

# SANTA CRUZ COUNTY ASSESSMENT PRACTICES SURVEY

**DECEMBER 2017**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2017/058

December 29, 2017

TO COUNTY ASSESSORS:

**SANTA CRUZ COUNTY  
ASSESSMENT PRACTICES SURVEY**

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

The Honorable Sean Saldavia, Santa Cruz County Assessor-Recorder, 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 Santa Cruz County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

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

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee  
Deputy Director  
Property Tax Department

DRK:dcl  
Enclosure

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## **INTRODUCTION**

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of specified county assessors' offices. This report reflects the BOE's findings in its current survey of the Santa Cruz County Assessor-Recorder's Office.<sup>1</sup>

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

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<sup>1</sup> This report covers only the assessment functions of this office.

## **OBJECTIVE**

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."<sup>2</sup> The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

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

## **SCOPE AND METHODOLOGY**

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

Pursuant to Revenue and Taxation Code<sup>3</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey examined the assessment practices of the Santa Cruz County Assessor's Office for the 2015-16 assessment roll. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.

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

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<sup>2</sup> Government Code section 15642.

<sup>3</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

For a detailed description of the scope of our review of county assessment practices, please refer to the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

We conducted reviews of the following areas:

- Administration

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

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as California Land Conservation Act (CLCA) property and taxable possessory interests.

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, aircraft assessments, and vessel assessments.

## **EXECUTIVE SUMMARY**

We examined the assessment practices of the Santa Cruz County Assessor's Office for the 2015-16 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit – the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

In the area of administration, the assessor is effectively managing the staffing, workload, assessment appeals, and disaster relief programs. However, we made recommendations for improvement in the welfare exemptions program.

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

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

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

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

## **OVERVIEW OF SANTA CRUZ COUNTY**

Santa Cruz County is located on the California central coast, at the north end of the Monterey Bay. Established in 1850, Santa Cruz County is one of California's original 27 counties. The county encompasses a total area of 607 square miles, which consists of 445 square miles of land and 162 square miles of water. Santa Cruz County is bounded on the north by San Mateo County, on the east by Santa Clara County, on the south by San Benito and Monterey Counties, and on the west by the Pacific Ocean.



As of 2015, Santa Cruz County's population was 274,146. Santa Cruz County has four incorporated cities: Capitola, Santa Cruz, Scotts Valley, and Watsonville. The county seat is the city of Santa Cruz.

Santa Cruz County's local assessment roll value ranked 24 among the 58 counties in California for the 2015-16 roll year, with a total assessed value of \$38,831,674,000.



## FINDINGS AND RECOMMENDATIONS

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

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

- RECOMMENDATION 1:** Improve the administration of the welfare exemption by: (1) ensuring only qualifying portions of properties are granted the welfare exemption, (2) notifying claimants when a portion of the property is denied the welfare exemption, and (3) performing field inspections on properties for which a claim for exemption has been filed. ....9
  
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## ADMINISTRATION

### Exemptions

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

Our review of the assessor's exemptions program focused on the welfare exemptions.

### Welfare Exemption

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

The welfare exemption is co-administered by the BOE and county assessors.<sup>5</sup> The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

We reviewed a variety of welfare exemption claims and found areas in need of improvement.

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

<sup>5</sup> Effective July 1, 2017, Assembly Bill 102 restructured the BOE into three separate agencies: BOE, California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals. The welfare exemption function of determining an organization's eligibility for an OCC/SCC is part of CDTFA.

**RECOMMENDATION 1:** Improve the administration of the welfare exemption by: (1) ensuring only qualifying portions of properties are granted the welfare exemption, (2) notifying claimants when a portion of the property is denied the welfare exemption, and (3) performing field inspections on properties for which a claim for exemption has been filed.

**Ensure only qualifying portions of properties are granted the welfare exemption.**

We found properties where the assessor had granted the full welfare exemption, even though portions of the property were being used for non-qualifying purposes.

Section 214(a) requires that property receiving the welfare exemption must be used exclusively for exempt purposes. Only those areas of the property used for exempt activities are eligible for the exemption. It is essential for staff to thoroughly review both first filings and annual claims to ensure only qualifying uses are allowed the exemption.

By allowing a non-qualifying use of otherwise exempt property, the assessor is not complying with exemption statutes.

**Notify claimants when a portion of the property is denied the welfare exemption.**

We found that the assessor does not notify the claimant when a portion of the property is being denied the welfare exemption.

Section 254.5(c)(2) provides that the assessor must notify claimants in writing when it is determined that the claimant's property is ineligible for the welfare exemption. Further, Letter To Assessors No. 2014/058 states that the assessor must notify the claimant in writing not only when the exemption is denied, but also when any portion of the property is denied the exemption, even if it is due to the late-filing of the claim form for exemption. The notice should be dated and identify the reason for the denial, or partial denial, and the fiscal year to which it pertains. In addition, it should contain the statutorily required language stating that the claimant may seek a refund of property taxes paid by filing a claim for refund with the county board of supervisors, and that if the claim for refund is denied, the claimant may file a refund action in superior court.

By not notifying claimants when their property is partially denied the welfare exemption, the assessor is not providing proper notification to the claimant as required by statute.

**Perform field inspections on properties for which a claim for exemption has been filed.**

It is the assessor's current practice not to conduct field inspections on new or existing claims due to limited staff. The assessor may send an appraiser out to inspect a property if it is deemed to be necessary, but otherwise, any additional information needed regarding the use of the property, even for new claims, is obtained directly from the taxpayer via email or telephone.

Section 254.5(b)(1) provides, in part, that the assessor shall review all claims for the welfare exemption to ascertain whether the property on which the exemption is claimed meets the

requirements of section 214. In addition, section 254.5(b)(1)(B) provides that in connection with reviewing welfare exemption claims, the assessor shall consider, among other matters, whether the property on which the exemption is claimed is used for the actual operation of an exempt activity and does not exceed an amount of property reasonably necessary to accomplish the exempt purpose. This requirement can best be accomplished by an onsite physical inspection.

Although the assessor is not required by statute to conduct a field inspection on all properties filing an exemption claim, a field inspection is an important part of a well-administered exemptions program. It provides a formal review of the property and a basis for the exemption. It also documents the use of the property. Therefore, the assessor should perform field inspections on all new claims filed and periodically perform field inspections on existing claims.

The assessor's failure to conduct field inspections may result in an improper exemption of property.

## ASSESSMENT OF REAL PROPERTY

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

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.<sup>6</sup>

We examined several recorded documents and found that the assessor conducts a proper and thorough review for identifying and processing changes in ownership. In addition, we found that the assessor has an effective valuation program in place for reappraising properties having undergone a change in ownership. However, we found areas in need of improvement.

### **Penalties**

When a recorded document is received without a BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), or the PCOR is incomplete, the assessor sends the property owner a BOE-502-AH, *Change in Ownership Statement* (COS). Along with the COS, a letter is sent advising the property owner to return the completed COS by the due date in order to avoid a penalty.<sup>7</sup> The assessor may send an additional request, if needed, giving the property owner a total of 90 days from the date of the initial request to return the completed COS.

**RECOMMENDATION 2:** Implement the penalty process in accordance with sections 482(a) and 483(b).

It is the assessor's current practice not to apply penalties when a property owner fails to return a COS or fails to return the COS timely.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 90 days from the date of a written request by the assessor, a specific penalty is applied. In addition, section 483(b) states that the penalty provided for in section 482(a) shall be abated if the assessee files the COS with the assessor no later than 60 days after the date on which the assessee was notified of the penalty. When the property owner

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<sup>6</sup> For a detailed description of the Change in Ownership topic, please refer to the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/cio\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

<sup>7</sup> The county board of supervisors has adopted Resolution No. 100-83 pursuant to section 483(b), which allows the assessor to automatically abate penalties if the COS is returned to the assessor within 60 days from the date of the notice of penalty.

fails to return the COS timely, the assessor should notify the property owner of the penalty being applied and inform them of the abatement process as described in section 483(b).

The information contained in a properly completed COS is important because it assists the assessor in identifying any applicable exclusions and it provides information necessary in making an accurate assessment of the subject property. The assessor's current practice of not applying penalties when a property owner fails to file a COS or fails to file a COS timely is contrary to statute.

### Legal Entity Ownership Program (LEOP)

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

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property.<sup>8</sup> On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

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

**RECOMMENDATION 3:** Properly implement the penalty process in accordance with section 482(b).

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

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<sup>8</sup> Effective July 1, 2017, Assembly Bill 102 restructured the BOE into three separate agencies: BOE, California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals. The Legal Entity Ownership Program is now part of CDTFA.

Section 482(b) states that if a legal entity required to file a statement described in section 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership of the legal entity, or (2) the date of a written request by the BOE, a specific penalty shall be applied.

The BOE provides the assessor with several reports, as well as copies of BOE-100-Bs, indicating whether a penalty applies. The assessor should review these reports and the BOE-100-Bs to identify entities with late-filings or failures to file and apply penalties accordingly. By failing to apply the required section 482(b) penalty, the assessor is not following statutory requirements.

### **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 CLCA 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, such as hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.<sup>9</sup>

For the 2015-16 roll year, Santa Cruz County had 333 parcels encumbered by CLCA or other types of open space contracts, encompassing approximately 21,540 acres. The total assessed value for land and improvements was \$189,195,491. Included in these statistics are 9 parcels consisting of 292 acres that are restricted under Farmland Security Zone (FSZ) contracts, with a total assessed value of \$4,216,437. Also included in those statistics are 148 parcels restricted by open space easements and 7 parcels restricted by agricultural conservation easements. There are 6 parcels in nonrenewal status, and there have been no contracts cancelled in recent years.

We reviewed several properties restricted under CLCA contracts, or some other type of open space contract, and found areas in need of improvement.

**RECOMMENDATION 4:** Properly value newly created homesites on CLCA land that involve partially completed new construction as of the lien date.

We found that for newly created homesites involving partially completed new construction, the assessor establishes a homesite and allocates a portion of the property's factored base year value (FBYV) to the homesite, but then only enrolls a percentage of that allocated homesite value as unrestricted land for the lien date. For example, for a newly constructed residence that is only 35 percent complete as of the lien date, the assessor correctly enrolls 35 percent of fair market

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<sup>9</sup> For a detailed description of the scope of our review of the California Land Conservation Act Property (CLCA) topic, please refer to the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/clca\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/clca_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.



value for the new construction as unrestricted improvements for the lien date. However, the assessor also applies this same percentage of completion to the valued homesite and only enrolls 35 percent of the homesite value as unrestricted land for the lien date. As the percentage of new construction progresses each lien date, so does the percentage of value allocated toward the homesite, until the new construction is completed and the entire value allocated for the homesite is enrolled as unrestricted land.

When a homesite is developed on a restricted property and the acreage is redistributed between the restricted land and the homesite due to new construction of a residence, a special base year problem is created with respect to the newly created homesite. In accordance with Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), any new construction is assessable and should receive a new base year value, but the value of the underlying land is not reassessable and the homesite should retain the same base year as the restricted land. A portion of the existing FBV of the restricted land should be allocated to the newly created homesite.

According to AH 521, when a restricted property contains residential improvements, the assessor should determine if the improvement qualifies as a residence, estimate a reasonable site size for the qualifying residence, and then determine the base year value of the qualifying site. Section 428 precludes the valuation of the residence or its site as restricted property and, therefore, any residential site located on a restricted property is to be valued according to the FBV or current market value under article XIII A of the California Constitution. A reasonable size for the site would include an area large enough to encompass the dwelling and any related improvements, such as garages, sheds, landscaped areas, utility sources, and driveways when they service only the residential improvements. A barn or other agricultural structure located on restricted property and not associated with the residence does not qualify as a residence and, therefore, should not be allocated a homesite value.

By only enrolling a percentage of the value allocated for the homesite based upon the progress of the newly constructed improvements as of the lien date, the assessor is not following statutory provisions and is underassessing certain CLCA properties.

### ***Taxable Possessory Interests***

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.<sup>10</sup>

For the 2015-16 roll year, Santa Cruz County had 1,253 taxable possessory interests, with a total assessed value of \$24,146,742. The majority of taxable possessory interests in

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<sup>10</sup> For a detailed description of the scope of our review of the Taxable Possessory Interests topic, please refer to the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/tpi\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Santa Cruz County are boat slips at the publicly owned Santa Cruz Harbor. Other types of taxable possessory interests in Santa Cruz County include, but are not limited to, concessionaires at county fairgrounds, private aircraft hangars at publicly owned airports, cable television franchises, and employee housing.

We reviewed the property record files of several taxable possessory interests and found areas in need of improvement.

**RECOMMENDATION 5:** Improve the taxable possessory interests program by: (1) obtaining current copies of all lease agreements or permits for taxable possessory interests, (2) assessing all taxable possessory interests located at the fairgrounds, (3) correctly determining the base year when valuing taxable possessory interests for changes in ownership, (4) deducting the appropriate expenses from the gross income when using the direct income approach to value taxable possessory interests, (5) using proper methods to develop the appropriate capitalization rate when valuing taxable possessory interests, and (6) properly issuing supplemental assessments for taxable possessory interests.

**Obtain current copies of all lease agreements or permits for taxable possessory interests.**

We found that the majority of the taxable possessory interest files we reviewed did not contain copies of leases for the interests being assessed. The assessor primarily relies on information obtained from public agencies on annual usage reports to value taxable possessory interests.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Rule 21(d)(1) explains that the stated term of possession is deemed to be the reasonably anticipated term of possession except in certain situations. In addition, Rule 21(e)(3)(C) explains how to determine the net operating income for capitalization purposes.

These steps in the valuation process cannot be completed if the contract conveying the taxable possessory interest is not reviewed. For example, the assessor may have some information relating to the initial lease term, but may not know of any renewal options contained in the lease or know the lessor/lessee expense allocations.

By not obtaining copies of current leases or permits, the assessor is unable to determine what terms were agreed to between the parties and, therefore, is unable to accurately value the taxable possessory interests. Unconfirmed data may be inaccurate or incomplete and may lead to incorrect assessments.

**Assess all taxable possessory interests located at the fairgrounds.**

We found that the assessor does not request vendor or concessionaire information from the Santa Cruz County Fairgrounds to identify possessory interests that may be assessable.

Information obtained from the fairground's website found that, even though the county has a low-value resolution exempting all real property with a base year value of \$2,000 or less from assessment, there may be several potential taxable possessory interests having values over the low-value limit that should be assessed.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, durable, exclusive, and provide a private benefit. Recurring uses of the county's fairground facilities by the same private persons or entities could constitute taxable possessory interests and should be reviewed for possible assessment.

Failure to assess all taxable possessory interests located at the fairgrounds may result in taxable property escaping assessment.

**Correctly determine the base year when valuing taxable possessory interests for changes in ownership.**

We found that it is the assessor's practice to establish the base year for a taxable possessory interest as of the lien date following the date of a change in ownership. For example, for a change in ownership that occurred on February 1, 2014, the assessor incorrectly establishes the base year as 2015 for the following 2015 lien date. However, the correct base year in this example would be 2014 as discussed below.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 110.1, in conjunction with article XIII A of the California Constitution, requires that the assessor value property subject to reappraisal at its fair market value for either of the following: (1) the 1975 lien date, or (2) for property which is purchased, newly constructed, or changes ownership after the 1975 lien date, at the date on which a purchase or change in ownership occurs or the date on which new construction is completed. The value determined shall be known as the base year value, which is compounded annually by an inflation factor. For example, a reappraisable transfer or completion of new construction occurring between January 1, 2014 and June 30, 2014 would have a base year of 2014 and the annual inflation factor would be applied for lien date 2015. However, a reappraisable transfer or completion of new construction occurring between July 1, 2014 and December 31, 2014 would have a base year of 2015 and the annual inflation factor would not be applied for lien date 2015.

The assessor's practice of incorrectly determining base years due to a change in ownership or the creation of a taxable possessory interest may result in incorrect assessments being enrolled due to inaccurately compounding inflation factors.

**Deduct the appropriate expenses from gross income when using the direct income approach to value taxable possessory interests.**

When determining the net income to be capitalized in valuing taxable possessory interests, the assessor estimates the gross income attributable to the property and then makes a deduction for expenses to arrive at the net income to be capitalized. While in general this method is correct, we found that the assessor deducts 28.5 percent from the gross income for expenses, even though the

lease reveals that the majority of the expenses are being paid by the tenant, which would indicate a net lease and a much lower percentage to be deducted for the expenses attributable to the landlord.

According to Assessors' Handbook section 510, *Assessment of Taxable Possessory Interests* (AH 510), when estimating the income to be capitalized using rental income, the allowed expenses paid by the public owner must be subtracted from the rental income. In a net lease, most operating expenses, including property taxes, are paid by the tenant in addition to the contract rent. Thus, few expenses must be subtracted from a net rent. Those expenses would be for management and other operating expenses incurred by the landlord to manage and administer the taxable possessory interest, expenses that are not paid by the tenant. The assessor should use comparable rental data based on the lease structure, whether gross or net, similar to that of the taxable possessory interest being valued.

By overestimating the expenses to be deducted from the gross income, the assessor is understating the net income to be capitalized, which would understate the value to be enrolled for the taxable possessory interest.

**Use proper methods to develop the appropriate capitalization rate when valuing taxable possessory interests.**

We found that when valuing taxable possessory interests, the assessor applies the same capitalization rate of 10 percent to all taxable possessory interests in the county. The assessor could not explain how the capitalization rate was developed or provide any analyses for the capitalization rate being used. In addition, the assessor is unaware as to whether or not this capitalization rate includes a component for property taxes.

According to AH 510, and consistent with Rule 8, a capitalization rate for valuing a taxable possessory interest may be developed using any of the following methods:

- By comparing the anticipated net incomes from comparable taxable possessory interests with their sale prices stated in cash or its equivalent and adjusted as described in Rule 21(e)(1)(A).
- By comparing anticipated net incomes of comparable fee simple absolute interests in real property with their sale prices stated in cash or its equivalent, provided the comparable fee properties are not expected to produce significantly higher net incomes subsequent to the subject taxable possessory interest's term of possession than during it.
- By deriving a weighted average of the capitalization rates for debt and equity capital appropriate for the subject taxable possessory interest, weighting the separate rates of debt and equity by the relative amounts of debt and equity capital expected to be used by a typical purchaser of the subject taxable possessory interest.

Also consistent with Rule 8(f), the capitalization rate should include a component for property taxes, where applicable. According to AH 510, when the landlord (lessor) is responsible for paying the property taxes, the capitalization rate should include a component for property taxes.

Using improper methodology to develop a capitalization rate when valuing taxable possessory interests may cause the assessor to apply an inappropriate capitalization rate and enroll incorrect assessments.

**Properly issue supplemental assessments for taxable possessory interests.**

We reviewed several taxable possessory interest appraisals performed due to changes in ownership and found that the assessor does not consistently issue supplemental assessments when there is a change in ownership.

Taxable possessory interests, like other real property, are subject to supplemental assessment whenever there is a change in ownership or completed new construction. Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction. AH 510 advises that the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

The assessor's failure to issue supplemental assessments is contrary to statute and results in unequal treatment of taxpayers.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

### **Audit Program**

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.<sup>11</sup>

For Santa Cruz County, the minimum required number of audits to be conducted each year is 40, with the additional requirement that 50 percent of those audits are to be performed on taxpayers selected from a pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.<sup>12</sup> The assessor has budgeted for one auditor-appraiser and one chief auditor-appraiser. Most audits are conducted through the intercounty cooperative property tax audit program referred to as California Counties Cooperative Audit Services Exchange (CCCASE). Through the CCCASE program, certified auditor-appraisers from other counties conduct the audits. The assessor's staff then reviews the audit results.

**RECOMMENDATION 6:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found that the assessor has not conducted the minimum number of audits required under the provisions of section 469 in recent years. The assessor completed 23 audits for the 2014-15 fiscal year, with 8 of those from the pool of taxpayers with the largest assessments. For the 2015-16 fiscal year, only 8 audits were completed; of those, 2 audits were completed from the pool of taxpayers with the largest assessments.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escaped assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, when audits are not conducted timely, it becomes more difficult to obtain the records necessary to substantiate accurate reporting. Therefore, timeliness of the audit is also an important factor in an effective audit program and ultimately a well-managed assessment program. Assessors' Handbook section 506, *Property Tax Audits and Audit Program*, provides guidance in developing and improving a

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<sup>11</sup> For a detailed description of the scope of our review of the Audit Program topic, please refer to the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/auditprogram\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

<sup>12</sup> Refer to Letter To Assessors No. 2009/049, *Significant Number of Business Property Audits*.

property tax audit and the audit program by presenting and discussing statutory provisions, suggested organizational tools, and audit practices and procedures.

By failing to conduct the significant number of audits, with 50 percent of those audits performed on taxpayers with the largest assessments, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

### ***Manufactured Homes***

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.<sup>13</sup>

In Santa Cruz County, there are 2,699 manufactured homes in 78 mobilehome parks, including 21 resident-owned mobilehome parks. The 2015-16 assessment roll values of these homes totaled approximately \$216,660,000.

We reviewed several manufactured home assessments, including transfers, supplemental assessments, accessories, and assessments related to manufactured homes on permanent foundations. Our review found an area in need of improvement.

**RECOMMENDATION 7:** Obtain required proof of recordation of the notice of affixation before classifying manufactured homes on permanent foundations as a real property improvement pursuant to Health and Safety Code section 18551.

We found several instances where the assessor had classified manufactured homes as real property without obtaining the appropriate documentation to prove that the manufactured home was built on an approved permanent foundation in accordance with Health and Safety Code section 18551.

Section 5801(b)(1) excludes from the definition of "manufactured home," for purposes of The Manufactured Home Property Tax Law, a manufactured home which has become real property by being affixed to land on a permanent foundation system approved pursuant to section 18551 of the Health and Safety Code. Health and Safety Code 18551 sets forth certain conditions to be followed when a manufactured home is installed on a permanent foundation. One of those requirements is that on the same day a certificate of occupancy is issued, the issuing local enforcement agency shall record with the county recorder a document that provides a statement that the manufactured home has been installed on a foundation system that meets the specifications in section 18551 of the Health and Safety Code and that identifies the owner of the

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<sup>13</sup> For a detailed description of the scope of our review of the Manufactured Homes topic, please refer to the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/mhomes\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

real property. This form is HCD Form 433(A), *Notice of Manufactured Home (Mobilehome) of Commercial Coach, Installation on a Foundation System*. The manufactured home owner is then required to complete and submit HCD Form 433(B), *Notice to Assessor*, to the assessor.

Obtaining the certificate of occupancy and having the appropriate document recorded are integral and necessary parts to affixing a manufactured home to land on a permanent foundation. If these steps are not taken, the manufactured home has not been so affixed as required by law and may not be classified as real property. In that event, section 5801 requires that the manufactured home be classified as personal property, regardless of outward appearances. Additional guidance regarding the classification of manufactured homes can be found in Assessors' Handbook section 511, *Assessment of Manufactured Homes and Parks*, on pages 24 and 25.

The assessor's practice of classifying manufactured homes as real property without the proper documentation to provide notice that manufactured homes are on approved permanent foundations is not in compliance with Health and Safety Code section 18551. The assessor should obtain and reference the proper documentation in the property record file of the manufactured home. Once a manufactured home is found to be installed on a foundation system in compliance with Health and Safety Code section 18551, the manufactured home is deemed to be a real property improvement and should be classified and valued as such.

## **Vessels**

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.<sup>14</sup>

For the 2015-16 roll year, the assessor enrolled 1,310 vessels with a total assessed value of \$31,337,288. We reviewed several vessel property records and found an area in need of improvement.

**RECOMMENDATION 8:** Use market derived factors to value vessels.

We found that after an initial vessel assessment is made, the assessor annually applied a single fixed depreciation factor of five percent to all vessels and personal watercraft to calculate current market value. The assessor used the BOE's annual vessel valuation factors over several years for various vessel types and then averaged all of those factors to determine the annual five percent adjustment applied to all vessels. While the practice of using a single fixed depreciation adjustment simplifies the assessment process, it will not result in reliable market value estimates for all vessels.

According to Assessors' Handbook section 504, *Assessment of Personal Property and Fixtures*, the use of valuation factors should be supported by a recognized sampling method. To utilize

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<sup>14</sup> For a detailed description of the scope of our review of the Vessels topic, please refer to the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/vessels\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/vessels_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.



sampling of current market evidence, assessors must develop and use recognized methods that are supportable.

In lieu of developing county specific valuation factors, the assessor may use the annual vessel valuation factors provided by the BOE. In order to promote uniformity of vessel assessments among counties within California, the BOE developed market derived depreciation tables available for use by assessors since the 2009 lien date. These depreciation factors were developed with the assistance of many county assessors to be used in the mass appraisal of vessels when determining a value for property taxation purposes and include a breakdown by vessel type.

The assessor's practice of applying a fixed five percent depreciation factor to all vessels is not consistent with BOE guidelines and may not result in accurate assessments being enrolled for all vessels.

## APPENDIX A: STATISTICAL DATA

**Table 1: Assessment Roll**

The following table displays information pertinent to the 2015-16 assessment roll:<sup>15</sup>

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$20,819,350,503
	Improvements	\$18,009,096,381
	Personal Property	\$188,375,226
	Total Secured	\$39,016,822,110
<b>Unsecured Roll</b>	Land	\$21,245,999
	Improvements	\$366,233,715
	Personal Property	\$547,964,509
	Total Unsecured	\$935,444,223
<b>Exemptions</b> <sup>16</sup>		(\$1,120,592,405)
	<b>Total Assessment Roll</b>	<b>\$38,831,673,928</b>

**Table 2: Change in Assessed Values**

The next table summarizes the change in assessed values over recent years:<sup>17</sup>

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2015-16	\$38,831,674,000	6.4%	6.0%
2014-15	\$36,485,059,000	7.1%	6.2%
2013-14	\$34,066,387,000	3.9%	4.3%
2012-13	\$32,799,868,000	-0.9%	1.4%
2011-12	\$33,096,953,000	-0.3%	0.1%

<sup>15</sup> Statistics provided by BOE-822, *Report of Assessed Values By City*, 44 Santa Cruz.

<sup>16</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>17</sup> Statistics provided by the California State Board of Equalization Annual Report, Table 7.

**Table 3: Gross Budget and Staffing**

The assessor's budget has grown from \$2,938,037 in 2012-13 to \$3,215,329 in 2015-16.

As of the date of our survey, the assessor had 25 budgeted permanent positions. These positions consisted of the assessor, 1 chief deputy assessor-administration, 1 chief deputy assessor-valuation, 1 chief auditor-appraiser, 2 senior appraisers, 6 appraisers, 1 auditor-appraiser, 1 departmental information systems analyst, 3 GIS technicians, 6 assessment technicians, 1 senior receptionist, and 1 clerk.<sup>18</sup>

The following table sets forth the assessor's gross budget and staffing over recent years:

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b> <sup>19</sup>	<b>PERCENT CHANGE</b>	<b>PERMANENT STAFF</b> <sup>20</sup>
2015-16	\$3,215,329	1.3%	25.00
2014-15	\$3,174,977	6.4%	25.00
2013-14	\$2,983,195	1.5%	25.00
2012-13	\$2,938,037	-4.0%	26.00
2011-12	\$3,059,341	-4.4%	27.25

**Table 4: Assessment Appeals**

The following table shows the number of assessment appeals filed in recent years:<sup>21</sup>

<b>ROLL YEAR</b>	
2015-16	193
2014-15	197
2013-14	211
2012-13	304
2011-12	352

<sup>18</sup> Information provided by the assessor.

<sup>19</sup> Statistics for actual Gross Budget provided by County of Santa Cruz Adopted Budget, Schedule 9, obtained from Santa Cruz County's website.

<sup>20</sup> Statistics provided by the assessor.

<sup>21</sup> Statistics provided by the assessor. For year 2015-16, statistics were provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

**Table 5: Exemptions – Welfare**

The following table shows welfare exemption data for recent years:<sup>22</sup>

<b>ROLL YEAR</b>	<b>WELFARE EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2015-16	806	\$967,314,258
2014-15	686	\$915,436,978
2013-14	678	\$853,127,467
2012-13	684	\$854,312,984
2011-12	603	\$796,527,070

**Table 6: Change in Ownership**

The following table shows the total number of reappraisable transfers processed in recent years:<sup>23</sup>

<b>ROLL YEAR</b>	<b>REAPPRAISABLE TRANSFERS</b>
2015-16	3,712
2014-15	4,448
2013-14	4,687
2012-13	4,922
2011-12	4,478

<sup>22</sup> Statistics provided by BOE-802, *Report on Exemptions*.

<sup>23</sup> Statistics provided by the assessor. For year 2015-16, statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

**Table 7: New Construction**

The following table shows the total number of new construction assessments processed in recent years:<sup>24</sup>

<b>ROLL YEAR</b>	<b>NEW CONSTRUCTION ASSESSMENTS</b>
2015-16	774
2014-15	918
2013-14	681
2012-13	525
2011-12	N/A

**Table 8: Declines In Value**

The following table shows the total number of decline-in-value assessments in recent years:<sup>25</sup>

<b>ROLL YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2015-16	9,651
2014-15	13,072
2013-14	23,705
2012-13	24,657
2011-12	20,933

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<sup>24</sup> Statistics provided by the assessor. For year 2015-16, statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

<sup>25</sup> Statistics provided by the assessor.

## **APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP**

### ***Santa Cruz County***

***Chief***

David Yeung

***Survey Program Director:***

Diane Yasui

Manager, Property Tax

***Survey Team Supervisor:***

Andrew Austin

Supervisor, Property Tax

***Survey Team:***

Teresa Nguyen

Business Taxes Specialist I

Paula Montez

Associate Property Auditor-Appraiser

Lee Coleman

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Amanda Lopez

Assistant Property Appraiser

Eric Santana

Assistant Property Appraiser

## APPENDIX C: RELEVANT STATUTES AND REGULATIONS

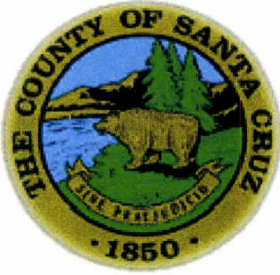
Reference	Description
<i>Government Code</i>	
§15640	<b>Survey by board of county assessment procedures.</b>
§15641	<b>Audit of records; appraisal data not public.</b>
§15642	<b>Research by board employees.</b>
§15643	<b>When surveys to be made.</b>
§15644	<b>Recommendations by board.</b>
§15645	<b>Survey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

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

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

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





# County of Santa Cruz

SEAN SALDAVIA, ASSESSOR-RECORDER

701 OCEAN STREET, Rm. 130, SANTA CRUZ, CA 95060

(831) 454-2002

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Claudia Cunha  
*Chief Deputy-Administration*

Sheri Thomas  
*Chief Deputy-Valuation*

Carol D. Sutherland  
*Assistant Recorder*

**RECEIVED**

DEC 18 2017

County-Assessed Properties Division  
State Board of Equalization

December 13, 2017

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

Dear Mr. Yeung:

Pursuant to section 15645 of the Government Code, I am providing a written response to the findings and recommendations contained in the November 2017 Santa Cruz County Assessment Practices Survey. Please include my response in your final report.

I would like to thank the Board of Equalization survey team for their professionalism during the survey process. Their constructive comments regarding our processes and practices are appreciated.

I also want to thank the staff of the Santa Cruz County Assessor's Office for their dedication, professionalism and commitment to serving the citizens of Santa Cruz County.

Sincerely,

Sean Saldavia  
Santa Cruz County Assessor-Recorder

Santa Cruz County  
Response to Recommendations

**Recommendation 1:** Improve the administration of the welfare exemption by: (1) ensuring only qualifying portions of properties are granted the welfare exemption, (2) notifying claimants when a portion of the property is denied the welfare exemption, and (3) performing field inspections on properties for which a claim for exemption has been filed.

We agree and will implement this recommendation.

**Recommendation 2:** Implement the penalty process in accordance with section 482 (a) and 483(b).

We concur and will implement this recommendation using our new document management software.

**Recommendation 3:** Properly implement the penalty process in accordance with section 482(b).

We concur and will implement this recommendation using our new document management software.

**Recommendation 4:** Properly value newly created homesites on CLCA land that involve partially completed new construction as of the lien date.

This recommendation has been implemented.

**Recommendation 5:** Improve the taxable possessory interests program by: (1) obtaining current copies of all lease agreements or permits for taxable possessory interests, (2) assessing all taxable possessory interests located at the fairgrounds, (3) correctly determining the base year when valuing possessory interests for changes in ownership, (4) deducting the appropriate expenses from the gross income when using the direct income approach to value possessory interests, (5) using proper methods to develop the appropriate capitalization rate when valuing taxable possessory interests, and (6) properly issuing supplemental assessments for taxable possessory interests.

This recommendation has been implemented.

**Recommendation 6:** Perform the minimum number of audits of professions, trades and business pursuant to section 469.

We agree and will implement this recommendation as resources permit.

**Recommendation 7:** Obtain required proof of recordation of the notice of affixation before classifying manufactured homes on permanent foundations as a real property improvement pursuant to Health and Safety Code section 18551.

This recommendation has been implemented.

**Recommendation 8:** Use market derived factors to value vessels.

We agree and will implement this recommendation.