the assessor's own written procedures for mineral property assessments which indicate that for base year value adjustments the adjusted base year value of fixtures should be used.

For most properties, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value. Mineral properties, however, are treated differently. Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land, improvements including fixtures, and reserves. The assessor should use this unit for the purpose of measuring a possible decline in value. To properly determine the roll value and to measure a possible decline in value, the assessor must determine the current market value of the entire appraisal unit and compare it to the adjusted base year value of the entire appraisal unit; enrolling the lower of the two values. To properly determine the adjusted base year value of the appraisal unit, the adjusted base year value of the fixtures needs to be tracked and added to the adjusted base year value of the other components of the appraisal unit.

By not tracking base year values of fixtures and including them in the appraisal unit, the assessor is not following the requirements of Rule 469 and results in the underassessment of these properties.

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

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

### **Audit Program**

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.<sup>6</sup>

Currently, audit responsibility in the San Luis Obispo County Assessor's Office rests upon five auditor-appraisers working under the direction of a supervising auditor-appraiser and the Business and Income Property section assessment manager.

Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to BOE's calculations, section 469 requires the assessor to conduct 57 audits per year with 28 (29 on alternate years) being performed on taxpayers selected from a pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county and the remaining 28 (29 on alternate years) selected from all other taxpayers.

We reviewed a selection of audits and found that the assessor's audit quality is consistently good and the program is well managed. However, there are two important areas in need of improvement.

**RECOMMENDATION 3:** Improve the audit program by: (1) Performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, and (2) enrolling the audit results for each year of a multiple year audit.

### **Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.**

We found that the assessor failed to meet the minimum required audit production as specified by section 469 for each of the four most recently completed audit years within the survey period. Contributing to the deficit in audit production are vacancies and turnover among auditor-appraiser staff.

Section 469 provides that the assessor shall annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own, claim, possess, or control locally assessable trade fixtures and business tangible personal property. The significant number of audits required is at least 75 percent of the fiscal year average of the total

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

number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.

An effective audit program verifies the reporting of various business property taxpayers, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately well managed assessment program.

By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

### **Enroll the audit results for each year of a multiple year audit.**

In a multiple year audit, there are often underassessments resulting in tax liabilities for some years and overassessments resulting in tax refunds in other years. In San Luis Obispo County, we found that the assessor often offsets assessment differences resulting from a multiple year audit when correcting a single year's assessment roll.

Section 531 requires that if any property belonging on the local roll escapes assessment, the assessor shall enroll the property on discovery at its value on the lien date for the year in which it escaped assessment. When incorrect assessments are discovered for multiple years as a result of an audit, section 533 requires that tax refunds be an offset against proposed tax liabilities, including accumulated penalties and interest. The statute provides only for an offset of tax refunds with tax liabilities from different years, not for an offset of the overassessments with underassessments from different years. Offsetting the refunds with the tax liabilities is the responsibility of the county auditor, not the assessor. By netting audit results for multiple years into a single year of the audit, the assessor's enrollment procedures are not in compliance with sections 531 and 533 and risk the potential escape of tax revenue.

### **Business Property Statement Program**

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program.<sup>7</sup>

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

In the San Luis Obispo County Assessor's Office, five auditor-appraisers under the direction of one supervising auditor-appraiser and an assessment manager perform all business property statement processing functions.

We reviewed all major aspects of the assessor's BPS program and found that the program is well administered. However, we found one area in need of improvement.

**RECOMMENDATION 4:** Value taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement (BPS).

We found that when a completed BPS is submitted late, the assessor correctly calculates the current market value of known taxable business property owned and controlled by the taxpayer and applies the statutorily-defined 10 percent penalty. However, we found that when the business owner fails to file a BPS, the assessor's property system applies an unsupported, pre-determined escalation rate of 10 percent to the previous year's enrollment. A 10 percent penalty is then applied to this escalated assessment. The 10 percent system escalation is also applied to unsecured structural improvements, where structural improvements were enrolled in prior years. In addition, we found that the assessor sets no formal limits on the number of consecutive years a business property owner may fail to file a BPS before the assessor either visits the location of the taxable property or conducts an audit. We found one instance where an audit was not conducted until after six years of non-filing. The assessor's policy is to review and manually revise values based on field canvassing, telephone calls, and internet research. However, due to staff shortages, it is possible for the system escalation to continue for years with no review.

Section 441(b) provides that a penalty shall apply if a BPS is not filed by May 7. If an assessee does not file a BPS by May 7, section 501 provides that the assessor shall estimate a value based on available information and add a 10 percent penalty to that estimated value. If a BPS was received during the previous year, it is usually reasonable to use the reported cost data as a basis for estimating the current year's value. However, when allowing estimated assessments to continue for several years without any new information, the values become increasingly susceptible to error.

The assessor's current use of unsupported value estimates as applied to non-filing accounts may lead to erroneous value conclusions and may lead to improper application of the late or non-filing penalty provided for in section 463.

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

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. Under this methodology, value for taxation purposes is established by multiplying a property's historical cost by an appropriate valuation factor.<sup>8</sup>

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<sup>8</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/businessequipval\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf). Additionally, detailed descriptions of

## Application of BOE Recommended Index, Percent Good, and Valuation Factors

The assessor has, for the most part, adopted the price indices and percent good factors recommended and published by the BOE in Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581). We reviewed the assessor's valuation tables and a number of processed BPSs. In most of the observed cases, valuation calculations enrolled by the assessor reflected both consistent and appropriate applications of BOE-recommended valuation tables.

Overall, the application of BOE recommended index, percent good, and valuation factors are correctly applied. However, we found two areas in need of improvement.

**RECOMMENDATION 5:** Improve the application of the BOE recommended index, percent good, and valuation factors by:  
(1) Using supportable minimum percent good factors, and (2) consistently issuing supplemental assessments for structural leasehold improvements enrolled on the unsecured roll.

### Use supportable minimum percent good factors.

We found the assessor limits the percent good factors utilized in many of his valuation tables to those prescribed for an age equal to 125 percent of the originally estimated service life of the taxable asset.

AH 581, pages 4-5, recommends when valuing equipment that has survived beyond the average service life, the appraiser should limit the index factor, not the percent good factor, to the factor for an age of 125 percent of the estimated average service life. Percent good factors however, should continue to adjust downward as the asset ages to a minimum point, which should be substantiated by market evidence. Many of the assessor's valuation factors stop declining once the 125 percent rule has been met by the index component of the factor. Often times, the percent good component of the assessor's valuation factors fail to reach the California Assessors' Association's recommended minimum percent good factors of nine percent for industrial equipment, 10 percent for commercial equipment, and 11 percent for fixed agricultural equipment, which are based upon an accepted market study and allowed pursuant to section 401.16.

By stopping the decline of percent good factors once the 125 percent rule has been met by the index component of the factor, older equipment that has survived beyond the average service life could potentially be over-valued.

### Consistently issue supplemental assessments for structural leasehold improvements enrolled on the unsecured roll.

We found that when a taxpayer completes Schedule B of the BPS and reports the cost of leasehold improvements, the business division typically values and enrolls the improvements in

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assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

accordance with article XIII A of the California Constitution. However, the assessor does not consistently issue supplemental assessments for newly constructed leasehold improvements on Schedule B of the BPS.

Section 75.14 provides that all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessment.<sup>9</sup> Section 75.11 provides that supplemental assessments shall be issued following a change in ownership or completed new construction. Structural leasehold improvements, which are real property, are subject to supplemental assessment, regardless of whether they are enrolled on the secured or unsecured roll.

The assessor's practice of not consistently issuing supplemental assessments for structural leasehold improvements results in lost revenue, as well as unequal treatment of similar taxable property.

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<sup>9</sup> An exception to this requirement applies to certain fixtures and certain taxable possessory interests. Section 75.5 removes from the definition of "property" subject to supplemental assessment, "fixtures which are normally valued as a separate appraisal unit from a structure" and newly created taxable possessory interests, established by month-to-month agreements in publicly owned real property, having a full cash value of fifty thousand dollars (\$50,000) or less.

## APPENDIX A: STATISTICAL DATA

**Table 1: Assessment Roll**

The following table displays pertinent information from the 2017-2018 assessment roll.<sup>10</sup>

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$23,758,442,064
	Improvements	\$25,887,873,889
	Fixtures	\$304,480,172
	Personal Property	\$311,025,496
	Total Secured	\$50,261,821,621
<b>Unsecured Roll</b>	Land	\$0
	Improvements	\$236,628,359
	Fixtures	\$260,971,729
	Personal Property	\$885,026,134
	Total Unsecured	\$1,382,326,222
<b>Exemptions<sup>11</sup></b>		(\$937,635,075)
	<b>Total Assessment Roll</b>	\$50,706,512,768

**Table 2: Change in Assessed Values**

The following table summarizes the change in assessed values over recent years.<sup>12</sup>

YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2017-18	\$50,706,513,000	5.5%	6.3%
2016-17	\$48,070,388,000	5.7%	5.5%
2015-16	\$45,457,307,000	6.1%	6.0%
2014-15	\$42,839,230,000	5.8%	6.2%
2013-14	\$40,502,229,000	3.4%	4.3%

<sup>10</sup> Statistics provided by BOE-822, *Report of Assessed Values By City*.

<sup>11</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>12</sup> California State Board of Equalization Annual Report, Table 7.

**Table 3: Gross Budget and Staffing**

The assessor's budget has grown from \$8,286,177 in 2013-14 to \$11,101,578 in 2017-18.

The assessor has 85 budgeted permanent positions. These positions consist of the assessor, assistant assessor, 5 managers, 28 appraisers, 6 business property auditor-appraisers, 6 Cadastral draftspersons, 4 computer analysts, 31 technical/professionals, and 3 support staff.

The following table identifies the assessor's budget and staffing over recent years:<sup>13</sup>

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>PERCENT CHANGE</b>	<b>PERMANENT STAFF</b>
2017-18	\$11,101,578	22.6%	85
2016-17	\$9,058,412	3.2%	85
2015-16	\$8,776,995	-1.8%	85
2014-15	\$8,937,134	7.9%	98
2013-14	\$8,286,177	2.6%	80

**Table 4: Assessment Appeals**

The following table shows the number of assessment appeals filed in recent years:<sup>14</sup>

<b>YEAR</b>	<b>ASSESSMENT APPEALS FILED</b>
2017-18	231
2016-17	223
2015-16	168
2014-15	226
2013-14	268

<sup>13</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

<sup>14</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

**Table 5: Exemptions – Welfare**

The following table shows welfare exemption data for recent years:<sup>15</sup>

<b>YEAR</b>	<b>WELFARE EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2017-18	822	\$625,064,542
2016-17	832	\$578,169,818
2015-16	776	\$533,740,898
2014-15	779	\$507,574,945
2013-14	705	\$458,462,506

**Table 6: Change in Ownership**

The following table shows the total number of transfer documents received and the total number of reappraisable transfers due to changes in ownership processed in recent years:<sup>16</sup>

<b>YEAR</b>	<b>TOTAL TRANSFER DOCUMENTS RECEIVED</b>	<b>REAPPRAISABLE TRANSFERS</b>
2017-18	21,474	7,269
2016-17	22,028	7,148
2015-16	19,941	6,913
2014-15	22,644	6,969
2013-14	84,709	5,419

<sup>15</sup> Statistics provided by BOE-802, *Report on Exemptions*.

<sup>16</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

**Table 7: New Construction**

The following table shows the total number of building permits received and the total number of new construction assessments processed in recent years:<sup>17</sup>

<b>YEAR</b>	<b>TOTAL BUILDING PERMITS RECEIVED</b>	<b>NEW CONSTRUCTION ASSESSMENTS</b>
2017-18	11,016	10,860
2016-17	10,356	8,906
2015-16	7,438	7,302
2014-15	6,845	8,808
2013-14	5,401	4,990

**Table 8: Declines In Value**

The following table shows the total number of decline-in-value assessments in recent years:<sup>18</sup>

<b>YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2017-18	29,947
2016-17	30,418
2015-16	33,621
2014-15	44,040
2013-14	50,695

<sup>17</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years.

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

**Table 9: Audits**

The following table shows the minimum number of audits required to be conducted and the total number of audits completed in recent years.<sup>19</sup>

<b>MINIMUM NUMBER OF AUDITS REQUIRED<sup>20</sup></b>	<b>2017-18</b>	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
Largest Assessments	28	29	28	29	28
All Other Taxpayers	29	28	29	28	29
<b>Total Required</b>	57	57	57	57	57
<b>NUMBER OF AUDITS COMPLETED</b>					
<b>Total Audits Completed</b>	31	41	52	54	14
Largest Assessments	14	13	25	9	1
<b>Over/(Under) Required</b>	(14)	(16)	(3)	(20)	(27)
All Other Taxpayers	17	28	27	45	13
<b>Over/(Under) Required</b>	(12)	0	(2)	17	(16)
<b>CCCASE AUDITS</b>	0	0	0	0	0
Prepared for other county assessors	0	0	0	0	0

<sup>19</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

<sup>20</sup> See LTA 2009/049, Significant Number of Business Property Audit, for the minimum number of annual audits required pursuant to the provisions of Revenue and Taxation Code section 469.

## APPENDIX B: PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our January 2015 Assessment Practices Survey Report and the assessor's response to each recommendation. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our survey fieldwork.

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

**RECOMMENDATION 1:** Improve the LEOP program by properly implementing the penalty process in accordance with section 482(b).

#### **Original Findings:**

We found several instances where penalties were not applied when an entity failed to timely file a BOE-100-B, even though the assessor had been notified by the BOE's LEOP Section to apply the penalty.

#### **Original Assessor's Response:**

*Due to budget cuts, the Assessor was experiencing backlogs and computer programming problems at the time of this survey. These issues have been resolved and the Assessor is implementing the penalty process in accordance with section 482(b).*

#### **Current Status:**

The assessor has implemented this recommendation. We reviewed a number of properties that required a penalty and found that all penalties were properly applied and collected with the exception of one property. In this instance, a welfare exemption was granted creating a zero value that resulted in no taxes for the penalty to apply to.

### ***Mineral Property***

**RECOMMENDATION 2:** Improve the mining property program by measuring declines in value for mining properties using the entire appraisal unit as required by Rule 469.

#### **Original Findings:**

We found that it is the assessor's current practice to determine the current market value of the mine and allocate the component values. The assessor then determines the adjusted base year value of the mineral rights and adds the current market value of the fixtures to arrive at an adjusted base year value of the appraisal unit. This procedure conflicts with the intent of Rule 469(e)(2)(C).

**Original Assessor's Response:**

*There are only 33 mineral assessments in San Luis Obispo County and the majority are small value river sand and gravel that do not have associated fixtures or improvements. There are only two quarry operations within the county that have associated fixtures and the assessed value of the fixtures is not significant.*

*The Assessor does not currently have a system to track base year values for fixtures because fixtures are valued on an annual basis. Determining and monitoring the base year value of these fixtures would require annual audits and computer program changes that would simply not be cost effective. A review of the assessments indicates that no significant change in value would result if those actions were taken.*

**Current Status:**

The assessor has not implemented this recommendation. Refer to Mineral Program topic.

**Audit Program**

**RECOMMENDATION 3:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

**Original Findings:**

We found that the assessor did not conduct the minimum number of audits required under the provisions of section 469 two of the past four years as reported. While the assessor did meet the minimum number of audits required two of those years, it is unclear whether the assessor will meet his statutory obligations in the future.

**Original Assessor's Response:**

*Multiple years of budget cuts resulted in a lack of certified auditing staff to perform the required minimum number of audits. The County budget has improved and the Assessor was provided with an additional auditor in the 2014/15 roll year. This is expected to provide for completion of the required number of audits by roll close.*

**Current Status:**

The assessor has not implemented this recommendation. Refer to the Audit Program topic.

**RECOMMENDATION 4:** Notify taxpayers of their right to appeal the result of an audit as required by Rule 305.3.

**Original Findings:**

In San Luis Obispo County, the assessor does not notify taxpayers of their right to appeal audit findings when the audit results in an overassessment or no change to a previously

enrolled assessment, even though the audit discloses property subject to escape assessment. We found that the assessor only informs taxpayers of their right to an appeal when the combined audit findings result in a net escape assessment of taxable equipment for a specific tax year. For other audit results, the assessor properly informs the taxpayer of the audit results in writing; however, there is no mention of the taxpayer's right to appeal audit findings.

**Original Assessor's Response:**

*Our current practice of netting audit escapes and refunds increases the efficiency of the property tax system. Because this method is more economical and preferred by the taxpayer, no change in procedure is contemplated. We currently enroll escaped assessments for each year as they are found in the audit, but at the same time, any reductions in the amount of assessments found by those audits is offset against the escapes thus providing the assessee with a net value. Instead of writing numerous revisions to the assessment roll, a single revision produces the same result. We do check tax rates to ensure that our actions do not unjustly affect the taxpayer.*

**Current Status:**

The assessor has implemented this recommendation. The assessor has recently inserted appeal rights language in the audit finding letters used to notify property owners of no-change audit results. Audit findings letters used to notify property owners of net-refund audit results have included appeal rights language for some time.

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

### *San Luis Obispo County*

#### *Deputy Director*

David Yeung

#### *Survey Program Director:*

Diane Yasui

Manager, Property Tax

#### *Survey Team Supervisor:*

Andrew Austin

Supervisor, Property Tax

#### *Survey Team Leader:*

Gary Coates

Senior Specialist Property Appraiser

#### *Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Tina Krause

Senior Specialist Property Appraiser

Margie Wing

Senior Specialist Property Appraiser

Christine Bradley

Associate Property Appraiser

Gary Coates

Associate Property Appraiser

Lauren Keach

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Alexander Fries

Assistant Property Appraiser

Amanda Lopez

Assistant Property Appraiser

Dany Lunetta

Associate Governmental Program Analyst

## APPENDIX D: RELEVANT STATUTES AND REGULATIONS

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

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

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The San Luis Obispo 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.



## Office of Tom J. Bordonaro, Jr., County Assessor

1055 Monterey Street, Suite D-360, San Luis Obispo, CA 93408  
(805) 781-5636 Fax: (805) 781-5641 Website: [slocounty.ca.gov/assessor](http://slocounty.ca.gov/assessor)

March 26, 2019

RECEIVED

APR 02 2019

County-Assessed Properties Division  
State Board of Equalization

Mr. David Yeung  
Chief, County-Assessed Properties Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279

RE: San Luis Obispo County Assessment Practices Survey

Dear Mr. Yeung:

I am pleased to respond to the *San Luis Obispo County Assessment Practices Survey* prepared by the Board of Equalization. Please accept the following document which explains and clarifies the work of our office in response to the five findings and recommendations provided in the survey.

The staff of the Board of Equalization have been thorough and professional in conducting the review of numerous processes and practices of my outstanding staff in serving the taxpayers of San Luis Obispo County. We thank you for your team's work on this survey and appreciate having the opportunity to meet and discuss the preliminary findings contained in the Survey report.

We look forward to working with BOE staff on future surveys and other assessment issues should they arise.

Sincerely,

Tom J. Bordonaro, Jr.  
Assessor  
County of San Luis Obispo

**SAN LUIS OBISPO COUNTY ASSESSOR'S RESPONSE TO  
FINDINGS AND RECOMMENDATIONS  
March 26, 2019**

**RECOMMENDATION 1:**

*Use the BOE-prescribed form in place of County-generated form for a change in ownership relating to death of a properly owner as required by Government Code section 15606.*

**Assessor's Response:** The form used by San Luis Obispo County is in a format that benefits the taxpayer and is appropriate for processing by my office. We acknowledge that form BOE-502-D is required by Government Code 15606 and LTA 2004/049. Consistent with this recommendation, we will begin using form BOE-502-D as allowed by time and programming changes.

**RECOMMENDATION 2:**

*Measure declines in value for mining properties using the entire appraisal unit as required by Rule 469.*

**Assessor's Response:** My office does perform an annual valuation of minerals and compares the total Proposition 13 value to the total market value. The total Proposition 13 and the total market values includes a business property component.

A very small number of mining properties are located within San Luis Obispo County. There are only 22 mineral assessments, with the majority of these being lower valued river sand and gravel operations that do not have associated fixtures or improvements. There are only two quarry operations that have associated fixtures and these are rock quarries. Recreating base year value for these two quarries is difficult and would be prone to inaccuracies as they date back more than 50 years.

In order to comply with this recommendation, my office would have to initiate annual audits and computer program changes that are not cost effective. Tracking of base year values for fixtures is not performed because they are valued on an annual basis. It is my position that no significant change in value would result.

**RECOMMENDATION 3:**

*Improve the audit program by: (1) Performing the minimum number of audits of professions, trades and businesses pursuant to section 469; and (2) enrolling the audit results for each year of a multiple year audit.*

**Assessor's Response:** (1) I am very pleased to report that the audits identified in this recommendation have been completed for 2018 and my office is on track to complete all audit requirements for 2019. From 2013 to 2017 our office was not able to complete the audits within the allotted time frame due to a lack of resources. However, we can assure the BOE that the audits had proper waivers and were completed within the waiver period. (2) Our current practice of netting audit escapes and refunds increases the efficiency of the property tax system. Because this method is more economical and preferred by the taxpayer, no change in procedure is contemplated. We currently enroll escaped assessments for each year as they are found in the audit, but at the same time, any reductions in the amount of assessments found by those audits is offset against the escapes thus providing the taxpayer with a net value. Instead of writing numerous revisions to the assessment roll, a single revision produces the same result. We do check tax rates to ensure that our actions do not negatively affect the taxpayer.

**RECOMMENDATION 4:**

*Value taxable business property in accordance with Section 501 when a taxpayer fails to file a business property statement (BPS)*

**Assessor's Response:** I disagree with this finding. All business property assessment values are correctly valued by my office consistent with Section 501. For business properties that do not file the required report, a mass appraisal approach is initially applied. Prior to enrolling the value, all non-file accounts are reviewed by an auditor appraiser so that an informed value is established. In the instance of a new business that has never filed a statement, we use appraisal judgement based on the filings of similar types of businesses in our County. Based on *Domenghini v The County Assessor of San Luis Obispo*, the assessor has only to show that, based on information in their possession, the value of the property was estimated and this was the basis to arrive at the assessment. We believe our process is valid and defensible based on the case noted above as well as mass appraisal valuation practices. There is also no recommended procedure that conflicts with our methodology as we verify our non-file accounts are still in existence by performing a yearly canvas as well as extensive review during the non-file appraisal process before final enrollment.

**RECOMMENDATION 5:**

*Improve the application of the BOE recommended index, percent good and valuation factors by: (1) Using supportable minimum percent good factors; and (2) consistently issuing supplemental assessments for structural leasehold improvements enrolled on the unsecured roll:*

**Assessor's Response: We agree with this recommendation and are now using the CAA generated factors. We will also be generating supplemental assessments for the 2018 year.**

## BOE'S COMMENTS TO ASSESSOR'S RESPONSE

**Recommendation 3, Part 2:** Improve the audit program by: (2) enrolling the audit results for each year of a multiple year audit.

**Assessor's Response:** Our current practice of netting audit escapes and refunds increases the efficiency of the property tax system. Because this method is more economical and preferred by the taxpayer, no change in procedure is contemplated. We currently enroll escaped assessments for each year as they are found in the audit, but at the same time, any reductions in the amount of assessments found by those audits is offset against the escapes thus providing the taxpayer with a net value. Instead of writing numerous revisions to the assessment roll, a single revision produces the same result. We do check tax rates to ensure that our actions do not negatively affect the taxpayer.

### **BOE's Comments to Assessor's Response on Recommendation 3, Part 2:**

There is no legal support for offsetting refunds and escapes among multiple years. The provisions of sections 531 and 533 only provide for the offset of tax refunds with tax liabilities from different years by the county auditor. While offsetting overassessments with underassessments may be administratively efficient, the assessor's roll is limited to ensuring the assessed values on a particular assessment roll are true and correct. Additionally, the practice of enrolling a value representing the offset of multiple years into a single year may not allow the taxpayer appropriate appeal rights.

**Recommendation 4:** Value taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement (BPS).

**Assessor's Response:** I disagree with this finding. All business property assessment values are correctly valued by my office consistent with Section 501. For business properties that do not file the required report, a mass appraisal approach is initially applied. Prior to enrolling the value, all non-file accounts are reviewed by an auditor appraiser so that an informed value is established. In the instance of a new business that has never filed a statement, we use appraisal judgement based on the filings of similar types of businesses in our County. Based on *Domenghini v The County Assessor of San Luis Obispo*, the assessor has only to show that, based on information in their possession, the value of the property was estimated and this was the basis to arrive at the assessment. We believe our process is valid and defensible based on the case noted above as well as mass appraisal valuation practices. There is also no recommended procedure that conflicts with our methodology as we verify our non-file accounts are still in existence by performing a yearly canvas as well as extensive review during the non-file appraisal process before final enrollment.

### **BOE Comments to Assessor's Response on Recommendation 4:**

In all observed cases where the property owner failed to file a property statement in 2017, a ten percent escalation was applied on the prior year's enrollment, regardless of the business type. This infers an across the board policy rather than a case by case analysis of the individual

characteristics of the unreported business property. Furthermore, in cases where a property owner has not filed for three or more consecutive years, an audit should be conducted or a field inspection should be performed to support an estimated value. Until either of the above is accomplished, the only information available to the assessor at the time of enrollment is likely to be cost data reported by the property owner during prior years.

Finally, the assessor's current practice allows for these arbitrary escalations to build upon themselves when the property owner fails to file a property statement for numerous consecutive years. Each escalation which is not supported by visual inspection, audited documentation, or otherwise known cost data, risks further variance from actual values.