

SAN MATEO COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2016

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2016/009

February 5, 2016

TO COUNTY ASSESSORS:

**SAN MATEO COUNTY
ASSESSMENT PRACTICES SURVEY**

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

The Honorable Mark Church, San Mateo 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, 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 Mateo County Board of Supervisors, Grand Jury, and Assessment Appeals Board

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from March 2014 through April 2014. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Church 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/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK: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 every county assessor's office. This report reflects the BOE's findings in its current survey of the San Mateo County Assessor/Recorder/Clerk's Office.¹

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

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

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."² 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, review each county's property assessment practices and procedures once every five years, and publish 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 Code³ 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 included an assessment sample of the 2013-14 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.⁴

² Government Code section 15642.

³ 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.

⁴ For a detailed description of the scope of our Assessment Sampling Program, please refer to BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>.

Our survey methodology of the San Mateo County Assessor/Recorder/Clerk's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in San Mateo County that 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 <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, disaster relief, 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 California Land Conservation Act (CLCA) property, taxable possessory interests, leasehold improvements, and 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, business equipment valuation, manufactured home assessments, aircraft assessments, and vessel assessments.

EXECUTIVE SUMMARY

We examined the assessment practices of the San Mateo County Assessor's Office for the 2013-14 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, we found the assessor was properly managing his budget, staffing, workload, disaster relief, and assessment appeals programs. However, we found areas needing improvement in our review of staff-owned property and exemptions programs.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, treatment of declines in value, and taxable possessory interest assessment. However, we found areas needing improvement in the programs for change in ownership, California Land Conservation Act property, mineral property, and leasehold improvements.

In the area of personal property and fixtures assessment, while we found the assessor's program for the assessment of aircraft to be effective, we did make recommendations for improvement of the assessor's audit program, business property statement program, business equipment valuation, assessment of manufactured homes, and assessment of vessels.

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

The San Mateo County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2013-14 assessment roll indicated an average assessment ratio of 99.95 percent, and the sum of the absolute differences from the required assessment level was 0.05 percent. Accordingly, the BOE certifies that San Mateo County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF SAN MATEO COUNTY

San Mateo County is located on the San Francisco Peninsula in northwestern California, has 455 square miles of land area with 292 square miles of water, and includes 57.7 miles of coastline. San Mateo County is bounded on the north by the City and County of San Francisco, on the east by the San Francisco Bay and Santa Clara County, on the south by Santa Cruz County, and on the west by the Pacific Ocean.

San Mateo County was incorporated in 1856 with the county seat, Redwood City, created April 19, 1856. There are 20 incorporated cities within San Mateo County. The population estimate for 2013 was approximately 747,373.



FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the San Mateo 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:** Develop written procedures for the assessment of staff-owned property.....8
- RECOMMENDATION 2:** Develop and implement uniform policies and procedures for the maintenance of welfare exemption records to ensure that all records are organized, archived, and updated on a regular basis.10
- RECOMMENDATION 3:** Apply appropriate penalties as required by section 482(b) if a BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, is not filed timely.12
- RECOMMENDATION 4:** Use an appropriate income stream for capitalizing restricted tree and vine income.13
- RECOMMENDATION 5:** Consistently issue supplemental assessments for all structural improvements added to the unsecured roll.14
- RECOMMENDATION 6:** Estimate the current market value of the mineral appraisal unit and measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.15
- RECOMMENDATION 7:** Improve the audit program by: (1) modifying the audit selection procedure to correctly develop the pool of largest audit accounts as defined by Rule 192 and (2) removing language advising taxpayers of their right to appeal from the *Notice of Proposed Refund Assessment* in cases where no escape assessment was discovered in audit.17
- RECOMMENDATION 8:** Ensure that business property statements contain authorized signatures in accordance with Rule 172.18
- RECOMMENDATION 9:** Improve the valuation of business equipment by: (1) using the Board-prescribed factor tables as intended when valuing agricultural and construction mobile machinery and equipment and (2) ensuring that pollution control equipment financed by state bonds does not escape assessment.....19

RECOMMENDATION 10: Improve the assessor's manufactured homes assessment program by: (1) obtaining required proof of recordation of the notice of affixation before classifying a manufactured home on a permanent foundation as a real property improvement pursuant to Health and Safety Code section 18551 and (2) assessing manufactured homes at the lesser of factored base year value or current market value as required by section 5813.....21

RECOMMENDATION 11: Use Board-prescribed BOE-576-D, *Vessel Property Statement*.22

ADMINISTRATION

Staff Property and Activities

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.⁵

We reviewed the assessor's procedures and policies involving staff-owned property, and we reviewed several staff-owned property record files. We found an area in the assessor's staff property and activities program in need of improvement.

RECOMMENDATION 1: Develop written procedures for the assessment of staff-owned property.

We found the assessor does not have written procedures that address the assessment of real and personal property in which staff in the assessor's office holds an interest. While the assessor has taken an initial step of maintaining a list of employees who own real property within the county, the assessor should pursue a clearly defined policy that establishes employee responsibilities regarding the assessment of staff-owned properties and a well-defined review process for such properties. The policy should enable the assessor to accurately track and document all events with potential assessment implications for staff-owned property. Although our review revealed no problems when assessing staff-owned property, detailed written procedures addressing the assessment of not only staff-owned property, but also property owned by a spouse, a family member, or a dependent child is considered sound management and is recommended. Development of and adherence to written procedures would promote an acceptable level of oversight regarding the assessment of staff-owned property. Without established procedures, there is risk that property owned by an employee or an employee's relative could be assessed by the employee, which would result in the appearance of impropriety and the possibility of inaccurate value conclusions.

Letter To Assessors (LTA) No. 2008/058 was issued as a guide to assist assessors in establishing procedures for the assessment of staff-owned property. The procedures for the assessment of staff-owned property need not be lengthy or complicated, but should be formalized in a written format and provided to all staff. The procedures adopted by the assessor should:

- Clearly define the assessor's policies and procedures,
- Establish staff's responsibilities,

⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Staff Property and Activities*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/staffproperty_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>.

- Create a file or listing of all staff-owned property in the county,
- Contain well-defined review procedures, and
- Accurately track and document all events with potential assessment implications.

During our survey fieldwork, the assessor began the process of adopting a more robust policy for requiring disclosure of activity for staff-owned property. By the conclusion of our fieldwork, the assessor was still actively pursuing the necessary approvals to implement the policy.

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.⁶

In San Mateo County, we reviewed a variety of welfare exemption claims, which included first-time filings and annual filings of general, low-income housing, and hospital welfare claims. Claim files generally include field inspection reports, finding sheets, original signatures on claim forms, as well as supplemental affidavits when required. The assessor uses correct versions of the BOE-267 (first filing) and BOE-267-A (annual filing) forms and date stamps claims to document timely or late filing. We commend the assessor for developing and using internal *First Time Filing Checklists* for new claimants. Appraisers perform field inspections on new claims and for properties that have changed use since the last filing. Along with the claim form, the assessor requires claimants to complete a *Property Use Report* when the property is used by organizations or persons other than the claimant, including any telephone cell towers or antennas placed on the property. Organization Clearance Certificates (OCCs), which are required for the granting of an exemption, are reviewed for validity when a claimant files for the first time as well as when the annual claims are submitted. If a property does not qualify for the exemption, the assessor's office notifies the claimant using BOE-267-F, *Welfare or Veterans' Organization Exemption, Assessor's Finding on Qualification of Property Use*. If a claimant files late, the assessor applies appropriate late filing penalties.

The assessor's staff is diligent with the administration of the low-income housing portion of the welfare exemption and requires such properties to have a valid Supplemental Clearance Certificate (SCC). The assessor ensures that first time claimants filing for the low-income housing property exemption submit a copy of a regulatory agreement, deed restriction, or other legal document as required by the BOE. We also found that the assessor's records are complete with the appropriate claim form and supplemental affidavit included for each year in which the exemption is claimed. In addition, the assessor's office properly applies partial exemption to the property based on the percentage of property that does not qualify for exemption when the

⁶ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Exemptions*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_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>.

tenants' household does not meet the income limits as set forth by the California Department of Housing and Community Development (HCD).

The welfare exemption staff has a broad understanding of the exemption program; however, we found one area where the assessor can improve upon its procedures.

RECOMMENDATION 2: Develop and implement uniform policies and procedures for the maintenance of welfare exemption records to ensure that all records are organized, archived, and updated on a regular basis.

We found that the assessor's welfare exemption claim records are not properly maintained. The welfare exemption program is in the process of electronic conversion. Since 2008, all welfare exemption claim files have been placed into separate categories by claim year. As a result, the once complete claim files have been separated into different piles that are waiting to be scanned and converted into electronic documents. The scanning project was anticipated to begin in 2008 but has not started. This has caused a pile-up of files that increases annually, making it more difficult to access, update, maintain, and evaluate annual claims to ensure eligibility of the property.

Although we commend the assessor for attempting to improve the welfare exemption program by implementation of the electronic conversion project, we recommend that the assessor begins the project or re-evaluates alternative record management systems. We believe that the disjointed nature of the claim files makes it difficult for staff to access and find prior claims and field inspection reports that may be necessary to review when a subsequent claim is submitted and, therefore, may result in erroneously allowed or improperly denied exemptions.

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.⁷

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership, or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

⁷ 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. 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 found an area related to LEOP that needs improvement.

RECOMMENDATION 3: Apply appropriate penalties as required by section 482(b) if a BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, is not filed timely.

The BOE reviewed a sample of records and discovered penalties required by section 482(b) were not applied when statements were filed late. The BOE provides the assessor a report titled, *Entities Indicating a Change in Control or Change in Ownership – By County*. The report lists legal entities that have undergone a change in control or ownership and identifies due dates and actual filing dates of the BOE-100-B for each entity. Additionally, a copy of the envelope bearing the postmark accompanies BOE-100-Bs as evidence of the filing date included in the report.

Sections 480.1(a) and 480.2(a) state, in part, whenever there is a change in ownership or a change in control of any corporation, partnership, limited liability company, or other legal entity, a signed COS shall be filed with the BOE at its office in Sacramento. Section 482(b) states, in part, if a person or legal entity required to file a statement described in sections 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership, or (2) the date of a written request by the BOE, a penalty of 10 percent shall be added to the assessment made on the roll.

Forms filed beyond the due date are considered late and, therefore, are subject to a penalty. The assessor has experienced coordination issues with the auditor controller and the tax collector concerning the computer system associated with the application of the section 482(b) penalties. The computer system has not been modified to allow the application of these penalties. In our survey five years ago, we recommended the assessor apply appropriate penalties if a BOE-100-B was not timely filed; our recommendation has not been implemented. By failing to apply the penalty for late filing, the assessor is not in compliance with section 482(b).

California Land Conservation Act Property

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, for example, hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.⁸

⁸ For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/clca_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>.

For the 2013-14 roll, San Mateo County had a total of 48,365 acres under CLCA contract, including 322 acres subject to Farmland Security Zone (FSZ) contracts, with a total restricted land and improvement value of \$256,571,671. San Mateo County also had 171 contracts in nonrenewal status in 2013. No contracts were cancelled.

The gross value of San Mateo County's agricultural production for 2012 was \$140,032,000, an overall increase of 2.2 percent from the previous year. This was largely due to higher commodity prices. Most of the rural property in San Mateo County is devoted to floral, nursery, and vegetable crops that are grown both indoors and outdoors.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses, such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents, and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

During our review, we found that the assessor properly obtains current market rents through an annual questionnaire sent to all participants of the CLCA program and uses the submitted income data to determine the value of restricted CLCA land. We discovered one CLCA property that had a compatible use and found that it was correctly valued by the assessor. However, we did find one weakness in the assessor's methodology in defining income to be capitalized for trees and vines subject to open-space restrictions.

RECOMMENDATION 4: Use an appropriate income stream for capitalizing restricted tree and vine income.

The assessor capitalizes the net income of living improvements without taking into consideration the economic life of the living improvements.

The Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. All living improvements have a similar life cycle and this cycle is composed of three periods or stages of production: (1) a period of development when production (income stream) initiates and rises; (2) a period of maturity when production remains relatively stable; and (3) a period of decline when production drops as the improvements near the end of their economic lives. When the capitalization rate is built up from given components, as in open-space rate development, it becomes extremely important to apply this rate in a capitalization method that is appropriate for the actual income stream, and the income stream varies in accordance with the stage of production or life cycle of the crop.

By not recognizing the stage of production of a property, the assessor is incorrectly valuing vineyards and orchards as they move through their life cycle.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.⁹

We reviewed leasehold improvement records and found sufficient coordination between the real property and business property divisions in the assessment of leasehold improvement; however, we noted an area in need of improvement.

RECOMMENDATION 5: Consistently issue supplemental assessments for all structural improvements added to the unsecured roll.

We found instances where the assessor did not issue supplemental assessments for structural leasehold improvements reported on Schedule B of the Business Property Statement (BPS). When a taxpayer completes Schedule B and reports the cost of building improvements or leasehold improvements, the business property division completes an analysis of all costs reported on the BPS and enrolls a value. Although the business property division enrolls structural leasehold improvements when they are reported on the BPS, the assessor has not issued supplemental assessments for all of those improvements.

Section 75.11 provides that supplemental assessments shall be issued following a change in ownership or completed new construction. This provision applies to structural leasehold improvements whether 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 taxpayers.

⁹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Leasehold Improvements*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/leasehold_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.¹⁰

After reviewing the assessor's mineral property program, we have the following recommendation:

RECOMMENDATION 6: Estimate the current market value of the mineral appraisal unit and measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

Based on the review of mineral property appraisals and discussions with the appraiser who does the mineral value estimates, we found that the assessor does not make an annual estimate of the current market value of the mineral property appraisal unit. The assessor only makes depletion adjustments for the prior year's production and an index adjustment to the base year mineral right value. The adjusted base year value of the mineral right is then enrolled, and the current market value of the fixtures associated with the appraisal unit is enrolled.

In accordance with article XIII A of the California Constitution, all real property receives a base year value, and on each lien date, the taxable value of the real property unit is the lesser of its adjusted base year value or current market value. Section 105 defines fixtures as a type of improvement and, hence, as real property.

For most properties, fixtures are treated as a separate appraisal unit for 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 measuring a possible decline in value.

Failure to properly determine the decline in value of a mineral property using the entire mineral property appraisal unit could result in an underassessment of the fixtures and equipment or an overassessment of the mineral rights.

¹⁰ 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. 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 at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.¹¹

In San Mateo County, the audit responsibility has been divided between nine auditor-appraisers, who were under the direction of two principal auditor-appraisers.

As previously noted, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the statute requires the assessor to complete 217 audits per year hereafter. Of the 217 audits, half of the audits should be conducted from the assessor's pool of 434 largest assessments. The other half should be conducted from assessments other than from the pool of the largest assessments. We reviewed the assessor's audit tracking schedules and lists of largest assessments to confirm that the assessor has complied with the statutory requirements for audit selection and audit production.

Audit Quality

We reviewed audits for audit quality to ensure that the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. We sampled several recently completed audits and found that in all cases audits were accurate and well documented. A standardized review process further enhances the assessor's audit quality because a principal auditor-appraiser reviews every completed audit. Furthermore, the assessor prepares roll corrections to be enrolled for each year in which an escape assessment took place. The assessor properly notifies taxpayers of escaped assessments and provides the taxpayer with their rights to appeal. Overall, the assessor's audit program is effectively managed; however, we did find two areas in need of improvement.

¹¹ 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. 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>.

RECOMMENDATION 7: Improve the audit program by: (1) modifying the audit selection procedure to correctly develop the pool of largest audit accounts as defined by Rule 192 and (2) removing language advising taxpayers of their right to appeal from the *Notice of Proposed Refund Assessment* in cases where no escape assessment was discovered in audit.

Modify the audit selection procedure to correctly develop the pool of largest audit accounts as defined by Rule 192.

When comparing the audit tracking schedules to the pool of largest assessments, we found that a number of completed audits listed on the audit tracking schedule were erroneously classified as "all other" assessments. As a result the assessor completed too many audits of the largest assessments and not enough audits from "all other" assessments. For roll years 2012-2013 and 2010-2011, the assessor completed 129 and 126 audits from the pool of largest assessments, respectively. This is well above the required number of audits that need to be completed from the pool of largest assessments. While completing more than the required number of audits from the pool of the largest assessments for these two years, the assessor failed to complete the required minimum number of audits from "all other" assessments. By incorrectly identifying audit candidates, the assessor has failed to audit the statutory number of audits of "all other" assessments for 2012-13 and 2010-2011 in accordance with the audit selection criteria outlined in Rule 192.

Remove language advising taxpayers of their right to appeal from the *Notice of Proposed Refund Assessment* in cases where no escape assessment was discovered in audit.

We found that the assessor includes language advising taxpayers of their right to appeal in all *Notice of Proposed Refund Assessment* letters. This is true even in cases where the audit did not find any evidence of escape assessment for any of the years under audit.

Rule 305(d)(2) states, in part, if the result of an audit discloses property subject to an escape assessment for any year covered by the audit, then, pursuant to section 1605, an application may be filed for review, equalization, and adjustment of the original assessment of all property of the assessee at the location of the profession, trade, or business for that year, except any property that has previously been equalized for the year in question. However, the taxpayer does not have appeal rights when the audit does not provide evidence of escape assessment. When the audit results in both over and under assessment and the net result for any year under audit is an over assessment, the assessor correctly provides appeal rights in the *Notice of Proposed Refund Assessment* letter. However, in cases where the audit does not disclose an escape assessment, the assessor should remove language advising taxpayers of their appeal rights.

By providing language advising taxpayers of their appeal rights in the *Notice of Proposed Refund Assessment* letter in cases where the audit does not disclose an escape assessment, the assessor misleads the taxpayer to believe appeal rights exist.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program.¹²

We reviewed the assessor's practices and files relevant to the BPS program to ensure that the assessor complies with statutory guidelines. We reviewed a sampling of BPSs to verify that the assessor uses BOE-prescribed forms; utilizes certified staff for processing property statements; ensures that property statements are properly filled out; ensures appropriate penalties are applied; ensures that real property and business property staff coordinate in the assessment of trade fixtures, leasehold improvements, and structures; and adheres to an appropriate record retention policy.

We found the assessor ensures BPSs are completely filled out and are date-stamped when received. The assessor remedies incomplete or unsigned property statements by returning the original for action by the property owner. The assessor appropriately adds a 10 percent penalty to assessments when property statements are submitted after the deadline. The assessor's business and real property divisions coordinate efforts to properly classify improvements as fixtures or structures. We also found the assessor to have an appropriate record retention practice.

While the assessor's BPS program is generally managed well, we did find one area in need of change.

RECOMMENDATION 8: Ensure that business property statements contain authorized signatures in accordance with Rule 172.

Our review found several BPSs that were not signed by a qualified person, and the required assessee's written authorization was not on file with the assessor.

According to Rule 172, BPS and mineral production report forms prescribed by the BOE and filed with the assessor or the BOE shall be signed by the assessee, a partner, a duly appointed fiduciary, or an agent. When signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization allowing the agent or employee to sign the statement on behalf of the assessee must be filed with the assessor. A BPS or a mineral production report that is unsigned does not constitute a valid filing. Rule 172(d) prohibits the assessor from knowingly accepting any signed BPS that is not executed in accordance with the requirements of this section. Written authorization calls attention to the fact that corporate assessees are liable for any consequences of reporting errors by an employee or agent. It also assures that the assessor may

¹² For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Property Statements Program*, available on the BOE's website at 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>.

rely upon that statement. By requiring such written authorization, the assessor will ensure that the BPS was the taxpayer's official response.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.¹³

We reviewed the assessor's valuation procedures as well as the assessor's application of percent good and trend factors to ensure that they were accurate and applied consistently. Samples were analyzed to verify that the assessor was applying the correct factors to various business and equipment type, estimating supplies when not reported, making appropriate trade-level adjustments when necessary, appropriately assessing fixtures, and correctly assessing mobile construction and agricultural accounts. Overall, the assessor's business equipment valuation program is comprehensive and well managed. However, we did find two areas in need of change.

RECOMMENDATION 9: Improve the valuation of business equipment by: (1) using the Board-prescribed factor tables as intended when valuing agricultural and construction mobile machinery and equipment and (2) ensuring that pollution control equipment financed by state bonds does not escape assessment.

Use the Board-prescribed factor tables as intended when valuing agricultural and construction mobile equipment.

The assessor does not identify agricultural and construction mobile equipment as purchased "new" or "used." In addition, the assessor does not distinguish between agricultural mobile-except harvesters equipment and agricultural mobile-harvesters equipment. Instead, the assessor applies the "average" factor to agricultural mobile-except harvesters equipment and the "new" factors to construction mobile equipment.

Tables 5 and 6 in AH 581 provide a pattern of depreciation for three groups of equipment: (1) construction mobile equipment, (2) agricultural mobile equipment-except harvesters, and (3) agricultural mobile equipment-harvesters. Within each group, three columns of percent good figures ("new," "used," and "average") are listed. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile agricultural and construction equipment when the property owner does not indicate on the BPS whether the equipment is first acquired new or used. However, where the condition is known, the assessor should use the "new" or "used" table. Mobile equipment depreciates at different rates depending on its condition when

¹³ 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 http://www.boe.ca.gov/Assessors/pdf/businessequipval_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>.

purchased. To ensure the most accurate value indicator possible, appropriate valuation tables should be utilized when sufficient information is available.

In addition, AH 581 includes separate percent good factor tables for harvesters and non-harvesters under agricultural mobile equipment. The percent good factors indicated in AH 581 are based on an exclusive set of market parameters. Accurate assessments depend on the proper application of these tables. Non-harvester percent good factors will likely lead to inaccurate value conclusions when applied to harvesters since harvesters depreciate at a faster rate than non-harvester agricultural mobile equipment.

Ensure that pollution control equipment financed by state bonds does not escape assessment.

Division 27, chapter 1 of the Health and Safety Code (commencing with section 44500) authorized the California Pollution Control Financing Authority (CPCFA) to either acquire or finance the acquisition of devices or facilities necessary to mitigate air and water pollution caused by private industrial operations. 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 subject to taxation. To help identify such devices or facilities, the BOE's County-Assessed Properties Division furnishes all assessors with a yearly Letter To County Assessors Only (CAO) entitled *Listing of Companies Entering Into Contract With the Pollution Control Financing Authority*. The CAO lists the pollution control financing bonds issued during the previous year with project location by county, the name of the lessee, and the amount of each bond.

During calendar year 2010, two businesses were identified as having entered into a multi-million dollar contract with the CPCFA that have interest in San Mateo County. Information about these contracts was furnished to the assessor in CAO No. 2011/007. We reviewed the assessor's record on one of the two businesses that has an active account and did not find a copy of the contract with CPCFA or any evidence that an effort was made to procure the contract. The assessor's staff confirmed that the assessor's office did not act on the CAO No. 2011/007 letter by requesting contracts from the companies identified in the letter as having procured a contract with activity in San Mateo County.

We recommend that the assessor establish a procedure to ensure that these yearly CAO letters are routed to appropriate personnel. We further recommend that the assessor follow up on these yearly CAO letters by contacting the businesses and requesting copies of the contracts with CPCFA. Only by reviewing the contracts can the assessor accurately determine that all assessable property associated with the contracts is enrolled.

Manufactured Homes

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

taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.¹⁴

We reviewed a number of manufactured home assessments, including transfers, supplemental assessments, a voluntary conversion, accessories, record keeping, and assessments related to manufactured homes on permanent foundations, reviews for decline in value, new construction, and new installations of manufactured homes. The assessor's manufactured home program is generally well administered. Records are readily available and are up to date. However, we identified two areas for improvement.

RECOMMENDATION 10: Improve the assessor's manufactured homes assessment program by: (1) obtaining required proof of recordation of the notice of affixation before classifying a manufactured home on a permanent foundation as a real property improvement pursuant to Health and Safety Code section 18551 and (2) assessing manufactured homes at the lesser of factored base year value or current market value as required by section 5813.

Obtain required proof of recordation of the notice of affixation before classifying a manufactured home on a permanent foundation as a real property improvement pursuant to Health and Safety Code section 18551.

We found that manufactured homes were classified as real property without documentation that the foundation system met the requirements of Health and Safety Code section 18551. We also found that the assessor does not require proof that the affixation has been recorded (HCD Form 433A). Foundations must conform to Health and Safety Code section 18551 before the home can be classified as real property. A reference to the recorded HCD 433A form should be on file. New procedures for handling manufactured homes installed on permanent foundation systems will help in the proper classification, documentation, and assessment of these units. We recommend the assessor include such reference in the property records.

Assess manufactured homes at the lesser of factored base year value or current market value as required by section 5813.

The assessor is inconsistent in his treatment of manufactured homes concerning declines in value. If a taxpayer requests a review of their manufactured home assessment, the assessor has developed a program to annually review the assessment to ensure that declines in value are recognized accurately and consistently. However, for manufactured home assessments for which the taxpayer did not request a review, the assessor re-enrolls the same value each year and does not adjust the base year value by the annual inflation factor. Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. Although the assessor is not required to reappraise all properties each year, we found the

¹⁴ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes*, available on the BOE's website http://www.boe.ca.gov/Assessors/pdf/mhomes_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>.

assessor is not proactive in trying to discover other manufactured home properties that have declined in value. The assessor's method of valuing manufactured homes is expedient, but it can result in incorrect assessments and inconsistent treatment of taxpayers.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.¹⁵

We reviewed a sampling of the vessels and found that the assessor was correctly valuing the vessels using the NADA guide and properly applying penalties when statements were filed late. We also reviewed vessels that were valued by use of market factors and found those vessels to be properly assessed. Overall, the assessor's vessel assessment program is well administered; however, we did find one area in need of improvement.

RECOMMENDATION 11: Use Board-prescribed BOE-576-D,
Vessel Property Statement.

The assessor uses a county-developed form *Boat (Vessel) Report of Personal Property, County of San Mateo*, in lieu of the Board-prescribed BOE-576-D, *Vessel Property Statement*, for new vessels and for vessels that are new to the county. Pursuant to Rule 171, a county may develop a form for use in their county for a specific use. However, a county may not use a county-developed form if there is a Board-prescribed form available. In other words, if a Board-prescribed form is available, that form must be used. Using county developed forms in lieu of Board-prescribed forms could mislead property owners and create confusion about current procedures and filing requirements.

¹⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Vessels*, available on the BOE's website http://www.boe.ca.gov/Assessors/pdf/vessels_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>.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2013-14 assessment roll:¹⁶

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$71,326,272,443
	Improvements	\$78,971,938,740
	Personal Property	\$1,300,349,939
	Total Secured	\$151,598,561,122
Unsecured Roll	Land	\$414,313,002
	Improvements	\$4,259,487,831
	Personal Property	\$5,148,493,167
	Total Unsecured	\$9,822,294,000
Exemptions¹⁷		(\$4,148,114,042)
	Total Assessment Roll	\$157,272,741,080

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:¹⁸

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2013-14	\$157,272,741,000	5.9%	4.3%
2012-13	\$148,469,002,000	3.4%	1.4%
2011-12	\$143,583,259,000	1.1%	0.1%
2010-11	\$142,045,164,000	-1.5%	-1.9%
2009-10	\$144,147,996,000	0.7%	-2.4%

¹⁶ Roll values are from BOE 822 Report for 2013-14.

¹⁷ The value of the Homeowners' Exemption is excluded from the exemptions total.

¹⁸ Roll values and statewide changes are from the State Board of Equalization Annual Report, Table 7, 2009-10 through 2013-14.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from \$9,835,891 in 2009-10 to \$11,496,045 in 2013-14.

As of the date of our survey, the assessor had 78 budgeted permanent staff. This included the assessor, 2 deputy assessors, 1 administrative services manager, 40 real property appraisers, 12 business property auditor-appraisers, 2 cadastral draftspersons (mapping), 3 computer programmers-analysts, and 17 support staff.

The following table shows the assessor's total expenses budget and staffing over recent years:¹⁹

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2013-14	\$11,496,045	4.8%	78
2012-13	\$10,968,189	4.1%	78
2011-12	\$10,534,284	3.0%	73
2010-11	\$10,228,088	4.0%	75
2009-10	\$9,835,891	-0.5%	74

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed over recent years:²⁰

YEAR	ASSESSMENT APPEALS FILED
2013-14	1,372
2012-13	2,047
2011-12	2,490
2010-11	1,763
2009-10	1,823

¹⁹ Gross Budget and staffing numbers retrieved from Table A and Table B of *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for fiscal year 2012-13 through 2009-10, and from copies of the county's submissions of Budget, Staff, and Assessment Roll Data for fiscal years 2013-14 through 2008-09 provided by Jacqueline Chen-Lee, Financial Services Manager.

²⁰ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:²¹

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2013-14	1,151	\$3,009,869,864
2012-13	1,163	\$2,912,920,724
2011-12	1,074	\$3,169,347,807
2010-11	1,061	\$2,676,853,901
2009-10	999	\$2,721,229,476

Table 6: Change in Ownership

The following table shows the total number of reappraisable transfers due to changes in ownership processed in recent years:²²

YEAR	REAPPRAISABLE TRANSFERS
2013-14	12,375
2012-13	13,261
2011-12	12,663
2010-11	12,138
2009-10	9,878

²¹ BOE-802, *Report on Exemptions*, used for years 2009-2014.

²² Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

Table 7: New Construction

The following table shows the total number of new construction assessments processed in recent years:²³

YEAR	NEW CONSTRUCTION ASSESSMENTS
2013-14	2,707
2012-13	2,614
2011-12	2,281
2010-11	2,300
2009-10	403

Table 8: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:²⁴

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2013-14	16,535
2012-13	28,382
2011-12	34,711
2010-11	36,916
2009-10	31,124

²³ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

²⁴ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

San Mateo County

Chief

David Yeung

Survey Team Supervisor:

David Dodson

Supervisor, Property Tax

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Isaac Cruz

Senior Specialist Property Auditor-Appraiser

Michael Ash

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Jennifer Prince

Associate Property Appraiser

Cyrus Haze Ghazam

Assistant Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

Evan Becker

Staff Services Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	
<i>Government Code</i>	
§15640	Survey by board of county assessment procedures.
§15641	Audit of records; appraisal data not public.
§15642	Research by board employees.
§15643	When surveys to be made.
§15644	Recommendations by board.
§15645	Survey report; final survey report; assessor's report.
§15646	Copies of final survey reports to be filed with local officials.
<i>Revenue and Taxation Code</i>	
§75.60	Allocation for administration.
<i>Title 18, California Code of Regulations</i>	
Rule 370	Random selection of counties for representative sampling.
Rule 371	Significant assessment problems.

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 Mateo 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.



Mark Church

Chief Elections Officer & Assessor-County Clerk-Recorder

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December 2, 2015

David Yeung, Chief
County-Assessed Properties Division
Property Tax Department
California State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

Dear Mr. Yeung,

Enclosed is our response to the recent State Board of Equalization Assessment Practices Survey of San Mateo County and its eleven recommendations. This response is made pursuant to Section 15645 of the California Government Code. Please incorporate this response into your final Assessment Practices Survey Report.

I would like to express our appreciation for the professional and courteous manner in which the survey team conducted their business. Their constructive comments regarding our process and product are appreciated.

More importantly, I would like to acknowledge the staff of the San Mateo County Assessor's Office for their hard work, professionalism, and commitment to serving San Mateo County and the San Mateo County taxpayers. The results of your survey reflect the exceptionally effective work of our team. Their continuing dedication to improving service to our constituents and property owners is greatly appreciated.

Sincerely,

A handwritten signature in blue ink that reads "Mark Church".

Mark Church

Enclosure

Assessor's Response to State Board of Equalization 2015 Assessment Practices Survey Report

RECOMMENDATION 1: Develop written procedures for the assessment of staff-owned property.

Assessor's Response:

We agree. Written policies and procedures have been developed which will take effect this fiscal year.

RECOMMENDATION 2: Develop and implement uniform policies and procedures for the maintenance of welfare exemption records to ensure that all records are organized, archived, and updated on a regular basis.

Assessor's Response:

We agree. We will update our policies and procedures for the maintenance of welfare exemption records. In the next few months, we will upgrade our current imaging system. This will allow for electronic storage of our exemption records, which will enable us to maintain all records more efficiently on a regular basis.

RECOMMENDATION 3: Improve the LEOP program by applying appropriate penalties as required by section 482(b) if a BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, is not filed timely.

Assessor's Response:

We agree and will implement this process in conjunction with the County Controller and County Tax Collector.

RECOMMENDATION 4: Use an appropriate income stream for capitalizing restricted tree and vine income.

Assessor's Response:

We agree. We will modify our analysis and valuation process per recommendation.

RECOMMENDATION 5: Improve the assessment of leasehold improvements by consistently issuing supplemental assessments for all structural improvements added to the unsecured roll.

Assessor's Response:

We agree. We will update our procedures and put more emphasis in our training to address this issue.

RECOMMENDATION 6: Improve mining property appraisals by estimating current market value of the mineral appraisal unit and measuring declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

Assessor's Response:

We agree. We will be expanding our training program relating to mining property appraisals to increase the experience and knowledge base of such properties.

RECOMMENDATION 7: Improve the audit program by: (1) modifying the audit selection procedure to correctly develop the pool of largest audit accounts as defined by Rule 192 and (2) removing language advising taxpayers of their right to appeal from the *Notice of Proposed Refund Assessment* in cases where no escape assessment was discovered in audit.

Assessor's Response:

- (1) We disagree. Our audit selection procedure correctly develops the pool of largest audit accounts as defined by Rule 192. Rule 192 requires this county to complete at least 217 audits per year, which we have done, and to also audit the top 432 companies at least once every four years, and that has also been done. The BOE is currently reviewing the language of Rule 192 to address this issue. Rule 192 only requires the significant number of audits as the minimum of audits required, which does not prevent us from auditing additional accounts.
- (2) We agree. We now have two refund letters, one that includes appeal rights for those audits including escapes, and the straight refund letter, that does not include appeal rights.

RECOMMENDATION 8: Ensure that business property statements contain authorized signatures in accordance with Rule 172.

Assessor's Response:

We agree. We have initiated sending agency authorization forms with all business property statements. We will also put more emphasis in our training to address this issue.

RECOMMENDATION 9: Improve the valuation of business equipment by: (1) using the Board-prescribed factor tables as intended when valuing agricultural and construction mobile machinery and equipment and (2) ensuring that pollution control equipment financed by state bonds does not escape assessment.

Assessor's Response:

- (1) We agree. We have identified the three harvesters located in our county and will value them using the BOE tables as prescribed.
- (2) We disagree.
 - a. Two companies are listed on the 2011 CAO letter attachment for Companies Entering into Contracts with the California Pollution Control Financing Authority.
 - b. For one of the companies, the report lists one amount for 21 cities in 10 counties. That company reports and is audited for all locations in our county. There should not be any pollution control equipment that is not assessed.
 - c. The other company lists one amount for 4 cities in 4 counties. We have not been able to find a business location for this company in our county.

RECOMMENDATION 10: Improve the assessor's manufactured homes assessment program by: (1) obtaining required proof of recordation of the notice of affixation before classifying a manufactured home on a permanent foundation as a real property improvement pursuant to Health and Safety Code section 18551 and (2) assessing manufactured homes at the lesser of factored base year value or current market value as required by section 5813.

Assessor's Response:

We agree. We will strengthen our documentation process for manufactured homes classified as real property and standardize the method of valuing manufactured homes and discovering such properties that may have declined in value.

RECOMMENDATION 11: Improve the vessel assessment program by using Board-prescribed BOE-576-D, Vessel Property Statement.

Assessor's Response:

We agree. This recommendation has recently been implemented.

BOE COMMENTS TO ASSESSOR'S RESPONSE

Recommendation 7: Improve the audit program by: (1) modifying the audit selection procedure to correctly develop the pool of largest audit accounts as defined by Rule 192 and (2) removing language advising taxpayers of their right to appeal from the *Notice of Proposed Refund Assessment* in cases where no escape assessment was discovered in audit.

Assessor's Response: (1) We disagree. Our audit selection procedure correctly develops the pool of largest audit accounts as defined by Rule 192. Rule 192 requires this county to complete at least 217 audits per year, which we have done, and to also audit the top 432 companies at least once every four years, and that has also been done. The BOE is currently reviewing the language of Rule 192 to address this issue. Rule 192 only requires the significant number of audits as the minimum of audits required, which does not prevent us from auditing additional accounts.

BOE Comments to Assessor's Response:

The assessor is correct in stating that nothing prevents the county from auditing additional accounts beyond the "required" number of audits. We commend the assessor for managing the workload to accommodate the additional audits. However, our recommendation does not concern the total number of audits performed, but rather the selection of those audits. Rule 192 prescribes the manner in which the selection is to be made, and the BOE's guidance on the audit selection process is contained in Letter To Assessors (LTA) 2009/049. While Rule 192 is anticipated to be revised to clarify any ambiguities, our recommendation is to use the selection method contained in Rule 192 and LTA 2009/049 until the rule is amended.