SAN MATEO COUNTY ASSESSMENT PRACTICES SURVEY

SEPTEMBER 2005

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September 8, 2005

TO COUNTY ASSESSORS:

No. 2005/052

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 Warren Slocum, San Mateo County Assessor-County Clerk-Recorder and Chief Elections Officer, 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 Property Tax Division from March through August 2004. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau
David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the San Mateo County Assessor-County Clerk-Recorder and Chief Elections 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, the Senate and Assembly, and the San Mateo County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Warren Slocum, San Mateo County Assessor-County Clerk-Recorder and Chief Elections Officer, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code[2] section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll or by a determination by the survey team-based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the San Mateo County Assessor'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 who provided information relevant to the property tax assessment program.

This survey also included an assessment sample of the 2003-04 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our 2001 San Mateo County Assessment Practices Survey, we made 26 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 16 of the recommended changes. One recommendation no longer applies because of a change in BOE guidance. The remaining recommendations that were not implemented, or only implemented in part, are repeated in this report.

We found many strengths in the assessor's program:

- The assessor converted the database system to a window-based system known as EZ Access. This system with increased employee efficiency has allowed the assessor to reduce the lag time for processing a recorded deed, performing an appraisal, and issuing a supplemental assessment from 237 days to 36 days.

- The assessor has scanned and imaged the property records into the computer database.

In the area of administration, the assessor has elected to participate in the State-County Property Tax Administration Program annually since 1995 and has effective programs for budget and staffing, appraiser certification, assessment appeals, assessment roll changes, low-value property exemption, and exemptions.

We noted the following areas where improvement is recommended:

- The assessor does not grant disaster relief for all qualifying events.

- The assessor does not submit the forms checklists or final prints of forms timely to the BOE for approval, uses outdated BOE-prescribed forms, and does not use the BOE-prescribed change of ownership statement.

In the area of real property assessment, the assessor has effective programs for the enrollment of changes in ownership, new construction, declines in value, enforceably restricted historical properties, leasehold improvements, water company property, and mineral property. However, we identified the following deficiencies:

- The assessor does not supplementally assess all qualifying possessory interests that are enrolled on the unsecured roll.

- In his program for the assessment of California Land Conservation Act (CLCA) properties, the assessor does not use current income in determining the restricted value of CLCA lands.

- In the assessment of possessory interests, the assessor does not assess all taxable possessory interests at the county fairgrounds and annually revalues possessory interests without a stated term instead of at the end of the reasonably anticipated term of possession used in the original assessment.

- The assessor does not combine pipeline rights-of-way assessments into a single, countywide parcel per taxpayer as required by section 401.8.

The assessor has effective programs for processing business property statements, assessment of leased equipment, vessels, and animals. Other programs need improvement as recommended:

- The assessor does not audit the books and records of professions, trades, or businesses pursuant to section 469 and inappropriately continues to net audit results for multiple years.

- The assessor does not use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

- The assessor does not properly classify and assess apartment personal property.

- The assessor does not classify manufactured homes as personal property.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

The San Mateo County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2003-04 assessment roll indicated an average assessment ratio of 100.38 percent, and the sum of the absolute differences from the required assessment level was 1.07 percent. Accordingly, the BOE certifies that San Mateo County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

RECOMMENDATION 1: Grant disaster relief for all qualifying events. 15

RECOMMENDATION 2: Improve the assessment form program by: (1) submitting the forms checklists and rearranged forms timely to the BOE for approval; (2) using the current version of BOE-prescribed forms; and (3) using the BOE-prescribed change in ownership statement. 20

RECOMMENDATION 3: Supplementally assess all qualifying possessory interests enrolled on the unsecured roll.....30

RECOMMENDATION 4: Use current income in determining the restricted value of CLCA lands. 31

RECOMMENDATION 5: Improve the possessory interest assessment program by: (1) assessing all taxable possessory interests at the fairground; and (2) revaluing possessory interests only at the end of the reasonably anticipated term of possession used to establish the base year value.....34

RECOMMENDATION 6: Combine pipeline rights-of-way assessments into a single countywide parcel per taxpayer, as required by section 401.8...39

RECOMMENDATION 7: Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469; and (2) enrolling the audit results for each year of a multiple-year audit.....42

RECOMMENDATION 8: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended. 44

RECOMMENDATION 9: Properly classify and assess apartment personal property.....45

RECOMMENDATION 10: Classify manufactured homes as personal property. 47

RESULTS OF 2001 SURVEY

Disaster Relief

We recommended that the assessor request that the board of supervisors revise the disaster relief ordinance to comply with current statutory provisions. This recommendation has been implemented; the ordinance has been updated to conform to current statutory provisions.

Change in Ownership

We recommended that the assessor apply the penalty for noncompliance with the requirement to file a *Change of Ownership Statement* (COS) and that the assessor use the BOE-prescribed COS. The assessor has addressed the first part of the recommendation by removing the penalty language from the locally developed form. The assessor still does not use the BOE-prescribed COS; this recommendation is repeated in this report. We also recommended that the assessor quarterly report all section 69.5 approved claims to the BOE. The assessor implemented this recommendation.

New Construction

We recommended that the assessor obtain building permits from the San Mateo County Department of Health Services and record all permits on property records to discern assessable new construction. The assessor has implemented both recommendations.

Supplemental Assessments

We recommended that the assessor make all supplemental assessments as required by law. The assessor has not fully implemented this recommendation; he still fails to supplementally assess all qualifying possessory interests.

Taxable Possessory Interests

We recommended that the assessor assess the possessory interests of all private users at the county fairgrounds, obtain building permits from the San Francisco Airport Commission, and require all airlines to complete Schedule B of their property statements to ensure that taxable new construction is assessed. The assessor is now receiving permits from the Airport Commission and is requiring all airlines to complete Schedule B of their property statement. He is not, however, assessing the possessory interests of all private users at the county fairgrounds; therefore, this recommendation will be repeated in this report.

Water Company Property

We recommended that the assessor determine a base year value for all real property owned by a private water company. The assessor has implemented this recommendation.

California Land Conservation Act Properties (CLCA)

We recommended that the assessor obtain current income and production data from the property owner for assessing CLCA lands, use current income in determining the restricted value of CLCA lands, and use animal unit months comparison in the analysis and assessment of grazing lands. The last recommendation is no longer applicable because there is very little grazing land in San Mateo County. The other two recommendations have not been implemented and are repeated in this report.

Property Statement Processing

We recommended that the assessor use the BOE's equipment index and percent good factors as intended. The assessor has not implemented this recommendation.

Audit Program

We recommended that the assessor include business-owned aircraft and vessels in the mandatory audit program and develop a formal nonmandatory audit program. The assessor has implemented both recommendations.

Aircraft

We recommended that the assessor assess private aircraft according to the guidelines prescribed in Letter To Assessors 97/03. The assessor has implemented this recommendation.

Vessels

We recommended that the assessor require a current certificate of inspection issued by the United States Coast Guard for the section 227(c) claim, annually determine the market value of vessels valued below $80,000, and send an annual vessel property statement to owners of vessels that cost $100,000 or more. The assessor has implemented these recommendations.

Apartment Personal Property

We recommended that the assessors properly classify and assess apartment personal property. The assessor has not implemented this recommendation.

Leased Equipment

We recommended that the assessor annually review the BOE's listing of leased property to discover assessable property. Though the assessor receives the listing of leased property, his staff does not review it to discover assessable property. This recommendation is not repeated because we did not find that the assessor had allowed any assessable property to escape valuation.

Manufactured Homes

We recommended that the assessor correctly use the National Automobile Dealers Association *Manufactured Housing Appraisal Guide*, annually review manufactured home assessments for declines in value, and assess taxable manufactured home accessories. The assessor has fully implemented all of these recommendations.

OVERVIEW OF SAN MATEO COUNTY

San Mateo County is located on the San Francisco Peninsula and is bordered by the City and County of San Francisco to the north, San Francisco Bay on the east, Santa Clara and Santa Cruz Counties to the south, and the Pacific Ocean on the west. San Mateo County was created as a charter county on April 19, 1856. Redwood City is the county seat. The territory of San Mateo County encompasses 553 square miles (105 square miles are water area) and includes 45 miles of coastline and beaches.

San Mateo County has 20 incorporated cities and as of July 1, 2003, a population of about 697,456.[3] The following table shows the top seven industries in terms of people employed as of 2000:[4]

INDUSTRY	EMPLOYMENT
Construction	19,800
Manufacturing	36,700
Transportation	43,600
Trade	80,500
Finance, Insurance, Real Estate	23,000
Services	137,000
Government	32,600
Total	373,200

The following table displays information pertinent to the 2003-04 assessment roll:

ROLL TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	217,559	$89,809,551,893
Unsecured Roll	18,852	$9,825,514,888
Total Assessment Roll	236,411	$99,635,066,781

[3] Taken from U.S. Census Bureau Web site.
[4] Taken from State of California Department of Finance's County Profiles Web site.

The next table illustrates the growth in assessed values during the past five years:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE
2003-04	$99,635,066,781	5.7%
2002-03	$94,238,409,839	5.9%
2001-02	$88,989,696,299	12.6%
2000-01	$79,064,457,064	10.3%
1999-00	$71,701,682,439	

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, the State-County Property Tax Administration Program (PTAP), appraiser certification, assessment appeals, disaster relief, assessment roll changes, low-value property exemption, exemptions, and assessment forms.

Budget and Staffing

The assessor in San Mateo County also holds the positions of county clerk, county recorder, and chief elections officer. Total budgeted staff assigned to all 4 departments is 123 positions. The following table shows the assessors' budget for the last five years. The gross budget figures reflect the funding for appraisal services only, and does not include funds budgeted for the clerk, recorder, or elections departments, or the administration and support unit. Included in the gross budget figure are PTAP funds received by the assessor:

BUDGET YEAR	GROSS BUDGET	INCREASE	PERMANENT STAFF[5]	PTAP FUNDS RECEIVED
2003-04	$10,376,770	3.94%	79	$2,220,001
2002-03	$9,983,461	46.43%	79	$2,220,001
2001-02	$6,818,054	-3.87%	70	$2,220,001
2000-01	$7,092,654	8.08%	61	$2,220,001
1999-00	$6,562,214		64	$2,220,001

Personnel that perform the duties of the assessor's office are assigned to two specific budget units: (1) administration and support with 11 positions; and (2) appraisal services with 79 positions. The administration and support unit provides services for all four departments (i.e., assessor, clerk, recorder, and elections). For 2003-04 roll year, the assessor had 18 additional positions that were funded by PTAP.

Appraisal services is divided into three units with a deputy assessor-county clerk-recorder leading each unit. One unit handles all audit and appraisal support duties; another unit is responsible for fiscal services, change of ownership, and mapping; and the third unit is responsible for the appraisal of all real property in the county. All of the staff is located in the main office; there are no field offices.

[5] Increase in staff for 2001-02 was due to the transfer of the change in ownership unit to the appraisal services unit, and for 2002-03, staff increase was due to the transfer of nine positions from the clerk-recorders unit to the appraisal services unit.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

For most counties, the contract provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

San Mateo County first participated in the PTAP in fiscal year 1995-96 and contracted to continue participation through June 30, 2004. The county's required base funding and staffing for the assessor's office are set at the 1994-95 fiscal year levels, with a gross appropriation of $5,088,678 and a base year staff of 70 positions. The county has never been below the required base funding and staffing levels. For the 2002-03 fiscal year, San Mateo County received a grant in the amount of $2,220,001 from the State Department of Finance.

The following table shows the PTAP amounts received by the county and the number of positions funded by PTAP for the last five roll years:

ROLL YEAR	PTAP AMOUNT	NO. OF POSITIONS FUNDED BY PTAP
2003-04	$2,220,001	18
2002-03	$2,220,001	13
2001-02	$2,220,001	14
2000-01	$2,220,001	16
1999-00	$2,220,001	20

For the 2002-03 fiscal year, the assessor used the $2,220,001 PTAP funds as follows: $1,147,590 for additional staff to assist in the completion of the assessment roll; $1,012,411 for systems and processing automation; and $60,000 for office supplies and services.

In order to maintain eligibility to receive the grant, a county must show that the increase in tax revenue exceeds the grant amount. In a report submitted to the State Department of Finance, the

county reported the total change in value from all qualifying activities for the 2002-03 fiscal year was over $2.1 billion. This increase resulted in an additional $21.2 million in total property tax revenue of which $2.9 million was distributed to the county. The $2.9 million increase in property tax revenue for the county was in excess of the grant amount of $2,220,001.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. We found that the members of the assessor's appraisal staff possess the required appraiser certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the academic requirements referenced in section 670(d). The assessor does not utilize the services of any contract appraisers.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules[6] 301 through 326 to regulate the assessment appeal process.

The assessment appeals board in San Mateo County consists of three regular members and one alternate member. The board of supervisors appoints the appeals board members to serve a three-year term.

The appeals board hears applications for reductions in value for properties on the unsecured and secured roll. The regular filing period for assessment appeal applications is between July 2 and November 30 of the assessment year in question. Hearings are scheduled for the second and fourth Thursday of each month.

[6] All rules references are to the California Code of Regulations, Title 18, Public Revenue.

The following table illustrates the appeals workload for the last five years:

	2003-04	2002-03	2001-02	2000-01	1999-00
Total Appeals:					
Applications Received	NA	1,569	1,503	788	633
Carried Over	429	93	12	26	NA
Total	**NA**	**1,662**	**1,515**	**814**	**633**
Resolution:					
Denied-lack of appearance	NA	NA	NA	NA	NA
Hearing-denied	NA	NA	NA	NA	NA
Hearing-reduced	NA	47	65	102	19
Hearing-increased	NA	0	9	5	8
Hearing-upheld	NA	36	57	40	13
Invalid	NA	0	0	0	0
Stipulation	NA	478	359	234	227
Withdrawn	NA	672	932	421	340
Other	NA	0	0	0	0
Disposition unknown	NA				
Total	**NA**	**1,233**	**1,422**	**802**	**607**
Carried over to next year	**NA**	**429**	**93**	**12**	**26**

As evidenced by the high percentage of withdrawn appeals, the assessor is diligent in explaining his assessment to the taxpayer. No appeal in the last five years has gone unresolved for more than two years, unless the taxpayer agrees to a waiver of the statutory time limits. We found no problems with the assessor's assessment appeals program.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assessees whose properties have been damaged or destroyed by a misfortune or calamity.

The ordinance may apply to any misfortune or calamity, including a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

The San Mateo County Board of Supervisors adopted such an ordinance in 1976 (No. 2401). In our prior survey, we recommended that the assessor request that the board of supervisors revise

the disaster relief ordinance to conform to current statutory provisions. The original ordinance has been updated twice, in 2001 (No. 4033) and in 2002 (No. 4129), and now conforms to current statutory provisions.

Discovery

The assessor discovers calamities through building permits issued for repairs, newspaper articles, taxpayer notification, and field investigation. The assessor also receives fire reports from a number of local fire departments to help identify misfortunes or calamities.

Assessment Procedures

The following table represents the number of disaster relief claims filed over the last five years:

ASSESSMENT YEAR	CLAIMS FILED
2003-04	49
2002-03	69
2001-02	70
2000-01	75
1999-00	250[7]

We reviewed 10 records of properties that had suffered a calamity and noted that the records were well documented. The assessor handled each case properly and processed mid-year tax relief for the property owners. However, we noted one area that needed improvement in the assessor's disaster relief program.

RECOMMENDATION 1: Grant disaster relief for all qualifying events.

We found that the assessor does not provide disaster relief to assessees who suffered restricted physical access to their properties or whose normal business activities were suspended as a result of the terrorist attacks of September 11, 2001.

Rule 139 became effective on June 15, 2002, and applies the concept of restricted access due to a disaster. Because it only clarifies section 170, its provisions should be applied to claims for relief that occurred prior to that date. However, in San Mateo County, the qualifying element for disaster relief is actual physical damage to the property. Consequently, airlines and airport-related businesses whose claims may qualify for disaster relief pursuant to rule 139 are being administratively denied this relief.

[7] Abnormal number of claims for 1999-00 due to storm damage (mudslides).

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, the roll may not be changed except as authorized by statute. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference. Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

We found that roll corrections are made within the authorized period of time and that the assessor properly sends a *Notice of Proposed Escape Assessment* to inform taxpayers of the increase in taxable value for the fiscal year affected. The notice contains all the information required by section 531.8.

The assessor also properly notifies taxpayers of the enrollment of an escape assessment. Section 534 mandates that an escape assessment is effective only after the assessee has been notified by the county assessor. It also specifies that the notice shall include all of the following:

(1) The date the notice was mailed.

(2) Information regarding the assessee's right to an informal review and the right to appeal the assessment.

(3) The deadline for filing an appeal.

(4) Guidelines, which include the description of the requirements, procedures, and deadlines, for applying for the reduction of an assessment pursuant to section 1605.

(5) The notice given by the assessor shall be on a form approved by the board.

In Letter To Assessors 2003/066, dated November 4, 2003, the BOE notified assessors of the statutory changes to section 534 (effective January 1, 2004) requiring notification forms be BOE-approved. The letter directs that the forms used by the assessor as a *Notice of Enrollment of Escape Assessment* must be submitted to the BOE for approval. Section 534 provides that specific items must be included in this notice. In San Mateo County, the assessor uses Form BOE-66-A, *Notice of Enrollment of Escape Assessment.* We found no problems with the assessor's assessment roll procedures.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property with a total base year value or full value of more than $5,000, or more than $50,000 in the case of certain possessory interests. A board of supervisors must adopt a low-value property exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

On January 9, 1996, the San Mateo County Board of Supervisors passed Ordinance No. 3696. The ordinance was effective February 8, 1996 and does not have a termination date. This ordinance exempts only personal property not exceeding $5,000 in full cash value. The assessor's processing of low-value personal property conforms to the ordinance.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably
and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors, not the BOE, administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The assessor processed 10 church exemption claims and 292 religious exemption claims for the 2003-04 assessment roll. The following table illustrates religious and church exemption data for the 1999-00 through 2003-04 assessment rolls:

	RELIGIOUS		CHURCH	
ROLL YEAR	NUMBER OF EXEMPTIONS	AMOUNT OF EXEMPTIONS	NUMBER OF EXEMPTIONS	AMOUNT OF EXEMPTIONS
2003-04	292	$162,182,878	10	$5,279,284
2002-03	309	$170,067,927	10	$5,181,601
2001-02	301	$153,403,598	11	$2,019,538
2000-01	314	$156,297,690	15	$4,976,978
1999-00	315	$146,457,741	6	$257,323

In San Mateo County, first-time claimants for the religious exemption file Form BOE-267-S, *Religious Exemption Claim.* Once the exemption is established, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice,* to all claimants. We found the assessor's religious and church exemption programs to be properly administered.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table shows welfare exemption data taken from the 1999-00 through 2003-04 assessment rolls:

ROLL YEAR	NUMBER OF CLAIMS	EXEMPTION AMOUNT
2003-04	862	$1,444,421,902
2002-03	795	$1,232,822,371
2001-02	707	$1,079,551,606
2000-01	670	$1,086,729,503
1999-00	693	$1,061,601,778

Our review indicated the assessor's portion of the welfare exemption process is well administered.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation. For the 2003 lien date, the BOE prescribed 78 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

The assessor uses 58 BOE-prescribed forms. Of the 58 forms, the assessor rearranged four. We noted a few areas that could lead to possible confusion or misunderstanding of assessment forms.

RECOMMENDATION 2: Improve the assessment form program by: (1) submitting the forms checklists and rearranged forms timely to the BOE for approval; (2) using the current version of BOE-prescribed forms; and (3) using the BOE-prescribed change in ownership statement.

Submit the forms checklists and rearranged forms timely to the BOE for approval.

We found that the two checklists that were due on October 15, 2002, *Property Statement* and *Miscellaneous Forms*, were submitted late. The assessor submitted to the BOE the rearranged exemption claim forms timely, but the rearranged property statements were received late. In addition, final prints of the exemption claim forms and the miscellaneous forms that were to be used for the 2003 lien date were not submitted to the BOE for approval.

Rule 171 provides that the forms checklists must be submitted to the BOE by October 15th and that the assessor must submit final prints of all forms by February 10th. By submitting the checklists late, the BOE may not have sufficient time to review the forms the assessor intends to use and ensure that all forms used by the assessor conform to statutory guidelines.

Use the current version of BOE-prescribed forms

Of the forms used by the assessor, six forms were outdated versions of the BOE-prescribed form. One of the outdated forms, BOE-502-A, *Preliminary Change of Ownership Report,* is also available on the assessor's Web site.

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.[8] BOE-prescribed forms are updated on an annual basis, and a checklist of current forms is sent to assessors. Outdated BOE-prescribed forms should not be used, as they could provide incorrect information or be misleading to the taxpayer.

Use the BOE-prescribed change in ownership statement.

In our prior survey, we found that the assessor was using a locally developed questionnaire in-lieu of Form BOE-502-AH, *Change of Ownership Statement* (COS). The locally developed form included the penalty clause for non-filing or late filing, although the penalties were not enforced. Since the penalty clause for failure to comply can only be specified on a BOE-prescribed form, we recommended that the assessor: (1) apply the penalty for noncompliance with the requirement to file a COS; and (2) that the assessor use the BOE-prescribed COS.

We found that the assessor is still using a locally developed questionnaire; however, the penalty language has been removed and no penalties have been assessed to any taxpayer for non-filing or for late filing of this statement. Section 480(c) provides that the COS is prescribed by the BOE. Furthermore, LTA 2004/049 dated September 7, 2004 provides that an assessor may not use a

[8] Also Revenue and Taxation Code sections 480(b), 480.2(b), 480.4 and California Code of Regulations (property tax rules) sections 101 and 171.

locally developed form if there is a BOE-prescribed form available. In other words, if a BOE-prescribed form is available, that is the form that the assessor must used. The assessor is correct in not applying the penalty for non-filing or late filing of the locally developed COS, since he has no authority to do so.

Since Form BOE 502-AH is a BOE-prescribed COS, according to LTA 2004/049, the assessor must use this form and not the locally developed statement. The assessor's practice of using a locally developed form in-lieu of a BOE-prescribed form is contrary to specific statutory requirement.

ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluation of certain properties subject to special assessment procedures, such as lands subject to California Land Conservation Act contracts, taxable government-owned lands, and lands in Timberland Production Zones.

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

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 change in ownership for property tax purposes. Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

Since fiscal year 2000-01, the assessor has greatly reduced the time it takes to record a document to the issuance of a notice of supplemental assessment to the property owner. The median days were reduced from 237 days for fiscal year 2000-01 to 36 days for 2003-04. The assessor has been able to accomplish this by educating the public as to the importance and type of information needed, streamlining internal work processing procedures, using improved technology, and ensuring that staff is properly trained. We commend the assessor and his staff for this accomplishment.

Document Processing

Most changes in ownership are discovered through documents recorded in the recorder's office. The recorder transfers documents electronically, and sends hard copies of Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to the assessor. A county ordinance requires the parcel number be placed on the face of each document. The transfer specialist determines whether an event is reappraisable. In addition, the transfer specialist examines the relationships of the grantor and the grantee. If they appear related, the specialist sends out a parent/child transfer exclusion claim form to the grantee. Pending applications for exclusion are tracked by actual mailing date to allow time for the claims to be received and processed. The appraisal staff

examines the financing information on the PCOR and makes any necessary cash equivalency adjustments, and analyzes the real estate market to determine the effect on market value.

In our prior survey, we recommended that the assessor apply the penalty for noncompliance with the *Change of Ownership Statement* (COS) and that the assessor use the BOE-prescribed COS. These recommendations are discussed in the section on assessment forms.

The following table shows the number of recorded documents reviewed annually and the number processed for the past three years:

YEAR	NUMBER OF DOCUMENTS	CHANGES IN OWNERSHIP
2002-03	41,963	12,193
2001-02	33,616	9,685
2000-01	32,020	12,500

We found the assessor's staff to be efficient and diligent in the processing of recorded documents to ensure that all changes of ownership are assessed on a timely basis. We found no problems with the assessor's transfer program.

Valuation of Changes in Ownership

Appraisers are assigned geographic areas of responsibility. Typically, appraisers are responsible for processing, verifying, and valuing all transfers in their assigned areas. Appraisers are provided a hard copy of the PCOR as well as access to all the information on the computer system regarding the transfer. To perform the appraisals, the appraisers use a comparable sales database system available on the EZ Access computer system. The system is very flexible and allows parameters to be adjusted to sort comparables by a wide number of variables.

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 its subsidiaries. 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 corresponding change in ownership of the real property owned by the entity. Discovery of these types of change in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county 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, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by

many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

The transfer section is charged with processing LEOP notifications from the BOE. Additionally, field appraisers and other staff will notify this section about corporate changes in control, as they become aware of potential transfers. We found no problems with the assessor's LEOP program.

Section 408.1 Transfer Lists

Section 408.1 requires that the assessor maintain a list available to the public, showing property transfers that have occurred in the prior two years. The assessor updates this list the first Monday of every month. The list is indexed by assessor's parcel number (APN). Public viewing is available on microfiche and/or computer terminals during business hours. The information is provided in the following order: APN; neighborhood (geographical area); use code; zoning; transfer date; recording date and page; stamp tax converted to selling price; stamp code; grantor/grantee; and situs address.

Section 408.1(f) provides that the assessor must not include information on the transfer list that was furnished on Form BOE-502-AH, *Change of Ownership Statement* (COS). Section 481 also provides that the assessor must hold confidential all information furnished in the COS. This requirement extends to the Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), as well. These statements are not public documents and this confidential information is excluded from the public viewing by the assessor. The assessor's two-year transfer list is in full compliance with section 408.1.

Change in Ownership Exclusions

Section 63.1 excludes from the definition of change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first $1 million of other real property between parents and children when a claim is filed timely. Subsequent amendments to section 63.1 also exclude certain transfers from grandparents to their grandchildren. Information regarding the provisions of section 63.1 is available at the public counter and on the assessor's Web site. The transfer staff also prepares and submits to the BOE the quarterly section 63.1 reports. The following table shows the numbers of section 63.1 claims for the last five years:

ASSESSMENT ROLL	SECTION 63.1 APPLICATIONS
2002-03	1,955
2001-02	1,503
2000-01	NA
1999-00	148
1998-99	942

Over 55 Base Year Value Transfers

Section 69.5 allows qualified homeowners over the age of 55 years or any severely and permanently disabled person, who resides in property that is eligible for the homeowner's exemption, to transfer the base year value of that property to any qualified replacement dwelling purchased or newly constructed within the same county. Applications are available at the assessor's office. When applications are received, staff assigns an identification number, and logs the information into the assessor's computer system. The social security account number on the application is checked against a database to determine whether there has been any prior exclusion.

The transfer specialist is responsible for the section 69.5 base year value transfer program. The specialist assembles a package for each application documenting the applicant's birth date, ownership and assessment data for the original residence; the factored base year value for the original residence; the ownership and assessment data on the replacement residence; and, encloses a checklist to ensure that all criteria are met. The taxpayer receives a *Notification of Assessment Change* advising them of approval or denial of their claim. The following table shows the number of section 69.5 claims granted over the last five years:

ASSESSMENT ROLL	SECTION 69.5 CLAIMS
2002-03	1,037
2001-02	0
2000-01	0
1999-00	0
1998-99	204

In our prior survey, we recommended that the assessor quarterly report all section 69.5 approved claims to the BOE. Since the second quarter of 2003, the assessor has been submitting reports to the BOE. The assessor is currently in compliance with this recommendation. We found no problems with the assessor's base year value transfer program.

Direct Enrollment Program

Direct enrollment is a program used in many assessors' offices to streamline the processing of uncomplicated transfers of residential properties. In San Mateo County, the assessor's direct enrollment program is used only to enroll qualifying single-family residences and condominium transfers. For the 2003-04 roll year, approximately 4,670 transfers were enrolled through this program. The parameters that a property must meet to qualify for direct enrollment are:

- The transfer must involve a 100% interest.
- The transferred property must be a single family residence or condominium.

- The transferred property must be located within designated Direct Enrollment Neighborhoods.
- The deed must show a transfer tax based on the sale price.
- The sale price must exceed the current assessed value.
- The sale price must be within one standard deviation above or below the subject neighborhood's estimated selling price as determined by the assessor's computerized statistical valuation program.

About 80 percent of the transfers that initially qualify are directly enrolled. If a sold property is not eligible for direct enrollment, it is assigned for review as part of the appraisal workload. We found no problems with the assessor's direct enrollment program.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements that generally enhance the land value of privately owned real property, such as sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with 1911 or 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of evidence. However, if the assessor is unaware of which parcels are encumbered with bonds, this presumption can be neither confirmed nor rebutted.

The assessor receives a listing of all special assessment bond districts located within San Mateo County. Sale prices of properties located within these districts are presumed to include any outstanding assessment bond balances. We found no problems with the assessor's program for the assessment of improvement bonds.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property, or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Clarification of the statutory provisions for defining and valuing new construction is found in rule 463, and practical guidance is found in Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

There are several statutory exclusions from what constitutes new construction; sections 73 through 74.6 address these exclusions.

Discovery

Most new construction activity is discovered from building permits. The assessor receives permits from 21 permit-issuing agencies. The assessor does not have a formal program for discovery of non-permitted new construction. Discovery methods used include field inspections and reviewing newspaper articles and business property statements.

Permit Processing

Most cities in San Mateo County send their permits monthly to the assessor in hard copy form. The cities of South San Francisco and Belmont send permit data electronically to the assessor.

Once the permits are received, five fields of data (permit number, date, type, description, and valuation) are entered into the computer system by the support staff. Permits for each city are maintained in APN order for easy retrieval. Permits identified to be new construction are encoded for appraisal review. "No action" building permits (those considered non-assessable) are coded for filing only.

An appraiser reviews the permits to determine the appropriate questionnaire to be mailed to the property owner. When the questionnaires are returned, they are forwarded to the district supervisor for distribution to the appraiser for review and valuation of the completed new construction.

After valuation, the values are keyed into the system and a supplemental notice is generated. The following table shows the permit workload for the assessor's office for the past four fiscal years:

ASSESSMENT ROLL	PERMITS RECEIVED	PERMITS GENERATING VALUE
2002-03	26,161	12,014
2001-02	26,359	12,168
2000-01	22,389	11,387
1999-00	22,389	10,013

The assessor follows specific procedures to ensure proper processing of all permits. The processing procedures are thorough and provide for effective retrieval of information upon which an appraiser may make informed decisions.

In our prior survey report, we recommended that the assessor record all permits to discern assessable new construction, obtain building permits from the San Mateo County Department of Health Services, and obtain building permits from the San Francisco Airport Commission. Currently, we found the assessor has contacted the Department of Health Services requesting copies of permits for new wells and septic tanks.

The assessor has also obtained permits from the San Francisco Airport Commission. However, the permits and a tenant improvement registry provided by the Commission proved burdensome and inaccurate. In lieu of these reports, the assessor now discovers new construction information from Schedule B on the airline's business property statement. We found the assessor has taken the appropriate action to comply with our prior recommendations.

Valuation

The assessor estimates the full value of new construction as of the date of completion. The building departments do not normally submit notices of completion to the assessor. The appraiser determines the completion status of new construction from direct contact with the building department, new construction questionnaire, recorded date of occupancy, or from an on-site inspection. Several cost sources are used in valuing new construction, including Assessors' Handbook Section 531, *Residential Building Costs,* the owner's actual cost, and the Marshall Valuation Service for residential, commercial, and industrial properties.

It is the assessor's practice to field inspect all homes that are newly constructed and all structural additions with a cost of $50,000 or more. Since our last survey, the appraisal files have been electronically scanned. All appraisal updates, including documentation and valuation, are now completed on-line. We reviewed several new construction appraisal records and found that the assessor's program for assessing new construction complies with all statutory requirements.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value upon completion and a base year value is assigned. We found no problems in the valuation of construction in process.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501, *Basic Appraisal*, January 2002, page 140.)

In San Mateo County, the discovery of property with declines in value is accomplished through a sales ratio/comparison analysis. In this analysis, the county is broken into geographical areas (neighborhoods) and current sales in these neighborhoods are analyzed to determine which areas experienced a decline in value and what factors should be used to identify parcels subject to a decline in value. An appraiser's familiarity with his or her assigned geographic area and specific property type, taxpayers' requests for reviews of value, and assessment appeals are other methods of determining declines in value.

The residential, commercial, industrial, rural, and other property records (electronic and historical hard copies) for properties with decline-in-value assessments continue to be adequately documented. Most contain either a comparable sales listing or an income approach value indicator. For those properties with a decline-in-value assessment due to an assessment appeal, the documentation is more comprehensive.

Each decline-in-value assessment is tracked to ensure that the record will be analyzed in the coming year. Due to a strengthening of the local real estate market over the last four years, the number of single family residences with market values lower than their factored base year values has declined during that period. However, in San Mateo County commercial and industrial properties have not experienced the same recovery that single family residences experienced.

The following table shows the number of decline-in-value assessments by type of property for the most recent five years:

FISCAL YEAR	RES.	COMM.	IND.	RURAL	OTHER	TOTAL
2003-04	NA	NA	NA	NA	NA	7,182
2002-03	7,462	9	0	9	0	7,480
2001-02	NA	NA	NA	NA	NA	NA
2000-01	8,343	100	20	20	0	8,483
1999-00	15,350	157	158	159	0	15,824

In reviewing a number of decline-in-value assessments (current electronic and historical hard copy), we found that the records were well documented and the values were well supported. The assessor has an effective and thorough program of annually reviewing and adjusting real property assessments to reflect declines in value.

Supplemental Assessments

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and June 30, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completed new construction. The supplemental assessments are generated by computer and electronically forwarded to the auditor-controller for issuance of the tax bills. The total supplemental assessment process, from appraisal event date to issuance of the tax bill, takes approximately two to three months.

In our prior survey, we recommended that the assessor discontinue his practice of canceling supplemental assessments that yielded a tax bill of $20 dollars or less without authorization. In our 2003 supplemental review, we found that the assessor had corrected this assessment practice. It is now the assessor's policy to issue supplemental assessment notices to all property owners. However, the county auditor will cancel small supplemental tax bills of $10 or less.

The following table shows the number of supplemental assessments processed by the assessor for the last two assessment years:

ROLL YEAR	SUPPLEMENTAL NOTICES MAILED
2003-04	17,368
2002-03	13,238

We found the assessor's supplemental assessment program to be current and reflect accurate value calculations. However, there is one issue that needs to be addressed.

RECOMMENDATION 3: Supplementally assess all qualifying possessory interests enrolled on the unsecured roll.

We found that the assessor failed to issue supplemental assessments for possessory interests enrolled on the unsecured roll. Changes in ownership and completed new construction occurring during the year are valued annually for the following lien date. The assessor does not track possessory interest changes in ownership or completion of new construction for supplemental assessments.

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 assessments. Therefore, possessory interests that are real property and assessed on the unsecured roll are subject to supplemental assessments whenever there is a change in ownership or completed new construction. The assessor's practice is contrary to the requirements of law, and results in a loss of tax revenue.

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 ("Williamson Act") 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, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

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

For the 2003-04 tax roll, San Mateo County had approximately 47,700 acres encumbered by CLCA contracts. No contracts were in non-renewal status. The total assessed value for CLCA land and living improvements for 2003-04 was approximately $49,318,215.

Rural property in San Mateo County consists of floral and nursery crops (79 percent); vegetable crops (18.5 percent); livestock and apiary (0.5 percent); forest products (1 percent); and fruit, nut and field crops (1 percent). The bulk of the agricultural revenue generated in San Mateo County is derived from vegetable and nursery crops.

The valuation of CLCA properties in San Mateo County is the responsibility of one senior real property appraiser. A computer program calculates restricted values for CLCA land, and the capitalization rate is updated annually.

In our prior survey, we recommended that the assessor: (1) obtain current income production data from the property owner for assessing CLCA lands; (2) use current income in determining the restricted value of the CLCA lands; and (3) use animal unit month (AUM) comparisons in the analysis and assessment of grazing land. The assessor has not implemented the first two recommendations. The third recommendation is no longer considered applicable for San Mateo County, because the county does not have a large amount of grazing land. In such instances, the market may not recognize the use of AUM comparison to value grazing land. We repeat recommendations 1 and 2 below by combining them into a single recommendation.

RECOMMENDATION 4: Use current income in determining the restricted value of CLCA lands.

Section 423(a)(1) requires the assessor to value CLCA property by capitalizing annual income based upon market rents. In San Mateo County, the assessor is estimating the annual income using 1985 rental data. This outdated rental data does not reflect current market conditions or provide a reasonable basis for estimating the income for CLCA properties.

Using rental data from 1985 without evidence that such rents are current market rents is contrary to acceptable appraisal practices and section 423(a)(1). Using outdated rents can lead to incorrect assessments of CLCA properties.

Taxable Government-Owned Property

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11 provides that land and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were

taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

There are 310 taxable government-owned properties enrolled in San Mateo County. The total assessment for the 2003-04 roll is over $103 million. The assessment of property acquired by a public entity is handled in the same manner as any other transferred property. Once the legal description and assessor's parcel number are determined, the recorded documents are forwarded to one real property appraiser for appraisal.

Valuation

In a major court case, *City and County of San Francisco v. County of San Mateo et al.* (1995) 10 Cal. 4th 554 in this county, the California Supreme Court held that the value limitation standard of article XIII A of the California Constitution applies to taxable government-owned properties. The Court's ruling means that taxable government-owned property must be assessed at the lowest of (1) the current fair market value, (2) the 1967 assessed value multiplied by the appropriate Board-announced rate (Phillips Factor)(hereinafter "restricted value"), or (3) the factored base year value.

The BOE issued guidance in Letter To Assessors 2000/037 regarding the assessment of taxable government-owned land and improvements. These guidelines provide, among other things, that base year values for taxable government-owned properties acquired after March 1, 1975, should be established at the lower of full cash value as of the date of change in ownership or the restricted value. Thus, if the restricted value is lower than the current market value as of the date of the change in ownership, the restricted value becomes the base year value for the property. As a base year value, the restricted value is subject to annual compounding by the BOE-announced inflation factor.

In subsequent years, the base year value is to be adjusted for inflation by the California Consumer Price Index, like property subject to article XIII A. Factored base year values based on the restricted value will generally be lower than either the current market value or the restricted value on subsequent lien dates.

The BOE-announced factor increases more rapidly from year to year than the article XIIIA inflation factor, which is limited to 2 percent annually. Because the base year values for the taxable government-owned properties reviewed are the same as the restricted values at the time the properties were acquired, the factored base year value in subsequent years will always be lower than the restricted values. It was evident from the properties reviewed that the factored base year values were lower than the market value and the restricted value.

If taxable when acquired, existing improvements are valued at the lower of their current fair market value or their factored base year value. Improvements constructed to replace original improvements must be taxed at the lowest of the current full cash value, factored base year value, or the highest full value ever assigned to the improvements replaced. Any new improvements constructed on taxable government-owned property, after acquisition by a government agency are exempt from property taxation.

We found the assessment of taxable government owned properties in San Mateo County to be in compliance with existing property tax law.

Timberland Production Zone Property

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the taxable value of any compatible, nonexclusive uses of the property (section 435). Assuming that TPZ lands are not also under CLCA contract, the annual taxable value of TPZ lands is the lowest of the (1) restricted value, (2) current market value, or (3) factored base year value.

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed as all other real property.

For the 2003-04 roll, San Mateo County has 167 TPZ parcels comprised of 25,507 acres (25,276 restricted, 231 unrestricted) with an assessed value of $6,846,911. The unrestricted acreage encompasses exclusive uses such as grazing lands, gravel bars, antenna sites, etc.; these designated areas have no timber-producing capabilities. All TPZ parcels are forested with redwood region site II classification. A senior appraiser handles the appraisal of all TPZ properties.

We reviewed a sampling of property records of TPZ parcels in San Mateo County. We found the assessor is correctly including any known exclusive compatible uses in the assessment. Those properties (i.e., structures and building sites) are assessed according to article XIIIA of the California Constitution.

Possessory Interests

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

San Mateo County has a large variety of possessory interests, ranging from boat slips to various uses of the fairground and the use of the San Francisco International Airport. The assessor enrolls over 2,700 possessory interests. Approximately 700 of these are located at the fairground and the San Francisco International Airport. The remainder are vessel-related (marinas, boat slips, etc.) and aircraft-related (airports other than San Francisco International, including aircraft hangars and tie downs).

In our prior survey, we recommended that the assessor revise the possessory interest program by: (1) obtaining building permits from the San Francisco Airport Commission; (2) requiring all

airlines to complete Schedule B of their property statements to ensure that taxable new construction is assessed; and (3) assessing the possessory interest of all private users of the fairground.

We found that the assessor has implemented the first two recommendations. However, the assessor still does not enroll possessory interests for certain private uses of the county's fairgrounds. This recommendation is therefore, repeated in this report. We also found that the assessor is incorrectly revaluing some possessory interests prior to the end of the reasonably anticipated term of possession and is not supplementally assessing all qualifying possessory interests on the unsecured roll. The issue of supplementally assessing possessory interests is addressed in the section covering supplemental assessments.

RECOMMENDATION 5: Improve the possessory interest assessment program by: (1) assessing all taxable possessory interests at the fairground; and (2) revaluing possessory interests only at the end of the reasonably anticipated term of possession used to establish the base year value.

Assess all taxable possessory interests at the fairground.

The San Mateo County Fair and Exposition Center operates the fairground which is rented to groups and individuals for various uses during the year. We found a number of private uses of fairground land and buildings that warrant assessment as taxable possessory interests in accordance with section 107(a). The fairground is leased to private individuals and organizations for interim uses. Typical terms of such leases may be two days or less for dances, pet shows, dealer shows, and a variety of other uses. Some leases do not qualify as taxable possessory interests because they are a single event with no history or likelihood of recurrence. However, many users have returned for several consecutive years, indicating that there is continuity of use, which is independent and exclusive of rights held by others.

We found that the assessor's staff has reviewed uses at the fairground, but has not assessed all taxable possessory interests. In 2001, the assessor established a database to track users of the fairgrounds. The purpose of the database was to determine the durability of users at the fairgrounds. A possessory interest assessment was not established until a tenant showed a history of leasing space at the fairgrounds for three consecutive years. According to rule 20, "durable" means for a determinable period with a reasonable certainty that the possession of the real property by the possessor, or the possessor's right or claim with respect to the possession of the real property, will continue for that period.

Our review of users at the fairground showed that a number of users of the fairgrounds existed, as of the 2001 lien date that met the standards of durability because of their history of recurring use. These users should have been assessed as possessory interests for the 2001 roll.

Revalue possessory interests only at the end of the reasonably anticipated term of possession used to establish the base year value.

Aircraft tie-downs at the county's public airports and boat slips at county marinas are generally rented on a month-to-month basis. The assessor uses a reasonably anticipated term of possession for these possessory interests. However, these possessory interests are being revalued annually instead of at the end of the anticipated term of possession used in the original assessment.

Section 61(b)(2) provides that a renewal or extension of a possessory interest during the term of possession used by the assessor does not cause a change in ownership. However, it also provides that the assessor must establish a new base year value at the end of the reasonably anticipated term of possession used by the assessor to value that interest.

Historical Property

Government Code section 50280 provides that an owner or agent of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily-prescribed method. Section 50280.1 stipulates that in order for a property to qualify as a historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method as provided in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and,
- A component for amortization of the improvements.

There are nine historical properties on the assessment roll in San Mateo County. Two of the nine properties are on the National Register of Historic Places. The rest are on state, county, or city registers as historically or architecturally significant. A senior appraiser is responsible for appraising these properties. The assessor has written guidelines, with examples, to help in assessing these properties.

The following table shows the number of properties with historical contracts and their total assessed value for the last three assessment rolls:

ASSESSMENT YEAR	NO. OF PROPERTIES	ASSESSED VALUE
2003-04	9	$3,478,000
2002-03	9	$3,444,000
2001-02	7	$2,026,000

The appraisal files for the nine properties contain income data and worksheets. The annual appraisals are done appropriately using the statutorily prescribed method to produce a restricted value. The taxable value is the lowest of the factored base year value, the current market value, or the restricted value. Overall, the assessor has an effective historical property assessment program in place.

Leasehold Improvements

Leasehold improvements (or tenant improvements) are all improvements or additions to leased property that have been made by the tenant or lessee (Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures,* November 2002 edition, p. 92). Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on the business property statement (BPS), coordination between the real property and business property staff of the assessor's office is important. The reported cost should be examined by both an appraiser and an auditor-appraiser. The appraisers should determine the proper classification of the property to ensure appropriate assessment and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

The most common methods of discovery for leasehold improvements are the BPS and building permits. Schedule B of the BPS is specifically for reporting real property installed by the tenant. Such taxpayers are annually required to list additions or deletions of real property.

In San Mateo County, the business property staff receives and reviews the BPS. If there are any new costs reported under Schedule B of the BPS for structural improvements, the auditor-appraiser contacts the taxpayer to determine whether or not the improvement is new construction, remodel, or replacement; the date of completion; and whether the lessor or the lessee owns the improvements. This information helps the auditor-appraiser determine if the improvements are assessable or if any value is to be added. Property installed by the lessee is

generally enrolled on the unsecured roll and assessed to the lessee. Property installed by the landlord or lessor is enrolled on the secured roll and assessed to the lessor.

The business property and real property staffs use a locally developed memo, *Leasehold Improvement Communique,* to transmit information on leasehold improvements between themselves. Either staff can initiate the memo. The business property staff uses the memo to inform the real property staff about costs reported on the BPS, the amount of those costs to be assessed on the unsecured roll, and any improvements that the business property staff believes could be assessed on the secured roll. The real property staff determines if any improvements are to be assessed on the secured roll and reply to the business property staff on the memo. The business property staff also uses the memo to initiate a supplemental assessment for the value added to the unsecured roll for structural improvements.

The assessor has a good program in place for identifying and assessing leasehold improvements and for exchanging information between the business and real property staff. We also reviewed the county's assessment of cell tower companies and foreign improvements and found no problems.

In our prior survey, we recommended that the assessor require all airlines to complete the Schedule B of their BPS to ensure that taxable new construction was reported and assessed. The assessor has implemented this recommendation. The airlines are now filling out Schedule B of their BPS. When the BPS and schedules are mailed to the airlines each year, a cover letter is attached that informs the airlines that costs for structure and fixture improvements made at the airport must be reported on Schedule B.

Water Company Property

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

Private Regulated Water Companies

Private, for-profit water companies are subject to rate base/rate of return regulation by the California Public Utilities Commission (CPUC). In brief, this form of regulation limits the rate a company may charge to the cost of service plus a fair return on rate base, or invested capital. For this reason, the market value of the properties of a regulated water company should correlate closely with the historical cost less depreciation (HCLD) of the assets.

San Mateo County has one water company regulated by the CPUC. The assessor correctly values the properties of this water company based on their HCLD.

In our prior survey, we recommended that the assessor develop a base year value for the real property of a private water company. The assessor implemented this recommendation.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to the land, improvements, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels.

We were able to identify nine mutual water companies in San Mateo County. The assessor has correctly enrolled a nominal value on real property owned by the mutual water companies.

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, and are specific to mineral properties only.

San Mateo County has eight parcels designated as mining properties and seven parcels designated as petroleum properties. Of the eight mining parcels, only three are active and all of the petroleum properties are non-producing. We found no problems with the assessor's assessment of mineral properties.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority.[9] The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

There is only one company with an intercounty pipeline right-of-way in San Mateo County. The right-of-way consists of five parcels within the county. The assessor has properly valued the right-of-way using the appropriate density classification and values per mile found in section 401.10(a)(3)(A). However, we did find one area that needed improvement in the assessor's pipeline right-of-way assessment program.

[9] *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

RECOMMENDATION 6: Combine pipeline rights-of-way assessments into a single countywide parcel per taxpayer, as required by section 401.8.

We found that although the valuations are appropriate, the assessor sends a separate assessment for each parcel of the pipeline right-of-way to the auditor-controller for billing. The auditor-controller then issues five separate property tax bills billed at the tax-rate appropriate to each particular parcel.

Sections 100.01 and 401.8 require county assessors to combine the assessed values of each separate right-of-way assessment into a single assessment assigned to a countywide tax-rate area. The taxpayer then receives one tax bill generated using one tax rate, rather than multiple tax bills for each portion of the pipeline subject to a different tax rate.

The assessor's practice is inconsistent with section 401.8 and does not conform to the intent of the law to simplify the assessment of these rights-of-way.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we reviewed the assessor's audit, business property statement processing, business property valuation, and leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

Audit Program

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

The San Mateo County Assessor's Office has 18 permanent auditor-appraisers; plus, PTAP monies funded four additional auditor-appraiser positions. The county has a total workload of approximately 1,332 audit accounts or an average of about 333 mandatory audits annually. The following table shows the audit workload (including non-mandatory audits) for the last four years:

ASSESSMENT ROLL	2003-04	2002-03	2001-02	2000-01
Total Audits Scheduled	299	188	292	NA
Unfinished from prior year	136	288	188	NA
Total Audit Workload	435	476	480	429
Total Audits Completed	372	340	192	241
Audits Carried Forward	63	136	288	188

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at $400,000 or more.

The mandatory audit program is one of the assessor's main programs to verify the reporting on the large business property accounts and to prevent potentially large reporting errors. Though the assessor has not completed all mandatory audits within the required time periods, as evidenced by the above table, the assessor and his staff have made dramatic progress in completing the prior year audits. For those audits that have not been completed timely, the assessor has a signed waiver of the statute of limitations on file.

In our prior survey, we recommended that the assessor include business aircraft and exempted organizations in their mandatory audits. The assessor has implemented this recommendation.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer-reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

In our prior survey, we recommended that the assessor develop a non-mandatory audit program. The assessor has implemented this recommendation. The assessor's staff is now performing non-mandatory audits mainly upon taxpayers' requests or when there is a substantial inconsistency in the reporting.

Statute of Limitations

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

It is the assessor's policy to obtain signed waiver forms for audits that cannot be completed within the required statutory timeframe. We reviewed nine audits and found that the assessor had completed waiver forms on file for each account.

Audit Quality

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

Of the nine audits we reviewed, we found that the assessor used standardized worksheets that were detailed and easy to follow. The assessor's audits were consistent, reasonable, and complete.

However, we did find two areas in the assessor's audit program that needed improvement.

RECOMMENDATION 7: Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469; and (2) enrolling the audit results for each year of a multiple-year audit.

Audit the books and records of professions, trades, or businesses pursuant to section 469.

We found that the assessor is not completing his mandatory audits within the required four-year period. There are a substantial number of unaudited mandatory accounts carried over from prior years. Pursuant to section 469 and rule 192, audits are mandatory for taxpayers reporting assessable business tangible personal property and trade fixtures valued at $400,000 or more for four consecutive years.

The assessor's failure to complete these audits in a timely manner is contrary to an express statutory provision.

Enroll the audit results for each year of a multiple-year audit.

For both mandatory and non-mandatory audits, the assessor nets audit results for multiple years into the most recent year of the audit. The assessor offsets any underassessment with overassessments for the four years that are audited.

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 underassessment with the overassessments. 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 the most recent year of the audit, the assessor is allowing potential tax revenue to escape assessment.

Business Property Statement Program

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

The San Mateo County Assessor's Office receives reported taxable business property data from taxpayers on Form BOE-571-L, *Business Property Statement* (BPS). These statements cover a wide variety of property types including businesses, agriculture, vessels, and aircraft. Statements

are mailed annually to taxpayers having more than $100,000 in assessable business property pursuant to section 441.

The number of business property statements, by category, processed by the assessor for the last year and the dollar volume of the statements processed are shown in the following table:

TYPES OF	FISCAL YEAR 2003-04	
PROPERTY STATEMENTS	COUNT	ASSESSED VALUE
Agricultural	24	$4,348,863
Biopharmaceutical	70	$820,278,602
General Business	9,185	$5,453,254,178
Vessels	3,603	$106,719,211
Aircraft	472	$3,170,165,718
Totals	13,354	$9,554,766,572

We reviewed the assessor's procedures for processing business property statements and found he consistently adheres to his written policy. All authorization statements for authorized agents are attached to the property statement. Additionally, section 463 provides that a penalty of 10 percent of the assessed value of the unreported taxable property be added to the assessment. Section 506 mandates that interest be added to the tax on the current roll. The penalty and interest are being correctly applied to untimely filed statements, including unreported assessable business property assessed pursuant to section 501.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent-good factors. A value indicator is obtained for the property by multiplying a property's historical (acquisition) cost by an appropriate value factor.

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

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in the AH 581 with the exception of specific types of equipment (e.g., pagers, facsimile equipment and photocopiers), which the CAA recommends should not be trended. The percent good factors also parallel the AH 581 factors with the exception that the CAA factors provide an unsupported minimum percent good factor for older equipment.

RECOMMENDATION 8: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

Because the assessor uses the CAA tables, he employs unsupported minimum percent good factors for older equipment. Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner. The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good factor. The assessor has no supporting evidence for using such minimum factors; hence, the manner is not supportable as required by section 401.16.

Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA, is not supported by a study. Therefore, the assessor should discontinue the use of the unsupported minimum percent good factors and untrended valuation factors.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayer and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor. The assessor processed 4,283 direct billing accounts for 2003 lien date.

Computer Valuation

Also pursuant to section 401.5, the BOE issues valuation factors for computer equipment (see AH 581, "Table 6: Computer Valuation Factors").

We found that the assessor properly values computers using the BOE-recommended factors.

Apartment Furnishing

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

In our prior survey, we recommended that the assessor properly classify and assess apartment personal property. We found that it was the assessor's policy to allocate the sales price of an apartment property only between land and improvements; none of the sales price was allocated to the apartment personal property. Therefore, any apartment personal property included in the

sales prices was being assessed in the improvement value. The assessor still does not properly classify and assess apartment personal property; therefore, we repeat the recommendation.

RECOMMENDATION 9: Properly classify and assess apartment personal property.

The practice of the assessor regarding personal property in apartments is to assess appliances, furniture, and equipment as improvements (real property) following a change in ownership, unless the property owner reports the value of personal property on Form BOE-502-A, *Preliminary Change of Ownership Report*, or from sales documents. We reviewed a sampling of apartment buildings and found that all those reviewed did not have any value allocated for apartment personal property.

Section 602 requires that the assessment roll contain the assessed value of the real estate, except improvements, the assessed value of improvements, and the assessed value of personal property.

Statutes authorize the assessing of one class of property differently from other property for purposes of taxation. Personal property, unlike real property, is appraised annually at market value.

Real property is subject to an annual inflation factor while personal property is not. In most situations, the value of personal property will decline each year. However, the assessor's current practice of continuing to assess apartment personalty as improvements results in the value of the personal property increasing each year by the annual inflation factor. As a result, the value of the personal property is overassessed.

Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

We reviewed several business property assessments of companies that own equipment that is leased or rented to others. We found the assessor's program to be well administered.

In our prior survey, we recommended that the assessor annually review the listing of leased property provided by the BOE on Form 600-B to discover companies with locally assessable property. Although, the assessor receives Form 600-B, he still is not reviewing it to discover assessable property. However, we did not find any assessable property that had escaped assessment; therefore, we do not repeat this recommendation.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Manufactured homes should be classified as personal property and enrolled on the secured roll.

The following table shows the number of manufactured homes and their total assessed values for the last five assessment years:

ASSESSMENT YEAR	NUMBER OF HOMES	TOTAL ASSESSED VALUE
2003-04	1,168	$26,461,961
2002-03	1,118	$23,726,688
2001-02	1,148	$30,463,954
2000-01	1,085	$27,943,875
1999-00	1,002	$25,530,340

Manufactured homes are identified by using a fictitious map book parcel number ("Book 134"). These numbers are assigned sequentially and are not associated with a home's situs.

A senior appraiser is responsible for setting up accounts for new manufactured homes. The appraiser also inputs the information provided by the Department of Housing and Community Development (HCD) regarding homes that have changed ownership, and verifies that each home's make, model, and serial number are correct. The assessor continues to establish a base year value for manufactured homes when there is a change in ownership or new construction. The last review for a decline in value of manufactured homes was performed for the 2003-04 roll year.

In our prior survey, we recommended that the assessor revise the manufactured home program to: (1) correctly use the National Automobile Dealers Association's *Manufactured Housing Appraisal Guide* (NADA); (2) annually review manufactured home assessments and enroll the lower of the factored base year value or the current market value; and (3) assess taxable manufactured home accessories. The assessor has implemented all three recommendations.

The assessor now uses the NADA automated valuation system. This system eliminates location and time adjustment errors. The assessor now has procedures in place to annually review manufactured home assessments in order to enroll the lower of the factored base year value or current market value as the taxable value. We also found that the assessor now identifies and assesses taxable manufactured home accessories.

Overall, the assessor has an effective manufactured home assessment program in place. However, we did find one area that needed improvement.

RECOMMENDATION 10: Classify manufactured homes as personal property.

We found that the assessor enrolls manufactured homes as improvements on the secured roll. Section 5801(b)(2) provides that manufactured homes shall not be classified as real property for property tax purposes. The assessor, therefore, is not in compliance with the law.

A manufactured home that is classified as personal property is exempt from property taxation when owned:

- By a dealer who holds it for sale or lease, [10]
- By out-of-state military personnel on active duty in California,
- By a bank, insurance company, or financial corporation, [11] or
- By a government agency, but used by a person or legal entity. [12]

Incorrect classification may affect the application of the above personal property exemptions. Regardless of exemption status, incorrect classification may also affect the amount of property tax levied, since certain special assessments are not levied against personal property.

Aircraft

General Aircraft

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

For the 2003-04 assessment roll, the assessor enrolled 431 general aircraft with a total assessed value of $223,890,184. One senior auditor-appraiser is responsible for general aircraft assessments.

In our prior survey, we recommended that the assessor assess private aircraft according to the guidelines prescribed in LTA 97/03. The assessor has implemented this recommendation. The assessor properly uses the *Bluebook* to determine the market value for private aircraft.

[10] Section 5815.
[11] Section 23182.
[12] Section 107.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

San Mateo County assesses 17 airlines, three air taxis, and two cargo freight operations. We found the assessor used the recommended worksheet and CAA aircraft subcommittee values in processing certificated aircraft.

Historical Aircraft

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

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

The assessor received 26 applications for historical aircraft and granted 25 exemptions for the fiscal year ending June 30, 2003. The aircraft assessment program is effective and complies with property tax laws.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

One auditor-appraiser and one office assistant are responsible for the assessment of vessels. For the 2003-04 assessment roll, 3,569 vessels were assessed, with a total assessed value of $102,569,661. As previously stated, the assessor discovers assessable vessels from DMV reports, referral from other counties, and from information provided by the vessel owners themselves. Other sources of discovery are the marina reports and an annual field canvass of the 10 harbors in the county. The assessor uses both the *BUC Used Boat Price Guide* and *National Automobile*

Dealers Association Marine Appraisal Guide to determine market value. Market data is also obtained from resources available on the internet.

Section 227(c) provides for a 96 percent exemption for documented vessels. This exemption applies to sport fishing vessels carrying or transporting seven or more people for commercial passenger fishing. To qualify for the 4 percent assessment under section 227(c), a vessel must hold a current certificate of inspection by the United States Coast Guard. The assessor enrolled 92 vessels that qualified to receive the 96 percent exemption. These 92 vessels had a total assessed value of $224,395 on the 2003-04 assessment roll.

In our prior survey, we made three recommendations to improve the assessor's vessel assessment program. We recommended that the assessor require a current certificate of inspection by the United States Coast Guard for the section 227(c) claim. The assessor has implemented this recommendation. We found that the assessor now requires the current certificate of inspection on all vessels that file the section 227(c) claim.

We recommended that the assessor annually determine the market value of vessels below $80,000. We found that the assessor has implemented this recommendation for the 2003-04 assessment roll and has further refined his market value study for the 2004-05 assessment roll.

Finally, we recommended that the assessor send an annual vessel property statement to owners of vessels that cost $100,000 or more. The assessor has implemented this recommendation and now sends the vessel property statement to all owners of vessels that have a cost of $100,000 or more.

Animals

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and by rule 133.

San Mateo County has very few assessable animals. Most animals are reported on Form BOE 571-F, *Agricultural Property Statement*. Other discovery methods include inter-county communications of transfers, newspaper articles and advertisements, telephone yellow pages, and business directories. The assessor properly discovers, identifies, and appraises assessable animals.

APPENDICES

A. County Property Tax Division Survey Group

San Mateo County Assessment Practices Survey

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang	Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong	Supervising Property Appraiser

Survey Team Leader:

Ronald Louie	Senior Specialist Property Appraiser

Survey Team:

Robert Donay	Associate Property Appraiser
Ken King	Associate Property Appraiser
Robert Rossi	Associate Property Appraiser
Nick Winters	Associate Property Appraiser
Lloyd Allred	Associate Property Auditor-Appraiser
Michael Shannon	Associate Property Auditor-Appraiser
Raymond Tsang	Associate Property Auditor-Appraiser
Marilyn Jones	Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing[13] activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)[14]
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
   a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
   b) **Transferred properties**. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
   c) **New construction.** Those properties last reappraised to reflect new construction that

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

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

occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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

e) **Unsecured properties.** Those properties on the unsecured roll.

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

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

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

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

c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the

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

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

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

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

8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

C. Relevant Statutes and Regulations

Government Code

15640. **Survey by board of county assessment procedures.**

(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

(b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.

(c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

(d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.

(e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.

(f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. **Audit of Records; Appraisal Data Not Public.**

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

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

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

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

15642. **Research by board employees.**

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

15643. **When surveys to be made**.

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. **Recommendations by board**.

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

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

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating

to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

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

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

Revenue and Taxation Code

75.60. **Allocation for administration**.

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.

(2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:

(A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

(3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. **Random selection of counties for representative sampling**.

(a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

(1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

(3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS. If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) ADDITIONAL SURVEYS. This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. **Significant assessment problems**.

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

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

(1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or

(2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

(1) Uniformity of treatment for all classes of property.

(2) Discovering and assessing newly constructed property.

(3) Discovering and assessing real property that has undergone a change in ownership.

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

(5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

(6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.

(7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.

(8) Discovering and assessing property that has suffered a decline in value.

(9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

Warren Slocum

Chief Elections Officer &
Assessor-County Clerk-Recorder

555 County Center
Redwood City, CA 94063-1665
phone 650.363.4988 **fax** 650.363.1903
email wslocum@smcare.org
web www.smcare.org

July 22, 2005

Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0062

Dear Ms. Stuckey:

Enclosed is our response to the recent State Board of Equalization Assessment Practices Survey of San Mateo County and its ten 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,

Warren Slocum

Enclosure

County of San Mateo
Office of the Assessor-County Clerk-Recorder

Assessor's Response to State Board of Equalization 2005 Assessment Practices Survey Report

RECOMMENDATION 1: Grant disaster relief for all qualifying events.

Assessor's Response
We disagree. This office sued the State Board of Equalization (Board) in a Revenue and Taxation Code section 538 action, contending that Rule 139 was unconstitutional. The Court agreed with our position, and the Board has not appealed the decision. Although an air-carrier industry group has taken up the appeal, we are confident that the Superior Court ruling will be upheld and that this unconstitutional special interest rule will be overturned.

RECOMMENDATION 2: Improve the assessment form program by: (1) submitting the forms checklists and rearranged forms timely to the BOE for approval; (2) using the current version of BOE prescribed forms; and (3) using the BOE prescribed change in ownership statement.

Assessor's Response

(1) **We agree** that one rearranged property statement was submitted after the October 15, 2002 due date and will eliminate this oversight.

(2) **We agree** that six outdated forms had not been replaced and will eliminate this oversight.

(3) **We disagree**. We do not use a "Change in Ownership Statement" form but various questionnaires that reference Revenue and Taxation Code section 441. Our questionnaires are specific to the type of transaction that has taken place. We believe that these, more specific questionnaires, produce more reliable and timelier results. The Board prescribed Change in Ownership statement, requires a non-compliance penalty program that would delay the supplemental assessment and billing process. As the results of this survey show and, as has been the case since the change in ownership statement legislation was enacted in the early 1980's, we accurately assess property upon a change in ownership. We do not believe that implementation of a complex and burdensome penalty program would add to the accuracy or efficiency of our work.

RECOMMENDATION 3: Supplementally assess all qualifying possessory interests enrolled on the unsecured roll.

Assessor's Response
We agree and will implement system enhancements to improve our quality assurance for this process.

RECOMMENDATION 4: Use current income in determining the restricted value of CLCA lands.

Assessor's Response
We agree that the current economic income should be determined for the CLCA lands that are actually productive, operating agricultural property. Much of the San Mateo County property under CLCA contract is not actually utilized for agricultural purposes. The majority of the CLCA land is non-productive acreage used as open space. The issue is one of properly classifying the actual use of the CLCA property. We will better identify the actual productive operating agricultural properties, current land use classifications and income data as staffing permits.

RECOMMENDATION 5: Improve the possessory interest assessment program by: (1) assessing all taxable possessory interests at the fairground; and (2)revaluing possessory interests only at the end of the reasonably anticipated term of possession used to establish the base year value.

Assessor's Response
(1) **We agree** and will continue to review these small assessments as staffing permits. In 2001 we established a database to track users of the fairgrounds and will continue to assess users who have established durability of use.

(2) **We agree** and, as staffing permits, will establish an automated tracking system that will enable us to identify and revalue possessory interests at the end of the reasonably anticipated terms of possession.

RECOMMENDATION 6: Combine pipeline rights-of-way assessments into a single countywide parcel per taxpayer, as required by section 401.8.

Assessor's Response
We disagree. San Mateo County has only one pipeline right of way assessee and the right of way is located within the boundaries of three cities and the unincorporated area. Section 401.8 mandates a separate value of each segment. Maintaining a separate record and then combining these four separate segments would only introduce an opportunity for error. Additionally, our current practice allocates property tax revenue to the agencies in which this property is located.

RECOMMENDATION 7: Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469; and (2) enrolling the audit results for each year of a multiple-year audit.

Assessor's Response
We agree. Since the time period under audit, (1) the audit program has dramatically improved and is now in compliance with section 469; and (2) we have changed our practice and enroll the audit results for each year of a multiple year audit.

RECOMMENDATION 8: Use Assessors' Handbook Section 581, Equipment Index and Percent Good Factors, as intended.

Assessor's Response
We disagree. Taxpayers report mixed types of equipment in the equipment column on Schedule "A" of their Business Property Statement. This information may or may not be sufficiently detailed to accurately determine the type of equipment reported. We do not see the benefits outweighing the costs of implementing this recommendation. Our current method of using composite tables produces 30 factor tables to value all commercial, industrial, agricultural and other personal property in the county. This office uses and supports the minimum percent good factors developed by the California Assessor's Association (CAA) Business Property Subcommittee. These factors have been established by auditor-appraisers throughout the state using the data and judgment derived from numerous audits and many years of appraisal experience. We believe that this provides substantial supporting evidence for the use of these factors as required by Revenue and Taxation Code section 401.16(b). We encourage the Board to work with the CAA to improve the process of updating these factors and to adopt the recommendations of the CAA on this issue.

RECOMMENDATION 9: Properly classify and assess apartment personal property.

Assessor's Response
We do not see this recommendation as cost beneficial and, in our opinion, would tend to cause additional administrative burden and confusion for the owners of small, multi-unit, residential buildings. The actual value of personal property included in the sale of small apartments is typically *de minimus*, and in most cases would be exempt under the County's "Low Value Ordinance". We currently send 44 property statements to the largest county apartment owners. We see little value in annually classifying, tracking and valuing personal property in our small multi-unit buildings.

RECOMMENDATION 10: Classify manufactured homes as personal property.

Assessor's Response
We agree and will implement an enrollment system change to accommodate this recommendation.

BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Board's staff has elected to comment on one of the assessor's response.

RECOMMENDATION 1: Grant disaster relief for all qualifying events.

The assessor stated in his response: "This office sued the State Board of Equalization (Board) in a Revenue and Taxation Code section 538 action, contending that rule 139 was unconstitutional. The Court agreed with our position, and the Board has not appealed the decision. Although an air-carrier industry group has taken up the appeal, we are confident that the Superior Court ruling will be upheld and that this unconstitutional special interest rule will be overturned."

Although the assessor brought an action for declaratory relief against the Board pursuant to section 538, this matter is still being litigated. Until such time that an appellate court issues a final determination, Rule 139 is valid and should be applied by the assessor to assessees who seek relief.