

# SANTA CRUZ COUNTY ASSESSMENT PRACTICES SURVEY

**FEBRUARY 2002**

---

## CALIFORNIA STATE BOARD OF EQUALIZATION

JOHAN KLEHS, HAYWARD  
DEAN ANDAL, STOCKTON  
CLAUDE PARRISH, TORRANCE  
JOHN CHIANG, LOS ANGELES  
KATHLEEN CONNELL, SACRAMENTO

FIRST DISTRICT  
SECOND DISTRICT  
THIRD DISTRICT  
FOURTH DISTRICT  
STATE CONTROLLER

---

JAMES E. SPEED, EXECUTIVE DIRECTOR





STATE BOARD OF EQUALIZATION  
PROPERTY TAXES DEPARTMENT  
450 N STREET, MIC: 62 SACRAMENTO, CALIFORNIA  
(PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062)  
TELEPHONE (916) 324-5827  
FAX (916) 323-5689  
www.boe.ca.gov

JOHAN KLEHS  
First District, Hayward  
  
DEAN ANDAL  
Second District, Stockton  
  
CLAUDE PARRISH  
Third District, Torrance  
  
JOHN CHIANG  
Fourth District, Los Angeles  
  
KATHLEEN CONNELL  
Controller, Sacramento  
  
JAMES E. SPEED  
Executive Director

2002/012

February 28, 2002

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 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 Robert C. Petersen, Santa Cruz County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Santa Cruz 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 October through December 2000. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Petersen 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 Taxes Department

DJG:jm  
Enclosure

# TABLE OF CONTENTS

<b>INTRODUCTION.....</b>	<b>1</b>
<b>SCOPE OF ASSESSMENT PRACTICES SURVEYS.....</b>	<b>2</b>
<b>EXECUTIVE SUMMARY.....</b>	<b>3</b>
<b>RESULTS OF THE 1997 SURVEY.....</b>	<b>6</b>
<b>OVERVIEW OF SANTA CRUZ COUNTY.....</b>	<b>9</b>
<b>ADMINISTRATION .....</b>	<b>10</b>
ADMINISTRATIVE PROCEDURES .....	10
WORKLOAD.....	10
STAFFING.....	11
BUDGET AND WORKLOAD.....	11
STATE-COUNTY PROPERTY TAX ADMINISTRATION LOAN PROGRAM .....	12
ASSESSMENT ROLL CHANGES.....	12
ASSESSMENT APPEALS.....	14
LOW-VALUE PROPERTY EXEMPTION .....	14
DISASTER RELIEF .....	15
SUPPLEMENTAL ASSESSMENTS.....	16
<b>ASSESSMENT OF REAL PROPERTY.....</b>	<b>17</b>
CHANGE IN OWNERSHIP .....	17
NEW CONSTRUCTION.....	19
DECLINES IN VALUE.....	20
TAXABLE POSSESSORY INTERESTS.....	21
TAXABLE GOVERNMENT-OWNED PROPERTY.....	23
CALIFORNIA LAND CONSERVATION ACT PROPERTIES (CLCA) .....	23
TIMBERLAND PRODUCTION ZONE (TPZ).....	24
LEASEHOLD IMPROVEMENTS.....	25
WATER COMPANY PROPERTY.....	25
<b>ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES .....</b>	<b>27</b>
AUDIT PROGRAM .....	27
BUSINESS PROPERTY STATEMENT PROCESSING.....	29
VALUATION OF BUSINESS MACHINERY AND EQUIPMENT .....	30
DIRECT BILLING PROGRAM.....	31
LEASED EQUIPMENT.....	32
AIRCRAFT.....	32
VESSELS.....	33
MANUFACTURED HOMES .....	35
SERVICE STATIONS.....	36
<b>APPENDICES .....</b>	<b>37</b>
A: COUNTY PROPERTY TAX DIVISION SURVEY GROUP.....	37
B: RELEVANT STATUTES AND REGULATIONS.....	39
<b>ASSESSOR'S RESPONSE TO BOE'S FINDINGS.....</b>	<b>45</b>

## **INTRODUCTION**

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

The assessment practices survey program is one of the State's major efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office and publishes a report of its findings. This report reflects the BOE's findings in its periodic survey of the Santa Cruz County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes may increase the number of recommendations in the survey reports.

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

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

In addition, Revenue and Taxation Code section 75.60<sup>1</sup> requires the BOE to certify whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards, defined by regulation, that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

An assessment practices survey is not an audit of the assessor's entire operation. We did not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment.

---

<sup>1</sup> All statutory references are to the Revenue and Taxation Code, unless otherwise indicated.

## **EXECUTIVE SUMMARY**

This report presents several recommendations for improvement of the assessor's overall performance of his duties, and it also attempts to note those program elements that are particularly effective and efficient. It emphasizes areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

In our prior Assessment Practices Survey of Santa Cruz County, we made eighteen recommendations to address problems we found in the assessor's operation.<sup>2</sup> The assessor implemented ten of our recommendations, partially implemented three, and has not implemented two. Three of our recommendations no longer apply.

- For the 2000-01 local roll, the assessor maintains an assessment roll that includes over 95,000 real property items and 9,000 unsecured property items on an annual budget of about \$2.775 million.
- The assessor participates in the State-County Property Tax Administration Loan Program and has used the funds to enhance technology in the office and to reduce backlogs in workload.
- The assessor has made great strides in using new technology in the assessment process. He has created programs that assist in the valuation process and collect important data from other agencies that are used in the appraisal process.
- We found no assessment problems in the assessor's roll change procedures or assessment appeals program. We also found that acceptable procedures are used for the assessment of newly constructed properties, taxable government-owned properties, timberland production properties, tenant improvements, and water company properties.
- The current assessment roll does not correctly identify penalties and escape assessments as required by law.
- The assessor must conform the filing dates in his calamity brochure and cover letter sent with disaster relief applications to the date specified by the county's disaster relief ordinance.
- The assessor exempts low-value supplemental assessments without authorization.
- The assessor uses an unapproved change in ownership statement, does not include all required data on his public transfer list, grants the parent/child or grandparent/grandchild exclusion without a complete application, and does not submit quarterly reports to the BOE listing base-year value transfers. All of these actions and omissions are contrary to law.

---

<sup>2</sup> Santa Cruz County Assessment Practices Survey and Assessor's Response, March 1997.

- The assessor does not include an explanation of the stipulation procedure in his notice of increased assessment. The explanation is required by law to inform property owners of their appeal rights.
- We found a number of private uses at the county fairground that may be taxable. The assessor incorrectly made possessory interest assessments on manufactured homes which are not real property. The assessor inappropriately applies the low-value exemption to possessory interests with assessed values between \$2,001 and \$5,000.
- The assessor has no supporting documentation to justify his use of an exceptionally low risk rate for most California Land Conservation Act properties.
- The assessor has effective programs for the discovery of taxable personal property, processing business property statements, valuing business machinery and equipment, and valuing computers. We found no assessment problems in the assessor's direct billing program, assessment of leased equipment, or the aircraft valuation program.
- The assessor is not timely completing all mandatory audits. Failure to perform mandatory audits is listed as one of the significant assessment problems in rule 371.
- The assessor does not obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time.
- The assessor is still using an arbitrary depreciation factor in vessel appraisals and is not using BOE-prescribed forms to request information from owners of commercial vessels.
- The assessor is incorrectly classifying manufactured homes as real property, and he is not establishing new base-year values for changes in ownership that occur within resident-owned manufactured home parks.
- Although we found serious deficiencies in mandatory audit production, we believe that these deficiencies alone do not create a reasonable probability that the assessment roll would fail to meet the average quality requirements of section 75.60. Accordingly, Santa Cruz County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Correctly identify penalty and escape assessments on the current assessment roll.....13

**RECOMMENDATION 2:** Revise the filing deadlines contained in the calamity brochure and the cover letter mailed with disaster relief applications to conform to the county's disaster relief ordinance.....15

**RECOMMENDATION 3:** Enroll all supplemental assessments. ....16

**RECOMMENDATION 4:** Use the BOE-prescribed change in ownership statement. ....17

**RECOMMENDATION 5:** Include all of the information required by section 408.1 on the public transfer list. ....18

**RECOMMENDATION 6:** Grant the section 63.1 exclusion only upon receipt of a complete application. ....18

**RECOMMENDATION 7:** Report all section 69.5 approved claims to the BOE on a quarterly basis. ....19

**RECOMMENDATION 8:** For reviews of decline in value assessments, include an explanation of the stipulation procedure when notifying taxpayers of a value change as required by section 619. ....21

**RECOMMENDATION 9:** Review all private uses at fairgrounds to determine whether taxable possessory interests exist. ....21

**RECOMMENDATION 10:** Unless otherwise provided, assess possessory interests in real property only. ....22

**RECOMMENDATION 11:** Enroll all taxable possessory interests that have a value greater than \$2,000. ....22

**RECOMMENDATION 12:** Use a risk rate of 1 percent for CLCA properties unless higher or lower rates are documented in the manner recommended by Assessors' Handbook Section 521. ....24

**RECOMMENDATION 13:** Complete the mandatory audits required by section 469. ....28

**RECOMMENDATION 14:** Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time. ....29

**RECOMMENDATION 15:** Use a market-derived procedure to assess vessels. ....34

**RECOMMENDATION 16:** Use the BOE-prescribed forms for obtaining information for the 4 percent assessment of commercial vessels. ....34

**RECOMMENDATION 17:** Enroll manufactured homes as personal property. ....35

**RECOMMENDATION 18:** Establish a new base-year value for any site within a resident-owned manufactured home park that received the section 62.1 exclusion that has changed ownership. ....35

## **RESULTS OF THE 1997 SURVEY**

### ***Change of Ownership***

We recommended that the assessor apply the section 482 penalty (failure to file a change of ownership statement) in a timely manner. Because the assessor currently uses an unapproved change in ownership statement, he has no authority to apply the section 482 penalty. Although this recommendation no longer applies directly, we do recommend that the assessor use BOE-prescribed forms.

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

We recommended that the assessor select appropriate discount rates for possessory interest income capitalization. In our current survey, we found no evidence to suggest that the current rates used by the assessor are inappropriate. Therefore, we do not repeat this recommendation.

Also, we recommended that the assessor enroll the taxable possessory interests located at fairground facilities. The assessor has assessed the major users of the fairground facilities. However, in our current review, we found many uses at those facilities that may qualify as taxable possessory interests. We modify this recommendation to state that the assessor should review all private uses at fairgrounds to determine whether there are additional taxable possessory interests.

### ***Water Company Property***

We recommended that the assessor require every water company to file an annual business property statement and/or provide a copy of the California Public Utilities Commission (CPUC) report. In lieu of obtaining these documents, the assessor performed an audit of each water company and thus, this recommendation no longer applies.

### ***Procedures Manual***

We recommended that the assessor develop a written policies and procedures manual for the operation of the business property division. The procedure manual for the business property division was developed in late 1997, after the publication of our survey report.

### ***Mandatory Audit Program***

We recommended the assessor reallocate his staff resources so that his auditor-appraisers could complete mandatory audits as required by section 469. The assessor has reallocated his staff resources, but he is still behind on his mandatory audits. We modify this recommendation to state that the assessor should timely complete his mandatory audits.

***Statute of Limitations***

We recommended that the business property division obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time. The assessor has not implemented this recommendation, so we repeat it in this report.

***Offsetting Assessments***

We recommended that the assessor follow statutory requirements when determining audit results and enroll underassessments or overassessments for all years. The assessor has implemented this recommendation.

***Tenant Improvements***

We recommended that the auditor-appraisers apply the correct inflation factor to leasehold improvements assessed by the business property division. The assessor has implemented this recommendation.

***Vessels***

We recommended that the assessor improve vessel appraisal techniques, apply late-filing penalties, and require certain vessel owners to file annual vessel property statements. The assessor has not implemented this recommendation. This report includes recommendations pertaining to vessel appraisal techniques and prescribed property statements.

***Computers***

We recommended that the assessor assess computers using the BOE's recommended factors. The assessor has implemented this recommendation.

***Assessment Roll Corrections***

We recommended that the assessor correctly identify all penalties and escape assessments on the assessment roll. The assessor has not implemented this recommendation.

We also recommended that assessor enter unsecured escape assessments on the proper assessment roll. The assessor has implemented this recommendation.

***Interest on Escape Assessments***

We recommended that the assessor cite the appropriate code section when enrolling business property escape assessments, so that interest is included where required. The assessor has implemented this recommendation.

***Notice of Proposed Escape Assessment***

We recommended that the assessor provide taxpayers with notices of proposed escape assessments as required by section 531.8. The assessor has implemented this recommendation.

***Low-Value Property Exemption***

We recommended that the assessor request that the board of supervisors revise the county's low-value property exemption to conform to section 155.20. At the assessor's request, the board of supervisors revised the ordinance.

***Personal Effects Exemption***

We recommended that the assessor exempt personal property owned by homeowners' associations in accordance with the provisions of rule 134. The assessor complied by exempting all personal property related to homeowners' associations.

***Supplemental Assessments***

We recommended that the assessor request that the board of supervisors adopt an ordinance authorizing the assessor to cancel small supplemental assessments. The board of supervisors has not granted the assessor that authority; instead, it authorized the treasurer-tax collector to cancel any supplemental tax that is less than twenty dollars. Since this is a permissive authority of the board of supervisors, we do not repeat this recommendation.

## **OVERVIEW OF SANTA CRUZ COUNTY**

Santa Cruz County is located on the Central California coast. It is bordered by San Mateo County to the north, Monterey and San Benito Counties to the south, Santa Clara County to the east, and the Pacific Ocean to the west. Santa Cruz County is on the north side of Monterey Bay and was one of the twenty-seven original California counties created in 1850.

An elected five-member county board of supervisors governs the unincorporated area of Santa Cruz County. The incorporated cities of Capitola, Santa Cruz, Scotts Valley, and Watsonville are governed by city councils. The county seat is the city of Santa Cruz.

Santa Cruz County is 441 square miles in size, or 282,240 acres. Santa Cruz is the largest incorporated city at 12 square miles. Population statistics indicate that the county has a total population of approximately 250,000 residents, of which approximately 137,000 live in unincorporated areas.

The major industries in Santa Cruz County are agriculture, tourism, manufacturing, food processing, and technology. Top employment industries are, in order: education, government, tourism, technology, agriculture, and health care.

## **ADMINISTRATION**

### ***Administrative Procedures***

The Santa Cruz County Assessor's Office is a well-organized office and operates as an efficient, cohesive unit. The assessor has developed a policy and procedure manual for both the real property and business property divisions. Each member of the real property staff has a copy of the manual, and one is centrally located for the business property staff.

The management team consists of two Chief Deputy Assessors, a Chief of Assessment Standards, and a Chief Auditor-Appraiser. The staff includes 15 BOE-certified appraisers and auditor-appraisers and 15 support staff.

### ***Workload***

The following table displays pertinent information for the 2000 lien date.

<b>Property Type</b>	<b>Number of Assessments</b>	<b>Enrolled Values \$(000)</b>
Residential	76,472	
Miscellaneous (includes Manufactured Homes)	7,772	
Rural	6,958	
Commercial/Industrial	<u>4,139</u>	
Total Secured Roll	95,341	\$ 19,013,309
Total Unsecured Roll (personal property except manufactured homes)	<u>9,082</u>	<u>716,120</u>
Total Roll	104,423	\$19,729,429

**Staffing**

The assessor's office is currently budgeted for 35 staff positions, including the assessor. The following is the breakdown of budgeted positions:

<b>Title</b>	<b>Number of Positions</b>
Assessor	1
Chief Deputy Assessor	2
Chief, Assessment Standards	1
Chief Auditor-Appraiser	1
Auditor-Appraiser III	1
Senior Appraiser	3
Auditor-Appraiser II	3
Appraiser I/II	8
Appraiser-Auditor Aide	3
Clerical Supervisor II	1
Assessment Technician	5
Clerk II/Assessment Clerk	3
GIS Technician I/II	3

Nineteen of the staff members, including the assessor, hold an appraiser's certificate issued by the BOE. Ten of these staff hold an advanced appraiser's certificate. In addition, the assessor has hired two appraisers and one auditor-appraiser who are in the process of applying for appraiser's certificates.

**Budget and Workload**

The assessor has the responsibility to assess about 95,000 real property assessments and over 9,000 unsecured assessments representing about \$19.7 billion in assessed value. The budget for the assessor's office, over the last five years, is as follows:

<b>Fiscal Year</b>	<b>Gross Budget</b>	<b>Adopted by the Board of Supervisors</b>
1996-97	\$2,279,981	
1997-98	\$2,445,026	
1998-99	\$2,491,893	
1999-00	\$2,455,726	
2000-01		\$2,775,022

### **State-County Property Tax Administration Loan Program**

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

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

Santa Cruz County has participated in the PTAP since inception of the program. The assessor's performance for the January 1999 agreement was audited and certified by the Santa Cruz County Auditor-Controller's Office. The county was not required to repay the loan, since it exceeded the combined contract goals for 1999.

The county entered into another agreement for fiscal year 2000 with the Department of Finance in order to continue participation in the PTAP program. Under the terms of the agreement, the county may apply for a loan of \$565,000; and, the county may apply for an additional loan, not to exceed \$565,000, for the year 2001. This agreement will expire on June 30, 2003.

Santa Cruz County has used PTAP funds to increase staff to perform mandatory audits, reduce backlogs in change in ownership and new construction assessments, prepare assessment appeals, and review decline-in-value assessments. Funds have also been used to purchase new information technology hardware and software, all designed to increase the long-term productivity of the assessor's office.

### **Assessment Roll Changes**

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

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

Roll Year	Roll Changes
1997-98	1,361
1998-99	1,052
1999-00	993
2000-01	2,318

Rule 261 provides that when penalties are imposed under section 463, notice on the local roll is required in one of three forms identifying the penalties and escape assessment. In addition, section 533 requires a notation to be included on the roll for the current assessment year. Correct identification of penalties and escape assessments was a recommendation in our prior survey report.

**RECOMMENDATION 1:** Correctly identify penalty and escape assessments on the current assessment roll.

The current assessment roll contains the amount of the escape assessment and the year of escape, but it does not include the penalty identification required by Rule 261 or the notation required by section 533.

Rule 261 requires the assessor to enter section 463 penalty assessments on the local roll in one of three ways:

- (1) Adding appropriate penalties to the assessed value of each class of property to which the penalty is applicable and referencing the values to footnotes or entries in the remarks column which reads: "Includes \_\_% penalty added pursuant to Sec. \_\_\_\_\_, R & T Code."
- (2) Inserting the amount to be added to the assessed value of each class of property below the assessed value and identifying the penalty by an entry on the same line but in another column or other columns which reads: "Penalty added pursuant to Sec. \_\_\_\_\_, R & T Code."
- (3) Entering the amount to be added to the assessed value of each class of property in another part of the roll, together with the name and address of the assessee, the tax-rate area code, the words "Penalty added pursuant to Sec. \_\_\_\_\_, R & T Code" and a cross reference to the place on the roll at which the assessed values are entered.

Section 533 requires the assessor to enter an escaped assessment on the roll for the current assessment year. If the escape is for a prior roll, the entry on the current roll must state "Escaped assessment for year 19\_\_ pursuant to Sections \_\_\_\_\_ of the Revenue and Taxation Code." This notation provides notice of escape assessment to the public. In addition, *City of Los Angeles v. County of Inyo*, 167 Cal.App.2d 736 provides that the entry of an escaped assessment on the current roll without the above required notation is not permitted.

We recommend that the assessor correctly identify penalties and escape assessments on the current roll as required by law.

**Assessment Appeals**

The assessment appeals function is required by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory references to direct county assessment appeals boards in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted rules 301 through 326.

The Santa Cruz County Board of Supervisors created, by ordinance, an assessment appeals board (AAB) in April 1968. The AAB is composed of three appointed members and one alternate member. The following table summarizes the results of the appeals filed with the AAB for the last four years:

<b>Year</b>	<b>Appeals Filed</b>	<b>Assessor's Value</b>	<b>AAB Adopted</b>	<b>% Change</b>
1996	314	\$499,929,991	\$451,548,074	-9.7%
1997	302	\$601,700,659	\$566,732,874	-5.8%
1998	167	\$576,746,552	\$560,820,668	-2.8%
1999	238	\$527,288,462	\$508,065,068	-3.6%
2000	75	\$391,641,719		

**Note:** Most of the appeals filed for the 2000-01 assessment year were in process at the time we performed our fieldwork.

During the last five years, the AAB received an average of 220 applications for assessment reduction per year. The clerk of the assessment appeals board processes and schedules these applications for hearing. The appraiser who made the initial assessment prepares the appeals presentation. The assessor requests a copy of the findings of fact for most AAB hearings.

We found no problems with the assessor's assessment appeals program.

**Low-Value Property Exemption**

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

In our previous survey, we recommended that the board of supervisors determine an exemption level and uniformly apply the low-value property exemption to all classes of property. The board of supervisor's resolution exempted real property and certain personal property (i.e., boats and aircraft) that had a value of less than \$2,000 and other personal property and certain manufactured home accessories that had a value of less than \$5,000. The board of supervisors has since amended the resolution, authorizing the assessor to exempt any real property having a base year value of \$2,000 or less, and personal property with a full value of \$5,000 or less.

The board of supervisor's resolution complies with section 155.20 and, with the exception of possessory interests, the assessor correctly applies the exemption. The exception is addressed under the subject of possessory interests.

### ***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 qualifying misfortune or calamity and/or a major misfortune or calamity within a region that has been declared to be a state of disaster by the Governor.

To qualify for disaster relief, the property must suffer a misfortune or calamity in which the amount of damage exceeds \$5,000 (\$10,000 beginning January 1, 2002). To obtain relief under this ordinance, the assessee must timely file a written application with the assessor requesting reassessment of the property.

The board of supervisors has adopted a disaster relief ordinance. The ordinance was updated March 2, 1982, and it conformed to the requirements of section 170 as of the time we performed our fieldwork for this survey. The assessor processes approximately 15 calamity claims per year.

In our prior survey, we suggested that the assessor expand the methods of discovering properties that have experienced a calamity or disaster. The assessor now receives an electronic copy of the Santa Cruz Sentinel newspaper. This electronic file is routinely scanned for properties that may qualify for calamity relief. In addition, the assessor recently met with all of the fire chiefs in the County to develop procedures by which the fire departments notify the assessor of properties that suffer qualifying damage.

**RECOMMENDATION 2:** Revise the filing deadlines contained in the calamity brochure and the cover letter mailed with disaster relief applications to conform to the county's disaster relief ordinance.

The assessor's public documents contain two different filing periods, and each is different from the period specified in the county's disaster relief ordinance. The county's disaster relief ordinance specifically provides that the property owner must file an application for calamity relief within 120 days after the date of the calamity. One of the assessor's brochures, *When Disaster Strikes, The Calamity Application*, provides that the application for reassessment may be filed within 60 days. In a cover letter sent to the taxpayer with a disaster relief application, it states that the application must be filed within 30 days of the date of the notification.

This presents the taxpayer with a confusing picture of the filing deadline. At the time of our fieldwork, section 170(a) provided that the application may be filed within the time specified in the ordinance, or, if no time is specified, within 60 days of the disaster. Since the disaster relief ordinance specified a specific time period of "within 120 days," this was the applicable filing

deadline. Effective January 1, 2002, section 170 was amended to provide for filing within the time specified in the ordinance or within 12 months, whichever is later.

We recommend that the assessor revise the filing deadlines contained in the calamity brochure and the cover letter mailed with disaster relief application to conform to the county ordinance.

### ***Supplemental Assessments***

Chapter 498 of the Statutes of 1983 and other statutes relating to the supplemental roll were enacted to provide additional funding for public schools and to promote equitable treatment of taxpayers. Section 75.10 requires the assessor to appraise property at its full cash value on the date that a change in ownership occurs or when qualifying new construction is completed. This new value is the new base year value for the property that changed ownership or was newly constructed. Section 75.11 requires a supplemental assessment to be made for the difference between this new base year value and the taxable value on the current roll.

The new base year value is reflected on the supplemental roll for the balance of the fiscal year in which the qualifying event occurs. If the event occurs on or after the lien date and on or before May 31, a second supplemental assessment is levied for the coming fiscal year.

**RECOMMENDATION 3:** Enroll all supplemental assessments.

We had found that the assessor was not enrolling supplemental assessments of less than \$2,000. However, these assessments are now added to the roll being prepared.

Section 75.55 authorizes a county board of supervisors to provide for the cancellation of small tax amounts or small supplemental assessments where the resulting taxes are less than the cost of assessing and collecting those taxes. In our previous survey, we recommended that the assessor request that the board of supervisors adopt an ordinance granting the assessor the authority to cancel small supplemental assessments. Instead, the board of supervisors adopted an ordinance authorizing the treasurer-tax collector to cancel tax bills when the amount of taxes is less than the county's cost of administration. This ordinance is pursuant to and consistent with section 75.55 (a). Section 75.41 also authorizes the auditor-controller to cancel any supplemental tax that is less than twenty dollars.

Since the assessor does not have the statutory authority to exclude any supplemental assessments from the supplemental roll, we recommend that the assessor enroll all supplemental assessments.

## ASSESSMENT OF REAL PROPERTY

### **Change in Ownership**

The assessor uses documents recorded with the Santa Cruz County Recorder as the primary means of discovering changes in ownership. For the 1999-2000 assessment year, the assessor processed 15,602 recorded documents for possible changes in ownership. As a result, 6,845 parcels were reappraised.

The following table represents the workload experienced by the assessor's office during the previous five years:

<b>Roll Year</b>	<b>Documents Processed</b>	<b>Parcels Reappraised</b>
1999-2000	15,602	6,845
1998-1999	15,430	7,004
1997-1998	13,453	6,923
1996-1997	11,823	4,829
1995-1996	10,536	5,113

### **Change in Ownership Statements**

Section 480 requires a transferee to file a change in ownership statement (COS) with the assessor whenever a change in ownership of real property occurs. The format of the COS (BOE-502-AH) is BOE-prescribed and cannot be altered without approval by the BOE.

**RECOMMENDATION 4:** Use the BOE-prescribed change in ownership statement.

The assessor uses an in-house transfer questionnaire instead of the BOE-prescribed change in ownership statement. Although the transfer questionnaire used by the assessor is very similar to the BOE-prescribed COS, the format differs in a number of areas.

Section 480(c) requires that the parties to the transaction, and other data, must be included on the COS. The assessor's transfer questionnaire does not request any information regarding the seller/transferee. The assessor has added internal tracking and processing data fields to the transfer questionnaire. Finally, the questionnaire is identified as the official BOE's prescribed *Change in Ownership Statement*. This identification should only be used on the BOE-prescribed form or a prototype of the BOE form.

In addition, the assessor certified on the BOE's annual *Checklist of Miscellaneous Board-Prescribed Property Tax Forms* that he was going to use a prototype of BOE-502-AH. If the assessor wants to use a modified form of the prototype, he is required to submit the rearranged form for review. However, the assessor has not submitted the modified form for approval by the BOE.

We recommend that the assessor use the BOE-prescribed COS. If he wants to use a modified COS, he should submit it to the BOE for approval.

## Public Transfer List

The assessor is required by section 408.1 to maintain a list of transfers of any interest in property, other than undivided interests, that have occurred within the preceding two-year period. The listing must include certain information as set forth in section 408.1, and it must be available for public inspection. However, the assessor can require a payment of a nonrefundable fee for inspection of the list.

The assessor does maintain a public transfer list as required by section 408.1. The list, however, does not contain all of the required information.

**RECOMMENDATION 5:** Include all of the information required by section 408.1 on the public transfer list.

The assessor's transfer list does not include the names of the transferor and transferee, address of the property, and the date of recording. Section 408.1 provides that the public transfer list must include these items. Section 408.1 was enacted to assist the average taxpayer in obtaining meaningful sales data to review his or her assessment and to prepare an assessment appeal. By not including the names of the transferor and transferee, address of the property, and date of recording, taxpayers reviewing the transfer list cannot obtain sufficient information from this list to effectively review their assessments.

We recommend the assessor revise the public transfer list to include all information required by section 408.1.

## Exclusions from Change in Ownership

Under specific conditions, section 63.1 excludes from change in ownership the purchase or transfer of a principal residence and the first one million dollars of other real property between parents and their children. The transfer must have been made on or after November 6, 1986 and a claim for exclusion must be filed in a timely manner. Subsequent amendments to section 63.1 also exclude certain transfers between grandparents and their grandchildren.

**RECOMMENDATION 6:** Grant the section 63.1 exclusion only upon receipt of a complete application.

We found that the assessor grants the section 63.1 exclusion even though the application is incomplete. For example, Section 63.1 requires that when property being transferred is not a principal residence of the transferor, the transferor must provide a listing of other real property transferred that has also been subject to the exclusion. This information is necessary to ensure that the transferor claims no more than the constitutional limit of \$1 million. We found many applications that did not contain the statutorily required listing of other real property transferred. Additionally, the assessor has no procedures in place to obtain the missing information.

By not obtaining this information, the assessor, and subsequently the BOE, has insufficient information to monitor the \$1 million exclusion limit. Since this information is required for the completion of a section 63.1 claim, the assessor should ensure compliance before granting the exclusion.

We recommend the assessor grant the section 63.1 exclusion only upon the filing of a completed claim.

### **Transfer of a Base-year Value to a Replacement Dwelling**

Section 69.5 allows qualified homeowners over the age of 55 years to transfer the base-year value of their principal residence to a replacement dwelling of equal or lesser value purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed. Subsequently, section 69.5 has been amended to allow counties to extend this exclusion to (1) intercounty transfers and (2) qualified applicants who are severely and permanently disabled.

In 1998, the assessor processed 195 section 69.5 claims. The claims appear to have been processed in a timely, consistent manner.

**RECOMMENDATION 7:** Report all section 69.5 approved claims to the BOE on a quarterly basis.

In order to prevent statewide duplication of claims, section 69.5(b)(7) requires assessors to report quarterly to the BOE specified information to identify all claimants who have received relief under this section. The assessor has submitted only three reports to the BOE within the last three years.

Since this is a transfer of a base year value by the transferor, and since the BOE is required to monitor this benefit statewide, the assessor must report quarterly all claims in the county to the BOE so that the BOE can maintain a current database of information.

We recommend that the assessor comply with section 69.5(b)(7) by reporting quarterly all approved section 69.5 claims to the BOE.

### ***New Construction***

Section 71 and rule 463 require that qualifying newly constructed real property be valued as of the date of completion or, if still under construction, as of the lien date. Various code sections and property tax rules provide definitions as to what activities qualify as new construction or are excluded from the definition of new construction.

When new construction is discovered, the assessor is required to enroll any additional value created by the new construction. The majority of new construction is discovered through the review of issued building permits. The Santa Cruz County Building Department and the Health Services Agency input all building permit data into the Automated Land Use System (ALUS). The assessor has full access to the ALUS, so all building permit data are available to the assessor.

Four other governmental agencies also issue building permits in Santa Cruz county: the cities of Santa Cruz, Watsonville, Scotts Valley, and Capitola. To ensure the receipt of all issued building permits from these agencies, the assessor arranged for reporting of building permit data by electronic filing. We commend the assessor for this innovative use of technology to coordinate the new construction program.

After receiving the permit data, the assessor's staff culls building permits that do not meet the definition of new construction and adds the data from the remaining permits into the office's computer system. The computer system then generates a transmittal form that is placed in the property's appraisal folder. The workload is distributed to the appraisal staff based on geographic location. The responsible appraiser reviews the data and appraises the new construction.

The assessor annually receives slightly more than 5,000 permits from the various permit-issuing agencies. The following data illustrates the number of permits that require a reassessment and the gross increase in value created by new construction:

<b>Year</b>	<b>Parcels Reappraised</b>	<b>Value Enrolled</b>
1999-00	1,510	\$258,638,721
1998-99	1,757	\$153,357,423
1997-98	1,562	\$113,945,339
1996-97	1,190	\$101,163,086
1995-96	1,345	\$104,888,585

We found no problems with the new construction assessment program.

***Declines in Value***

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

The number of decline-in-value assessments has declined from 8,669 in 1995-96 to 1,989 in 1999-2000. Because of the resurgence of property values within the county during the last five years, most former decline-in-value properties are now enrolled at their FBYV. The majority of properties that are still enrolled as decline-in-value assessment are located in the less-developed south county.

The assessor's computer system tracks existing decline-in-value assessments for single-family residences, condominiums, and townhouses to prevent enrollment of the FBYV. The assessor has done a good job of monitoring decline-in-value assessments and restoring FBYV when appropriate.

Section 619 requires the assessor to notify real property owners when their assessments are increased for any reason other than the inflation adjustment provided in section 2 of article XIII A of the California Constitution. Section 619(b) requires the notice to contain assessment appeal information, including the filing period and the filing location, as well as information on the section 1607 stipulation procedures. The assessor notifies taxpayers with a letter containing most of this information.

**RECOMMENDATION 8:** For reviews of decline in value assessments, include an explanation of the stipulation procedure when notifying taxpayers of a value change as required by section 619.

The assessor's notice of increased assessment does not contain an explanation of the stipulation procedure as required by section 619. An explanation of the stipulation procedure must include the manner in which the taxpayer may request a lesser value if he/she chooses to exercise his/her appeal rights.

We recommend the assessor include the required explanation of the stipulation procedure in the notices he sends pursuant to section 619.

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

Section 107 provides that a possessory interest means the possession of, claim to, or right to the possession of land or improvements that is independent, durable, and exclusive of rights held by others in the property. Rule 20 provides that taxable possessory interests are possessory interests in publicly owned real property. Additionally, rule 371 provides that failure to discover and assess taxable possessory interests is a significant assessment problem.

#### **Fairgrounds**

In our previous survey, we recommended that the assessor assess the possessory interests of major users of fairground facilities. Although the assessor has assessed the major users of the fairground facilities, we found other potential fairground taxable possessory interests that were not assessed.

**RECOMMENDATION 9:** Review all private uses at fairgrounds to determine whether taxable possessory interests exist.

While the assessor has assessed the midway carnival, racetrack promoter, and another major user of the fairground facilities, we found many uses at the facilities that may qualify as taxable possessory interests but were never reviewed by the assessor. The fairgrounds manager provided

us with a detailed list of all concessionaires and exhibitors. Except for the three assessments mentioned above, we did not find any assessment or any evidence of review for the rest of the concessionaires and exhibitors.

A review of the list of private uses at the fairgrounds indicates that many of them may be taxable possessory interests.

We recommend that the assessor review all private uses of the fairground facilities to determine whether taxable possessory interests exist.

### Manufactured Homes

**RECOMMENDATION 10:** Unless otherwise provided, assess possessory interests in real property only.

We found several manufactured homes assessed as possessory interests. Section 107 defines a possessory interest as the possession of, claim to, or right to the possession of land or improvements. However, section 5801 provides that manufactured homes shall not be assessed as real property. Except for possessory interests in certain pollution control equipment – which are taxable regardless of classification – possessory interest assessments may not be enrolled for personal property.

We recommend that the assessor assess possessory interests only for the use of publicly owned real property.

### Low Value

**RECOMMENDATION 11:** Enroll all taxable possessory interests that have a value greater than \$2,000.

We found that the assessor improperly applied the \$5,000 low-value property exemption for personal property to possessory interest assessments, when the county's low-value exemption ordinance establishes only a \$2,000 exemption for real property. Since possessory interests are interests in real property, the assessor can exempt them only if their assessed values are \$2,000 or less. Possessory interests with assessed values between \$2,000 and \$5,000 are escaping assessment. The assessor has no authority to exempt real property between \$2,000 and \$5,000.

We recommend that the assessor enroll all taxable possessory interests having a value greater than \$2,000 unless the board of supervisors amends the ordinance to match the assessor's current practice.

### **Taxable Government-Owned Property**

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

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

We found that the Section 11 assessments are made correctly and that the assessor's program for assessing these properties is effective.

### **California Land Conservation Act Properties (CLCA)**

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into contracts restricting the uses of their lands. Lands under contract are valued for property tax purposes on the basis of their agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current unrestricted market value, or the FBYV, as defined in article XIII A of the California Constitution. Sections 422 through 430.5 prescribe the guidelines for assessing lands subject to agricultural preserve contracts.

The county of Santa Cruz has 170 parcels that are restricted by CLCA contract. These parcels represent approximately 23,521 acres and \$108.4 million in assessed value. In addition, the county has 123 acres (\$1.3 million in assessed value) that are restricted under the Farmland Security Act (FSA). Together, the two represent about 0.056 percent of the local roll. Thirteen parcels, 567 acres, are in nonrenewal status.

The assessor complies with all requirements for the discovery and enrollment of CLCA and FSA properties as outlined in sections 422 through 430.5. Valuation procedures conform to acceptable standards except for the selection of the risk component.

**RECOMMENDATION 12:** Use a risk rate of 1 percent for CLCA properties unless higher or lower rates are documented in the manner recommended by Assessors' Handbook Section 521.

The capitalization rate applicable to the valuation of CLCA property consists of a mandatory interest component announced annually by the BOE, a property tax component based on the tax-rate area where a CLCA property is located, and a risk component that is intended to reflect the uncertainty involved with the income projection for the subject property.

The risk component cannot be measured with certainty, especially since section 423 specifically forbids use of sales data to develop the capitalization rate. Instead, section 423 provides that the risk component shall be based on the location and characteristics of the land, the crops to be grown thereon, and the provisions of any lease or rental agreement to which the land is subject.

Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides extensive discussions of the factors that should be considered in determining the risk components for land and for living improvements. The manual recommends that a risk component of 1 percent be used as a *basic* risk rate. The manual goes on to list factors that would indicate when higher risk rates (and therefore lower values) or lower risk rates (and therefore higher values) are appropriate.

The assessor uses a risk component of 0.25 percent for most CLCA properties. We found no documentation to justify such a low rate. The assessor's current practice results in higher assessed values than would be determined under the guidelines recommended in AH 521.

Accordingly, we recommend that the assessor use a basic risk rate of 1 percent and conduct studies to establish rates that reflect the risks for the various types of CLCA land and living improvements.

### ***Timberland Production Zone (TPZ)***

Section 423.9 requires the assessor to appraise land zoned as Timberland Production Zone (TPZ), excluding those lands under CLCA contracts, based on special TPZ site classifications contained in sections 434.5 and 435. The Santa Cruz County Board of Supervisors passed an ordinance adopting the TPZ district in 1978. The original ordinance was amended on two occasions.

TPZ land is assessed in accordance with values determined each year by the BOE. The BOE's values exclude the value of the standing timber. This land is assessed at the lowest of its restricted value, current market value, or factored base year value. All TPZ properties located in Santa Cruz County are classified as Redwood Site Class III.

Santa Cruz County has 475 parcels zoned TPZ. Lands zoned as TPZ comprise approximately 53,000 acres and \$78.2 million in assessed value. This represents about 0.04 percent of the local roll. One hundred sixty-five parcels are improved with either residences or other compatible improvements. We found no problems with the assessor's TPZ assessment program.

### ***Leasehold Improvements***

Leasehold (tenant) improvements are improvements on land owned by someone other than the owner of the improvements. Leasehold improvements may be enrolled on either the secured or unsecured assessment roll.

Schedule B of the business property statement requires taxpayers to report real property costs incurred for construction, remodeling, and alterations at a given business location. These include costs expended by tenants for improvements to rented or leased buildings.

Business property statements also serve as a check on construction that may have been performed without a building permit. Coordination between the real property and business property divisions provides real property appraisers with original costs reported by the tenant or property owner. Correspondingly, real property appraisers provide auditor-appraisers with data that aids in classifying reported costs as real or personal property components.

The auditor-appraisers in the business property division review the costs reported on Schedule B's for those improvements believed to be assessable leasehold improvements. They forward copies of business property statements that indicate structure costs to the real property division for analysis and follow-up.

The business property division assesses all fixture leasehold improvements to the owner of the leasehold improvements. It is the responsibility of the leasehold owner to notify the assessor's office of any changes regarding property deletions, additions, and location. These leasehold improvements are valued using reported acquisition cost on the business property statement.

We reviewed ten business property statements and real property assessment records with leasehold improvements. Additionally, we looked at the valuation of the leasehold improvements in light of the prior survey recommendation that noted that a truncated inflation factor was used by the business property division due to the limitations of the in-house computer system. We found that the assessor has implemented our prior recommendation.

We found that items reported on the business property statements pertaining to real property were properly transmitted to the real property division. Also, we found that there was good verbal communication between the real property and business property divisions before such transmittals.

### ***Water Company Property***

Water company properties assessed on local tax rolls may be organized as municipal systems on taxable government-owned land (article XIII, section 11 of the Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water associations. Due to jurisdiction and regulation, each type may require different appraisal methodology. A review of the articles of incorporation will generally identify whether a water company is a municipal, private, or mutual water company.

### Mutual Water Companies:

A mutual water company is a private association of persons 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 mutual lands, improvements, and delivery systems, as value is included in the value of the served parcels.

Assessments of mutual water companies property are appropriate in some cases. For example, ownership interests represent equity value only. If there is debt associated with the water company property, that portion of the property should be assessed. This and other issues relating to mutual water companies are discussed in Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*.

### Private Water Companies:

Regulated and unregulated private water companies are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the CPUC. The CPUC regulates the rates charged by private water companies, with profit being limited to a return based on a company's outstanding investment. Because the current market values of these properties are tied directly to regulated rates, assessed value may be less than a water company's factored base year value, making it necessary to annually determine its taxable value as of the lien date.

In our prior report, we recommended that the assessor require every water company to file an annual business property statement and/or a CPUC report. In lieu of obtaining the recommended documentation, the assessor analyzed the business property statements of water companies, conducted on-site inspections, and reviewed the financial records of the water companies. We found that this audit fulfills the need for the recommended documents and produces appropriate assessments.

Water companies are assigned use codes to assist in their tracking. From listings of water companies provided by the State of California Department of Health Services, Division of Drinking Water and Environmental Management, and the CPUC, we reviewed numerous mutual and private water companies assessments and found no problems.

We found that the assessor is in compliance with all statutory and BOE guidelines.

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

### ***Introduction***

For the 2000 lien date, the assessor's business property staff consisted of one chief auditor-appraiser, two auditor-appraisers, one auditor-appraiser trainee, and one assessment clerk. The staff is responsible for annually processing over 11,000 business property statements. The following table illustrates the workload by category:

<b>Property Type</b>	<b>Number of Accounts</b>
Agriculture	173
Business	5,680
Financial	83
Possessory Interest	1,338
Leased Equipment	962
Misc. Assessments	941
Aircraft	307
Vessels	1,677
TOTAL	11,161

### ***Audit Program***

The audit program is one of the most important functions of an assessor's business property assessment program. Audits ensure that taxable property has been reported accurately by the taxpayer and assessed properly by the assessor. Audits also allow investigation and resolution of reporting and appraisal problems. A property tax audit is a means of collecting data relevant to determination of taxability, situs, and value of property. Based on the audit findings, the original assessment may be adjusted to reflect the audited values.

In our prior survey report, we recommended that the assessor follow statutory requirements and enroll underassessments or overassessments discovered during an audit for all years. We found that the assessor has revised his procedures to ensure that the underassessments or overassessments are enrolled for the appropriate years.

**Mandatory Audit Program**

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more.<sup>3</sup> Additionally, rule 371 provides that performance of mandatory audits is one of the significant assessment problem criteria.

**RECOMMENDATION 13:** Complete the mandatory audits required by section 469.

The assessor still remains deficient in completing his mandatory audits. In our prior survey, we discovered that the assessor was auditing less than one-half of the accounts subject to mandatory audit. Although some progress has been made, there are still many audits that have not been completed as required by section 469.

For the 1999-2000 assessment year, there were 377 mandatory audit accounts. That equates to approximately 94 audits per year, for a four-year cycle. The number of mandatory audits completed over the last four years is:

<b>Fiscal Year</b>	<b>Completed Mandatory Audits</b>
1997	44
1998	43
1999	53
2000	49

The assessor has averaged about 47 completed audits per year over the last four years. This is an improvement from the 28 average audits reported in our prior report, but he is still behind the required mandatory audit production of 94 audits per year. He must immediately address this deficiency, either by obtaining additional staff, redirecting positions, or redirecting work priorities.

We strongly recommend that the assessor timely complete his mandatory audits.

**Nonmandatory Audits**

The assessor has an active nonmandatory audit program. An audit program for accounts below the mandatory level can produce tax revenue greater than the cost of the program. However, we caution the assessor to not engage in the nonmandatory audit program to the exclusion of his mandatory audit program.

---

<sup>3</sup> Subsequent to our fieldwork, the Legislature amended section 469 to \$400,000, effective January 1, 2001.

## Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete a mandatory audit within the prescribed time, the assessor should request a waiver of the statute of limitations from the taxpayer to avoid possible loss of revenue and to protect the taxpayer's right to receive a refund if overassessments occurred.

**RECOMMENDATION 14:** Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time.

Completed waivers have not been sought, or signed, for many accounts for which mandatory audits are overdue and the statute of limitations has expired. It is the assessor's policy to obtain waivers only if there is a delay attributable to the taxpayer, or if an audit in progress may extend past the statute of limitations.

In the two previous BOE surveys, we recommended that the assessor obtain signed waivers of the statute of limitations when mandatory audits will not be completed on time. By failing to obtain signed waivers, the assessor may have allowed some taxable property to permanently escape assessment because the assessor could not enroll any potential escape assessments. Similarly, if overassessments occurred, it may not be possible to grant refunds within the time specified in the statute of limitations.

We again recommend that the assessor obtain a signed waiver for any mandatory audit which will not be completed before the statute of limitation expires.

## ***Discovery***

The assessor has an aggressive discovery program. Auditor-appraisers and support personnel canvass the county during the fourth quarter looking for new businesses. Field canvassing is the principal means of discovery of new businesses. It appears that very few businesses with reportable business property escape assessment in Santa Cruz County.

In the prior survey, we recommended that the auditors spend less time on field canvassing and more on the statutory requirement of completing mandatory audits. While field canvassing may subtract from the time performing mandatory audits, we believe at this time that a direct correlation cannot be established. For example, time spent on the performance of clerical duties or nonmandatory audits may be time not spent on mandatory audits. Therefore, we will not repeat this recommendation.

## ***Business Property Statement Processing***

Most business property assessments are based upon data submitted by taxpayers on the annual business property statements (BOE-571). The more accurate the data on the property statements, the more accurate the assessments.

The law requires that every person owning taxable personal property having an aggregate cost of \$100,000 or more, or upon request of the assessor, must file a signed business property statement with the assessor. If a taxpayer fails to file the statement, section 501 gives the assessor the authority to make an estimated assessment based on information in his/her possession, and section 463 provides that a penalty of 10 percent of the assessed value of the unreported taxable property shall be added to the assessment made on the current roll.

The assessor has effective procedures in place to annually process over 11,000 business property statements. There is a low incidence of property owners failing to file annual property statements, and when appropriate, the business property division correctly applies the section 463 penalty.

### ***Valuation of Business Machinery and Equipment***

Taxable values (or assessed values) of equipment are typically derived from historical costs, through the use of valuation factors. The valuation factors are the product of the price index factors and percent good factors. Accurate assessments of equipment depend on the proper choice and application of these factors.

Section 401.5 requires the BOE to issue information that, in its judgment, will promote uniformity in appraisal practices and in assessed values throughout the state. In response, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). The price index and percent good factors contained in AH 581 are used in computing current market value estimates from historical costs of machinery and equipment.

AH 581 contains 12 categories of indices for commercial equipment, six categories for industrial equipment, and one category each for agricultural and construction equipment. The percent good factors are set forth in two tables, one for machinery and equipment, and one for agricultural and mobile construction equipment. For agricultural and construction equipment, the percent good factors are provided for both new and used equipment.

The assessor's staff properly uses the price index and percent good factors from AH 581 to appraise machinery and equipment. The auditor-appraisers analyze the age and condition of all properties when a service life is assigned, according to the best information available. They then apply price index factors and percent good factors as appropriate. If it appears that the service life of a property deviates from the norm, the auditor-appraiser makes adjustments to the assigned service life.

Additionally, the assessor follows the guidelines on page 1 of AH 581 which provides that the maximum equipment index factor utilized should be limited to 125 percent of the estimated average service life of the equipment class to which it belongs. Using the 125 percent method, as described in AH 581, provides a good estimate of taxable value on older equipment still in use.

Equipment valuation factors are programmed into the assessor's computer system. To that end the assessor's staff adapted the factors and service lives to the peculiarities of the computer program. We found the factors used are accurate and the calculations to be mathematically correct.

## Computer Valuation

To promote uniformity in appraisal practices and assessed values, and comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment in AH 581, Table 6 for the 2000 lien date.

We found that the assessor uses the BOE-recommended valuation factors for assessing computers.

## ***Direct Billing Program***

Many California assessors utilize an assessment procedure called direct billing or direct assessment. It is a method of assessing qualified low-value business accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues that value for several years. Property statement filings or field reviews are required periodically. Examples of businesses suitable for direct billing include small apartments, barber shops, beauty salons, coin-operated laundrettes, small cafes and restaurants, and professional firms with minor equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer annual business property statements. This increases time available for the auditor-appraisers to perform other required duties.

The assessor has a direct billing program. The accounts in the program generally fall between \$10,000 and \$30,000 in full cash value of reportable business property. Annually, when the assessor mails regular business property statements, he also sends postcards to all direct-billing accounts. On the postcard, the assessor requests that the taxpayer to contact his office for a property statement if significant changes have occurred during the previous year. Such changes include acquisition of equipment, disposal of equipment, termination of business, and change in location.

Direct-billing accounts are also subject to routine update within the statute of limitations. Every three to four years, the assessor sends a regular business property statement to the taxpayer. When returned, the assessor decides whether the account is still suitable for direct billing. If it is not, the assessor converts the account back to a regular account and resumes mailing annual business property statements.

The assessor checks most direct-billing accounts each year during field canvassing of the commercial districts and converts those accounts that appear to be increasing in value to regular account status. In addition, the assessor routinely changes any direct billing accounts that have changed location or ownership during the year to regular accounts. We found the assessor has an effective direct billing program.

### **Leased Equipment**

One of the responsibilities of the assessor's business property division is the discovery and assessment of leased equipment. Taxpayers are required to report all leased property (taxable property in their possession but belonging to others) on their annual property statements by indicating the type of property, year of acquisition and manufacture, cost to purchase new, description and lease or identification number, annual rent, and the lessor's name and mailing address.

When a lessee reports such equipment on the business property statement, the auditor-appraiser checks to see if the named lessor is on a "lessor list," or if there is a note in the file directing him or her to a particular lessor. If there is an assessment file for the lessor, the auditor-appraiser or technician ensures that the lessor and lessee account files are properly cross-referenced and the business property is properly assessed.

When the auditor-appraisers process business property statements from leasing companies and other known lessors in the county, they check to see whether any items have gone off-lease (expired lease) or have been purchased by the lessee. They accomplish this by comparing lessee and lessor business property statements for common equipment in the current and previous year and searching for off-lease equipment on the lessee's statement.

The assessor annually processes nearly 1,000 property statements that report leased equipment. He uses valuation factors that represent the exact equipment at issue rather than the valuation factors usually associated with a particular commercial enterprise or industry. We found that the assessor's leased equipment program is well managed.

### **Aircraft**

Santa Cruz County has 300 general aircraft, 13 historical aircraft, and no certificated aircraft. The assessor employs two principal means of discovering assessable aircraft: *Airport Manager Reports* (AH 577B) and an annual canvass of the two county airports. A noncertified technician selects values from the value guides. Those values are then reviewed, adjusted, and approved by a BOE-certified appraiser.

#### **General Aircraft**

Section 5363 provides that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft as prescribed by the BOE. Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this section of the handbook. On January 8, 1997, in Letter To Assessors (LTA) 97/03, the BOE approved the *Aircraft Bluebook Price Digest* (Bluebook) as the primary guide for valuing aircraft. In the cases where aircraft are not listed in this price guide, the BOE approved use of the *Vref Aircraft Value Reference*.

As stated in LTA 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

Annually, the assessor sends a statement to aircraft owners requesting information about the aircraft, including total airframe hours, time since last major overhaul, year manufactured, model number, and avionics. The form also solicits comments on the condition of the aircraft. The appraiser uses the information with the Bluebook to determine market value of the aircraft. The assessor's procedures for assessing general aircraft are correct.

### Historical Aircraft

Section 220.5 provides that aircraft of historical significance shall be exempt from taxation, but only if all conditions set forth in section 220.5(b) are met. One of the conditions is that the aircraft is available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year in which the exemption is claimed.

Pursuant to section 220.5(c), when an owner claims an exemption, the claimant shall provide all information required and answer all questions contained in an affidavit furnished to the assessor. The claimant shall sign and swear to the accuracy of the contents of the affidavit before either a notary public or the assessor or his or her designee, at the claimant's option. The assessor may require additional proof of the information or answers provided in the affidavit before allowing the exemption.

We found that the assessor was very liberal in his interpretation of the "available for display" requirement of section 220.5. However, the requirements for exemption are subject to broad interpretation (LTA 88/36) and the assessor has sent letters to all known owners of historical aircraft in the county outlining a stricter interpretation of the display exemption criterion in section 220.5. Otherwise, the assessor utilizes the correct exemption form, and administers the program effectively.

### Vessels

#### Pleasure Boats

The assessor discovers reportable vessels in the county by Department of Motor Vehicles reports, *Harbor Master/Marina Operator Listings* (Form AH576-C), and field canvassing. Auditor-appraisers value pleasure boats based on the information provided by the taxpayer on the *Vessel Owner's Report* (VOR). The principal valuation guide used by the assessor is the *BUC Research Used Boat Price Guide* (BUC). Secondarily, the *National Automobile Dealers Association Small and Large Boat Appraisal Guide* is used if the vessel is not found in BUC. Once the initial value is set, future assessments are annually reduced by an assigned percentage. In addition, the assessor reviews low-value vessel assessments to ensure that they qualify for the low-value exemption.

**RECOMMENDATION 15:** Use a market-derived procedure to assess vessels.

The assessor estimates one annual depreciation factor for all pleasure boats in the county. This factor is not based on any study and not supported by any documentation.

Rather than depreciating all vessels—regardless of type—by the same percentage, a more market oriented method for valuing vessels would be to value them by type. The assessor should first group all vessels as newer or older vessels, and then within each group by type, i.e., cruiser/powerboat, sailboat, inboard, outboard, inboard/outboard, and personal watercraft. Trends in the market values for each of these types could be calculated by comparing a sample of each type in published valuation guides for the current year and previous year. The trend factor could then be applied to all vessels within each type annually. Using a single depreciation rate is likely to cause some vessels to be overassessed and some to be underassessed.

We recommend that the assessor use a market-derived procedure to assess vessels.

### Commercial Vessels

Santa Cruz County is an ocean community with a sizeable fleet of commercial fishing boats. Although the number of commercial vessels has diminished in the past few years, the appraisal of these boats remains an integral part of the assessment program.

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. To qualify for the exemption, vessel owners must file an annual *Affidavit For 4 Percent Assessment Of Certain Vessels* (BOE-576-E). If the affidavit is filed but not timely, the allowed exemption is limited to only 80 percent of the 96 percent exemption.

**RECOMMENDATION 16:** Use the BOE-prescribed forms for obtaining information for the 4 percent assessment of commercial vessels.

Although the assessor uses a prototype of form BOE 576-E, the assessor printed a Supplemental 4 percent Assessment Questionnaire on the reverse side of the form. Even though the questionnaire is designed to solicit additional information from the vessel owner, the form has been altered and therefore cannot be considered a BOE-prescribed form. The assessor's supplemental questionnaire has not been submitted for BOE approval.

We recommend that the assessor use only BOE-prescribed forms for the application for the 4 percent assessment of commercial vessels.

## **Manufactured Homes**

Manufactured homes are subject to local property taxation if first sold new on or after July 1, 1980, or if the owner of a pre-1980 home requests a conversion from vehicle license fee to local property taxation. Manufactured homes are defined in sections 18007 and 18008 of the Health and Safety Code, and statutes prescribing the valuation and assessment of manufactured homes are set forth at sections 5800 through 5842.

Santa Cruz County has over 2,600 manufactured homes on the property tax roll. Of that, 1,258 are sited in resident-owned parks.

### Classification

**RECOMMENDATION 17:** Enroll manufactured homes as personal property.

We found that the assessor properly enrolls manufactured homes on the secured roll, but they are classified as real property instead of personal property. Section 5801 provides that manufactured homes shall not be classified as real property unless they have been affixed to land on permanent foundation systems pursuant to the Health and Safety Code. Improper classification of manufactured homes can affect the amount of taxes levied because of special assessments. Special assessments are levies on real property. Thus, misclassification may result in additional tax liability to the property owner.

We recommend that manufactured homes be enrolled as personal property as provided in the law.

### Changes of Ownership in Resident-Owned Parks

**RECOMMENDATION 18:** Establish a new base-year value for any site within a resident-owned manufactured home park that received the section 62.1 exclusion that has changed ownership.

Where ownership of a resident-owned manufactured home park is held by a legal entity, the assessor has not created a new base year value for the pro rata portion of the real property, when an ownership interest transferred. Section 62.1 requires reassessment of a pro rata portion of the real property of the park upon a change of ownership of an interest in resident-owned parks, subsequent to the initial conversion of the park to tenant ownership.

There are approximately 180 resident-owned manufactured home parks (ROP) within the state. Ownership in ROP's may be structured so that the owner of a manufactured home owns land under the manufactured home (subdivided), or the owner may own an interest in the legal entity that owns the ROP. When the ROP is subdivided, changes of ownership are evidenced by a recorded deed. However, when the park is owned by a legal entity, there may be no direct method for the change in ownership to be discovered by the assessor. Santa Cruz County has 17 ROP's; four are subdivided parks and the remaining parks are owned by legal entities.

The assessor has recognized changes in ownership in the subdivided parks and established new base year values on the individual sites. However, when a manufactured home changes ownership in a ROP owned by a legal entity, the assessor has created a new FBV for the manufactured home but not for the site (pro rata interest).

Section 62.1 provides that ownership interests in such parks be treated on a par with transfers of other forms of share ownership (e.g., condominiums or stock cooperatives). Each share in the legal entity affords its holder the right to participate in the governance of the legal entity and management of the park. The transfer conveys to the shareholder (1) the outright ownership of a particular manufactured home, and (2) the exclusive right to occupy a particular space within the park. Therefore, if the reported purchase price was negotiated in the open market at arm's length, the entire amount should be reflected in the combined assessments of the manufactured home and the underlying interest in the park.

We recommend that the assessor establish a base year value for the site in the ROP where the manufactured home is located by reassessing a pro rata portion of the real property of the park when there has been a transfer of an ownership interest in the park.<sup>4</sup>

### ***Service Stations***

There are approximately 40 service stations in Santa Cruz County. Prior to the addition of article XIII A of the California Constitution, service station improvements were generally assessed as a single unit without differentiating between structure and fixture classification. After the addition of article XIII A, fixture improvements and structure improvements needed to be properly classified because of new construction definitions and decline-in-value assessments, and for supplemental roll purposes.

One auditor-appraiser appraises all service station properties. The auditor-appraiser correctly classifies improvements for new service stations. For established service stations that have experienced removals and replacements of old fixtures, the auditor-appraiser appropriately reclassifies the improvements. A packet is sent to the service station owner, as suggested by LTA 88/24, when a reallocation of fixtures and structures occurs. The packet explains the change and the reason for the reallocation.

The assessor's service station assessment program is appropriately administered.

---

<sup>4</sup> Subsequent to our fieldwork, the Legislature amended section 62.1 to prohibit levying any escape or supplemental assessments for transfers in ownership of these properties that occurred between January 1, 1989 and January 1, 2002.

## **APPENDICES**

### ***A: County Property Tax Division Survey Group***

#### ***Santa Cruz Assessment Practices Survey***

##### ***Chief, County Property Tax Division***

Charles Knudsen

##### ***Survey Program Director:***

Gene Palmer

Principal Property Appraiser

##### ***Survey Team Supervisor:***

Arnold Fong

Supervising Property Appraiser

##### ***Survey Team Leader:***

James Lovett

Senior Specialist Property Appraiser

##### ***Survey Team:***

Sally Boeck

Senior Specialist Property Appraiser

Ancil Aydelott

Associate Property Auditor Appraiser

Jody Henning

Associate Property Appraiser

Ken King

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Marilyn Jones

Tax Technician II

Julius Trujillo

Tax Technician II



**B: 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.

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



## COUNTY OF SANTA CRUZ

ROBERT C. PETERSEN, ASSESSOR  
701 OCEAN STREET  
SANTA CRUZ, CA 95060  
(831) 454-2002 FAX: (831) 454-2495

RECEIVED

NOV 28 2001

November 19, 2001

County Property Tax Division  
State Board of Equalization

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

**RE: Santa Cruz County Assessment Practices Survey Response**

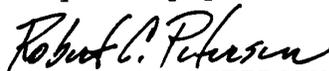
Attn: Charles Knudsen

Dear Mr. Knudsen:

Pursuant to Section 15645 of the California Government Code, the following report is the Assessor's Response to the 2001 Assessment Practices Survey. Please incorporate our response into your Final Assessment Practices Survey Report.

We wish to thank the survey team for the courteous and professional manner in which they conducted the survey.

Very truly yours,

  
ROBERT C. PETERSEN

ASSESSOR

Attachment: Response to 2001 Assessment Practices Survey

EXCELLENCE

INTEGRITY

SERVICE



# COUNTY OF SANTA CRUZ

ROBERT C. PETERSEN, ASSESSOR

701 OCEAN STREET

SANTA CRUZ, CA 95060

(831) 454-2002

FAX: (831) 454-2495

RE: 2001 Assessment Practices Survey Assessor's Responses

Recommendation 1: Correctly identify penalty and escape assessment on the current assessment roll.

Response: We will work with the Auditor, Tax Collector and Information Services departments to comply with the requirements of section 533 and Rule 261.

Recommendation 2: Revise the filing deadlines contained in the calamity brochure and the cover letter mailed with disaster relief applications to conform to the county's disaster relief ordinance

Response: Recommendation implemented.

Recommendation 3: Enroll all supplemental assessments.

Response: We will request that the Board of Supervisors amend their previous ordinance and give the Assessor the authority to cancel small supplemental assessments

Recommendation 4: Use the BOE-prescribed change in ownership statement.

Response: The use of the Change of Ownership Statement (COS) has been discontinued.

Recommendation 5: Include all of the information required by section 408.1 on the public transfer list.

Response: A request has been made to the Information Services Department to modify the computer programming which will result in a complete transfer list.

Recommendation 6: Grant the Section 63.1 exclusion only upon receipt of a complete application

**Response:** The exclusion will not be granted if the required listing of other real property transferred is omitted.

**Recommendation 7:** Report all section 69.5 approved claims to the BOE on a quarterly basis.

**Response:** Recommendation implemented

**Recommendation 8:** For reviews of decline in value assessments, include an explanation of the stipulation procedure when notifying taxpayers of a value change as required by section 619.

**Response:** Recommendation implemented

**Recommendation 9:** Review all private uses at fairgrounds to determine whether taxable possessory interests exist.

**Response:** Recommendation implemented

**Recommendation 10:** Unless otherwise provided, assess possessory interest in real property only.

**Response:** Recommendation implemented

**Recommendation 11:** Enroll all taxable possessory interests that have a value greater than \$2,000.

**Response:** Recommendation implemented

**Recommendation 12:** Use a risk rate of 1 percent for CLCA properties unless higher or lower rates are documented in the manner recommended by Assessors' Handbook Section 521.

**Response:** Recommendation accepted and a study to establish rates that reflect the risks for the various types of CLCA land and living improvements will be conducted.

**Recommendation 13:** Complete the mandatory audits required by section 469.

**Response:** Beginning with FY 2001-02 audit work assignments have been changed which will bring us into compliance with Section 469.

**Recommendation 14:** Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time.

**Response:** Recommendation implemented.

**Recommendation 15:** Use a market-derived procedure to assess vessels.

**Response:** A market study will be conducted in 2002 which will enable us to implement this recommendation.

**Recommendation 16:** Use the BOE-prescribed forms for obtaining information for the 4 percent assessment of commercial vessels.

**Response:** Our local form will be sent to BOE for advanced approval.

**Recommendation 17:** Enroll manufactured homes as personal property.

**Response:** Recommendation implemented.

**Recommendation 18:** Establish a new base-year value for any site within a resident-owned mobile home park that received the 62.1 exclusion that has changed ownership.

**Response:** Recommendation implemented.