

SOLANO COUNTY ASSESSMENT PRACTICES SURVEY

JUNE 2014

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No. 2014/029

June 6, 2014

TO COUNTY ASSESSORS:

**SOLANO COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Solano 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 Marc C. Tonnesen, Solano County Assessor/Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Solano County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from July through August 2012. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Tonnesen 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/ Dean R. Kinnee for

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:dcl
Enclosure

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INTRODUCTION

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

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

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

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* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.

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

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

EXECUTIVE SUMMARY

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

There are several innovations the assessor has put in place in recent years:

- Scanning and linking *Preliminary Change of Ownership Report* (PCOR) images to the appropriate assessor's parcel number (APN).
- Linking recorded document images to the appropriate APN.
- Scanning all homeowners' exemption claim forms.
- Implementing aerial imagery software (Pictometry) to aid in the assessment of properties that are difficult to access.
- Implementing a computerized mass appraisal system to assist in the valuation of residential properties experiencing a decline in value.
- Implementing procedures to effectively administer and maintain assessments of employee-owned property.

Many of our recommendations concern portions of programs which are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, we found that the assessor is properly handling staffing, workload, staff property and activities, and assessment appeals programs. However, we noted improvement is needed in the low-value property exemption program, as well as the exemptions program.

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

In the area of personal property and fixtures assessment, the assessor has effective programs for manufactured homes and vessels. However, the assessor is in need of improvement in the audit, business property statement, business equipment valuation, and aircraft programs.

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

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

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

RECOMMENDATION 1: Improve the low-value property exemption program by tracking the factored base year values of all exempted low-value real properties.14

RECOMMENDATION 2: Improve the administration of the disabled veterans' exemption by: (1) correctly calculating the amount of the exemption to be granted for a late-filed claim on the low-income disabled veterans' exemption, and (2) granting the disabled veterans' exemption on a prorated basis for the initial qualifying year in accordance with sections 276.1 and 276.2.....17

RECOMMENDATION 3: Ensure that the assessor's transfer list does not include any confidential information.....21

RECOMMENDATION 4: Improve the LEOP program by applying appropriate penalties as required by section 482(b).....23

RECOMMENDATION 5: Value properties subject to improvement bonds in accordance with section 110(b).27

RECOMMENDATION 6: Improve the CLCA property program by valuing compatible commercial use sites utilizing an economic commercial rent.....33

RECOMMENDATION 7: Improve the taxable possessory interests program by: (1) assessing all taxable possessory interests, (2) reappraising taxable possessory interests in compliance with section 61(b)(2), (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (4) properly issuing supplemental assessments for taxable possessory interests.....35

RECOMMENDATION 8: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.39

RECOMMENDATION 9: Value taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement (BPS).....41

RECOMMENDATION 10: Correctly classify machinery and equipment reported on business property statements (BPS).....42

RECOMMENDATION 11: Correctly apply penalties when BOE-577, *Aircraft Property Statement*, is not returned timely.45

RECOMMENDATION 12: Grant the historical aircraft exemption only when all qualifying conditions have been met pursuant to section 220.5.47

OVERVIEW OF SOLANO COUNTY

Solano County is located in northwest California. The county encompasses an area of 906 square miles, which consists of 822 square miles of land and 84 square miles of water. Created in 1850, Solano County was one of California's original 27 counties. Solano County is bordered by Napa County to the northwest, Yolo County to the north and east, Sacramento County to the east, Contra Costa County to the south, and San Pablo Bay to the west.

As of 2010, Solano County had a population of 413,344. Solano County has seven incorporated cities: Benicia, Dixon, Fairfield, Rio Vista, Suisun City, Vacaville, and Vallejo. The county seat is Fairfield. Solano County is home to Travis Air Force Base, the Anheuser-Busch Brewery, the Jelly Belly Candy Company, Six Flags Discovery Kingdom, and the Suisun Wildlife Center.



The following table displays information pertinent to the 2011-12 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$10,318,972,612
	Improvements	\$26,044,383,495
	Fixtures	\$1,630,606,834
	Personal Property	\$1,128,287,438
	Total Secured	\$39,122,250,379
Unsecured Roll	Land	\$48,759,710
	Improvements	\$51,700,151
	Fixtures	\$460,099,728
	Personal Property	\$1,797,089,544
	Total Unsecured	\$2,357,649,133
Exemptions³		(\$2,395,357,428)
	Total Assessment Roll	\$39,084,542,084

The next table sets forth the changes in assessed values over recent years:⁴

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2011-12	\$39,084,542,000	-1.6%	0.1%
2010-11	\$39,703,866,000	-3.9%	-1.9%
2009-10	\$41,317,942,000	-9.7%	-2.4%
2008-09	\$45,764,370,000	-0.8%	4.7%
2007-08	\$46,137,915,000	9.9%	9.6%

³ The value of the Homeowners' Exemption is excluded from the exemptions total.

⁴ State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, workload, staff property and activities, assessment appeals, low-value property exemption, and exemptions.

Budget and Staffing

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

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2011-12	\$5,480,960	-6.1%	34
2010-11	\$5,836,346	3.2%	35
2009-10	\$5,654,855	-5.3%	40
2008-09	\$5,968,796	17.6%	45
2007-08	\$5,076,403	-1.8%	45

As of the date of our survey, there were 34 full-time budgeted permanent positions. This included the assessor, assistant assessor, 1 chief appraiser, 2 supervising real property appraisers, 1 supervising auditor-appraiser, 1 clerical operations manager, 14 appraisers, 2 auditor-appraisers, 1 mapping technician, 1 appraiser technician, and 9 clerical support staff. This represented a 24 percent decrease in staffing from the 2007-08 roll year.

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

As shown in the previous tables, the gross budget has decreased three of the last five years, most recently showing a decrease, and the total assessment roll value has decreased four of the last

five years, most recently showing a decrease. The assessor's workload, however, has fluctuated over recent years. The number of reappraisable transfers due to changes in ownership and the number of assessment appeals filed have decreased two of the past four years. The number of new construction assessments has decreased each of the past four years, while the number of decline-in-value assessments has increased each of the past four years.

These trends are shown in the following table:

WORKLOAD DESCRIPTION	2011-12	2010-11	2009-10	2008-09	2007-08
Reappraisable Transfers	748	11,393	12,720	12,115	7,545
New Construction Assessments	316	673	777	1,070	1,799
Decline-In-Value Assessments	78,150	67,624	63,474	57,710	33,938
Assessment Appeals Filed	617	645	941	909	296

Staff Property and Activities

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

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

In Solano County, all certified appraisers in the assessor's office are required to annually submit Form 700. The forms are submitted to and maintained by the Solano County Registrar of Voters' Office. Annually, the assessor certifies to the BOE that he and his staff have complied with the requirements of section 672 by disclosing their financial interests.

The assessor's policy for assessing employee-owned property within the county is clearly outlined in Management Memorandum No. 2009-002, *Procedures for Maintaining the Integrity of Assessments of Employee-Owned Properties*. According to these procedures, the chief appraiser designates a certified supervising level staff member to appraise assessable events for employee-owned property in a timely manner. The chief appraiser reviews and approves all appraisals for employee-owned property prior to value enrollment. This includes reviewing and signing the appraisal worksheet, validating the value methodology used in the appraisal, and ensuring proper enrollment of the value. All transactions must be clearly documented.

For assessable events involving property owned by the chief appraiser, the assistant assessor determines who will perform the appraisal. The completed appraisal is then reviewed and approved by the assistant assessor. For assessable events involving property owned by the

assessor, either a supervising real property appraiser or the supervising auditor-appraiser will perform the appraisal, and the completed appraisal is reviewed by the chief appraiser.

The chief appraiser is also responsible for preparing and presenting all assessment appeals filed on employee-owned property. The assessor will not allow an assessment appeal filed on an employee-owned property to be stipulated; they must go through the hearing process and all value adjustments must be determined by the assessment appeals board.

The assessor follows Solano County's Conflict of Interest code. Included in the code are procedures for handling outside employment activities. If an employee wishes to engage in an occupation or outside activity, the employee must inform the department head in writing prior to participating in said activity. The department head has ten days to issue an opinion as to whether the proposed activity constitutes a possible conflict of interest.

Upon employment with Solano County, each employee is required to sign a *Code of Conduct and Professional Ethics Employee Acknowledgement and Agreement*, certifying that they have received training and information on the county's Compliance Program, and understand the contents thereof, agreeing to abide by the county's Code of Conduct and Professional Ethics standards. New employees are also required to file an *Employee Property Ownership Report* at the time of employment and periodically throughout their employment with the county. Violation of this policy may result in disciplinary action, up to and including termination of employment with the county.

We reviewed several employee-owned property records and found no problems. The assessor has an efficient program in place for the staff property and activities program, and we have no recommendations for this program.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

Solano County has one assessment appeals board (AAB) consisting of three regular members and two alternate members appointed by the Solano County Board of Supervisors. The regular members act as a three-member panel for the AAB. The alternate members have the same authority to act in the temporary absence of a regular member. The clerk notifies all members of upcoming hearings. The county does not have hearing officers. Pursuant to section 1624.01, all members of the AAB have successfully completed the required training as provided in section 1624.02. In Solano County, the filing period for assessment appeals is July 2 through November 30.

The clerk is responsible for providing applications for changed assessment to the public, receiving the completed applications, and providing copies of the completed applications to the assessor. BOE-305-AH, *Application for Changed Assessment*, is available at the clerk's office and on the clerk's website. In addition, the clerk's website provides guidance and detailed information to the public regarding the assessment appeals process. Solano County does not currently accept electronically filed applications for changed assessments.

Once an application is received, the clerk date stamps it, reviews it for completeness, and determines if it is timely filed. The clerk enters necessary information from the application into a database for tracking purposes. Copies of the applications are sent to the assessor's office. The clerk schedules the appeals for hearing and sends the applicant a notice no less than 45 days prior to hearing.

The clerk and the chief appraiser from the assessor's office work together to track the progress of the assessment appeals in an effort to resolve all appeals within the two-year time period. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

The following table sets forth the appeal workload in recent years:

YEAR	2011-12	2010-11	2009-10	2008-09	2007-08
Appeals Filed	617	645	941	909	296
Appeals Carried Over From Prior Year	122	186 ⁵	903	274 ⁶	161
Total Appeals Workload	739	831	1,844	1,183	457
Resolution:					
Withdrawn	165	277	378	150	110
Stipulation	249	300	315	91	27
Appeals Reduced	11	8	3	3	3
Appeals Upheld	8	6	26	0	6
Appeals Increased	0	0	0	0	0
Other Determination*	94	118	120	36	40
Total Resolved	527	709	842	280	186
To Be Carried Over**	212	122	1,002	903	271

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

The assessor has detailed written procedures for staff to follow when handling assessment appeals. The chief appraiser oversees and tracks the appeals process in the assessor's office. Assessment appeals are assigned to the appraiser of the geographic area in which the property being appealed is located. The assigned appraiser attempts to contact each applicant prior to the scheduled hearing to explain the assessment and to understand the applicant's concerns in an effort to resolve the appeal prior to the hearing. Information provided by the applicant is reviewed and taken into consideration.

If an applicant decides to withdraw the appeal, the appraiser sends the applicant a withdrawal form with instructions to sign and return the withdrawal to the clerk. The applicant may also withdraw the appeal when they receive the *Confirmation of Scheduled Hearing* card from the clerk. The appeal may be withdrawn by checking the appropriate box on the card that indicates the applicant wishes to withdraw the appeal, and then signing and returning the card to the clerk. When a withdrawal is received by the clerk, the clerk promptly sends a copy of the withdrawal to the assessor.

⁵ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" in *A Report on Budgets, Workloads, and Assessment Appeals Activities* for 2010-11. The assessor reported 186; however, the number should be 1,002, as indicated by the number "To Be Carried Over" from 2009-10, which was based on the numbers previously reported by the assessor.

⁶ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" in *A Report on Budgets, Workloads, and Assessment Appeals Activities* for 2008-09. The assessor reported 274; however, the number should be 271, as indicated by the number "To Be Carried Over" from 2007-08, which was based on the numbers previously reported by the assessor.

If the appraiser and the applicant agree to a value change, the appraiser prepares a stipulation form for the applicant to sign and return to the assessor. The assessor reviews and signs all stipulations. The stipulation form, along with the appraiser's valuation, is presented to the AAB for approval. If no agreement can be reached between the applicant and the appraiser, the assessment appeals process continues and the assessment appeal is prepared for a scheduled hearing before the AAB.

In Solano County, assessment appeals hearings are typically held on the first Wednesday of each month. While the appraiser assigned to the appeal prepares a valuation package of the appeal for the hearing, the chief appraiser presents the majority of the appeals. The assigned appraiser typically attends the hearing to assist the chief appraiser. The chief appraiser attends every hearing. During our survey, we were able to attend an AAB hearing. The assessor's staff was well prepared and presented the assessment appeals sufficiently. In addition, we reviewed copies of several assessment appeals packets and found them to be well prepared. We found the assessor's assessment appeals program to be well administered and we have no recommendations for this program.

Low-Value Property Exemption

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

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt from taxation property with a total base year value or full cash value of more than \$10,000, or more than \$50,000 in the case of certain taxable possessory interests.⁷ A board of supervisors must adopt a low-value property exemption ordinance before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

Initially, the Solano County Board of Supervisors adopted Resolution No. 85-5 on January 8, 1985, authorizing the exemption of all real and personal property with a full cash value of \$2,000 or less from property taxation. This resolution was later rescinded by the adoption of Resolution No. 96-15 on January 23, 1996, which then authorized the exemption of all real and personal property with a full cash value of \$5,000 or less from property taxation.

Our review of the low-value property exemption program found an area in need of improvement.

⁷ Prior to January 1, 2010, section 155.20(b)(1) provided that a county board of supervisors could not exempt from taxation property with a total base year value or full cash value of more than \$5,000.

RECOMMENDATION 1: Improve the low-value property exemption program by tracking the factored base year values of all exempted low-value real properties.

We found that once real property meets the requirements of the county's low-value ordinance and has a base year value of \$5,000 or less, the assessor no longer tracks the factored base year value and enrolls a value of \$0 for the exempted low-value real property.

Effective January 1, 2011, section 155.20 was amended to add the phrase "...as adjusted by an annual inflation factor..."⁸ This amendment provided that, for purposes of applying the low-value exemption to real property, the total adjusted base year value of the property, not the base year value when established, must remain at or below the county's low-value threshold in order to be exempt from property taxation. Thus, real property that was initially exempt under the low-value exemption may become taxable in a subsequent year.

The assessor's policy of no longer tracking the factored base year value of exempted low-value real property may result in some properties escaping assessment, as well as the unequal treatment of taxpayers.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

⁸ See Letter To Assessors No. 2010/055, dated October 28, 2010.

The following table shows religious and church exemption data for recent years:

YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2011-12	230	\$153,054,072	34	\$15,183,551
2010-11	179	\$159,454,064	33	\$19,774,670
2009-10	174	\$146,426,984	26	\$16,649,596
2008-09	183	\$146,087,812	26	\$19,112,122
2007-08	179	\$140,829,479	32	\$15,649,227

We reviewed several church and religious exemption claims and found that the assessor properly applies late-filing provisions in accordance with sections 270 and 271 when claims are not filed timely. The files we reviewed were well documented with field inspection notes to ensure that the property was being used for exempt purposes and to describe any portions of the property not eligible for exemption. The assessor requires first-time claimants for the religious exemption to file BOE-267-S, *Religious Exemption Claim*. Once established, the assessor annually mails BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, to verify the exemption. If a claimant fails to return BOE-267-SNT for two consecutive years, the assessor dispatches an appraiser to inspect the property.

We found that the assessor has a thorough understanding of the church and religious exemption process and we have no recommendations in this area.

Welfare Exemption

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

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

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

The following table shows welfare exemption data for recent years:

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2011-12	413	\$2,046,673,132
2010-11	267	\$1,889,098,595
2009-10	264	\$1,819,616,666
2008-09	248	\$1,474,326,198
2007-08	277	\$1,236,097,307

The assessor maintains welfare exemption claim files that include claim forms, field inspection notes, and other county staff notes. If a property does not qualify for the welfare exemption, the assessor properly notifies the claimant using BOE-267-F, *Welfare or Veterans' Organization Exemption Assessor's Finding on Qualification of Property Use*.

We have no recommendations for the welfare exemptions program.

Disabled Veterans' Exemption

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of exemption is \$100,000 or, for qualifying low-income claimant, \$150,000. Both of these amounts are adjusted annually by a cost of living index.

The disabled veterans' exemption at the \$100,000 basis requires a one-time filing, while the low-income exemption at the \$150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The following table shows disabled veterans' exemption data for recent years:

YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2011-12	1,459	\$152,305,511
2010-11	1,430	\$117,841,706
2009-10	1,390	\$142,357,461
2008-09	1,348	\$134,826,575
2007-08	1,313	\$127,373,629

In Solano County, we found the disabled veterans' exemptions files were well-organized with extensive notes. The assessor ensures that low-income claimants annually file, as is required by

law. However, we found several areas in need of improvement when administering the disabled veterans' exemption.

RECOMMENDATION 2: Improve the administration of the disabled veterans' exemption by: (1) correctly calculating the amount of the exemption to be granted for a late-filed claim on the low-income disabled veterans' exemption, and (2) granting the disabled veterans' exemption on a prorated basis for the initial qualifying year in accordance with sections 276.1 and 276.2.

Correctly calculate the amount of the exemption to be granted for a late-filed claim on the low-income disabled veterans' exemption.

When applying late-filing provisions for a late-filed claim on the low-income disabled veterans' exemption, we found that the assessor incorrectly calculates the amount of the partial exemption to be granted for the property. The assessor calculates the partial exemption to be granted based on the entire amount of the exemption rather than the amount over the basic exemption.

Section 276(b) states, "If a late-filed claim for the one-hundred-fifty-thousand-dollar (\$150,000) exemption is filed in conjunction with a timely filed claim for the one-hundred-thousand-dollar (\$100,000) exemption, the amount of any exemption allowed under the late-filed claim under subdivision (a) shall be determined on the basis of that portion of the exemption amount, otherwise available under subdivision (a), that exceeds one hundred thousand dollars (\$100,000)."

The disabled veterans' exemption requires a one-time filing. Thereafter, the basic amount of the exemption does not require a separate filing. A claimant for the disabled veteran's exemption must annually file for any amount over the basic amount and it is that amount on which the partial exemption is to be calculated.

Calculating the amount of the exemption to be granted for the property based on the entire exemption amount rather than the amount exceeding the basic level deprives claimants of the proper amount of exemption to which they are entitled. For example, using the 2011 disabled veterans' exemption amounts of \$116,845 and \$175,269 for the basic and low-income amounts, respectively, a claimant filing for the maximum exemption and receiving a 90 percent late-filing provision should receive 90 percent of the amount over \$116,845; an exemption of \$169,427. A partial exemption calculated on the entire amount yields an exemption of \$157,742 – a difference of \$11,685. The assessor should adjust his procedures to grant the claimant the proper amount of the exemption.

Grant the disabled veterans' exemption on a prorated basis for the initial qualifying year in accordance with sections 276.1 and 276.2.

We found that in some of the files reviewed, the assessor did not prorate the exemption from the effective date of eligibility on a retroactive basis in accordance with section 276.1. Instead, the assessor typically granted the exemption effective the following fiscal year after the claim was filed.

Section 276.1(b) states, "Subject to the provisions regarding cancellations and the limitations periods on refunds, the disabled veterans' exemption shall apply beginning on the effective date, as determined by the USDVA, of a disability rating that qualifies the claimant for the exemption." Additionally, section 276.2(b) states, "The entire amount of the exemption applies to any property tax assessment, including a supplemental and escape assessment, that was made and that served as a lien against the property. The exemption amount shall be appropriately prorated from the date the property became eligible for the exemption."

The denial of the full exemption as of the date of qualification deprives claimants of the full amount of exemption to which they are entitled. The assessor's practice of denying retroactive exemptions and subsequent refunds to qualified claimants is contrary to statute.

ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, taxable possessory interests, and mineral property.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

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

Document Processing

The assessor's primary means of discovering properties that have changed ownership is through the analysis of deeds and other recorded documents at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, to accompany documents submitted for recording that transfer ownership of real property. Solano County has a local ordinance that requires the assessor's parcel number (APN) to be included on all recorded documents subject to the documentary transfer tax. PCORs are available at both the assessor's and recorder's offices, as well as on the county's website.

The following table sets forth the total number of recorded documents received and the total number of reappraisable transfers processed in Solano County in recent years:

YEAR	RECORDED DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2011-12	20,871	748
2010-11	19,610	11,393
2009-10	23,504	12,720
2008-09	22,452	12,115
2007-08	N/A	7,545

The assessor also discovers potential changes in ownership through change of address requests, field checks by appraisers, and correspondence from transferors, transferees, attorneys, or family members. For subsequent changes in ownership resulting from the death of a property owner, the assessor properly uses the date of death as the event date.

In Solano County, the assessor also functions as the county recorder. Each morning, the computer system generates a list of all recorded documents from the prior day's recordings. An office assistant (OA) goes through the list and identifies and prints all of the documents pertaining to the functions of the assessor's office. The original PCORs that correspond with that day's recordings are retrieved from the recorder's office and are scanned into the computer system. Each of the original PCORs are then merged with the corresponding printed recorded document before being sent to another OA for processing.

There are three OAs in the Ownership Division that are responsible for the initial processing of all recorded documents involving changes in ownership. The OAs review the recorded documents to identify the property being transferred and to verify that the property being transferred is owned by the grantor(s) as specified on the deed. The OAs then determine the percentage of ownership interest being transferred and whether any of the percentage being transferred results in a reappraisable event. Transfer information from each document is entered into the computer system, generating an Ownership Transfer Report printout sheet to be collected the following morning. For transfers resulting in a reappraisable event, a supplemental assessment is also automatically generated. An OA matches each report with the corresponding PCOR, which is then reviewed by the clerical operations manager for accuracy. All reappraisable transfers are forwarded to the duty appraiser of the day for further review.

The duty appraiser reviews the reappraisable transfer documents and determines how each transfer should be handled. Those reappraisable transfers needing a claim form for a possible exclusion or some other necessary type of correspondence sent to the property owner are returned to the OAs for mailing and tracking purposes before going to the appraiser assigned to that geographic area. The duty appraiser then determines which reappraisable transfers should be valued by a senior appraiser, while all other reappraisable transfers are either forwarded to the assistant assessor for possible qualification into the direct enrollment program or they are placed in the assigned appraiser's work drawer for valuation.

We examined several recorded documents and found the assessor conducts a proper and thorough review of transfers resulting in reappraisable events.

Penalties

When a recorded document is received without a PCOR or the PCOR is incomplete, an OA sends a second PCOR to the property owner in an effort to gather transfer information. If the property owner does not return the second PCOR, the property record file is forwarded to the duty appraiser to be assigned to the appropriate appraiser for valuation. The assessor does not utilize BOE-502-AH, *Change in Ownership Statement (COS)* and, therefore, the OA does not track the PCORs and correctly does not apply a penalty if the property owner fails to return the second PCOR.

Leases

The assessor typically discovers lease transactions through recorded documents. An OA inputs details obtained from the lease into the computer system and forwards a copy of the lease to the appropriate appraiser, who then determines whether the lease is subject to reassessment. The assessor attempts to obtain copies of all long term leases; however, the appraiser typically contacts the property owner and/or tenant to obtain the terms and conditions of the lease.

We reviewed several files involving leases and found all were properly handled in accordance with section 61(c).

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The public is able to view this information at the public counter in the assessor's office. In accordance with section 408.1(b), the transfer list is updated monthly and it is divided into geographical areas by APN. Pursuant to section 408.1(c), the transfer list contains the transferor, transferee, APN, address of the property, date of recording, recording reference number, and consideration paid based on the documentary transfer tax. However, the transfer list also gives the public access to view the reported sale price as indicated on the PCOR, which is confidential information and should not be displayed.

RECOMMENDATION 3: Ensure that the assessor's transfer list does not include any confidential information.

The assessor's transfer list is electronically generated from the assessor's computer system, which lists both the consideration paid for the property, as calculated from the documentary transfer tax displayed on the recorded deed, and the reported sale price as indicated on the corresponding PCOR. Information derived directly from the PCOR is confidential and not for public display.

While section 408.1(c)(6) provides that, where it is known by the assessor, the transfer list shall include the consideration paid for the property, section 408.1(f) states that pursuant to section 481, the assessor shall not include information on the transfer list which was furnished on the PCOR or COS by the transferee and is not otherwise public information. Section 481 requires

the assessor to hold secret all information furnished on either the PCOR or COS, as these statements are not public documents and are not open to inspection.

By allowing the public to have access to a screen that includes information as it appears on the PCOR, the assessor is not following statutory provisions and is providing information to the public that they are not entitled to receive.

Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.⁹ The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

In Solano County, the assessor's main source of discovery for changes in control or ownership of legal entities is by reviewing the monthly LEOP reports from the BOE. The assessor also discovers potential changes in control or ownership of legal entities through newspaper articles, the Internet, and field checks by appraisers.

The monthly LEOP reports are reviewed by a supervising real property appraiser and the chief appraiser in order to determine if any property in Solano County is owned by a legal entity having undergone a change in control or ownership. All entities reported on the list that own

⁹ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurred earlier.

property within Solano County are entered into a spreadsheet for tracking purposes. The properties located within the county are identified and reviewed. In addition, a name search is conducted on all other entities listed in the LEOP report to determine if any of these entities own property in Solano County. When property is identified within the county as having undergone a change in control or ownership, either the supervising real property appraiser or the chief appraiser confirms that the change in control or ownership qualifies as a reappraisable event before forwarding the information to the appropriate appraiser for valuation.

Our review of several records showed that the assessor does a thorough job of reviewing LEOP reports and reassessing all property interests identified, as well as identifying additional properties not reported on the form. We found that the assessor processes LEOP notices properly and promptly revalues parcels that have undergone a change in control or ownership. However, we found an area in need of improvement.

RECOMMENDATION 4: Improve the LEOP program by applying appropriate penalties as required by section 482(b).

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

Sections 480.1 and 480.2 require the filing of a signed BOE-100-B whenever a legal entity has undergone a change in control or ownership. Section 482(b) provides that if a person or legal entity fails to file a BOE-100-B within 90 days of a change in control or ownership or within 90 days of a written request from the BOE, whichever occurs earlier, they are subject to a 10 percent penalty.¹⁰

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

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first \$1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

¹⁰ Effective January 1, 2010, Senate Bill 816 (Stats. 2009, ch. 622) amended section 482(b) to provide for the application of a penalty if a person or legal entity failed to file a statement within 45 days of: (1) the date the change in control or the change in ownership occurred, or (2) the date of a written request from the BOE (filing of BOE-100-B), whichever occurred earlier. Prior to January 1, 2010, the penalty was only applicable if the statement was not filed within 45 days of a written request. In addition, effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement from 45 days to 90 days for a legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurred earlier.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. However, if an assessor opts not to report quarterly to the BOE, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications regarding section 63.1 exclusions are available to the public at the assessor's office and on the assessor's website. The following table represents the number of section 63.1 claims filed and granted in recent years:

YEAR	CLAIMS FILED	CLAIMS GRANTED
2011-12	325	296
2010-11	750	738
2009-10	840	816
2008-09	416	392
2007-08	546	N/A

The assessor is proactive regarding public awareness of potential change in ownership exclusions. If a PCOR indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, the clerical operations manager or the assigned appraiser sends a claim form and cover letter to the property owner advising them of a possible exclusion from reassessment. Appraisers use their own discretion as to how much time to allow the property owner to return the claim form before reassessing the property.

When a section 63.1 claim form is received, the clerical operations manager reviews the claim form for completeness and logs the date of receipt for tracking purposes. The assigned appraiser makes the final decision as to whether the claim will be accepted or denied. The property owner is notified in writing if a claim is denied.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a quarterly *Report of Transferors Exceeding \$1,000,000* from the BOE, the clerical operations manager ensures the dates are correct, reviews the total value of transfers, disallows exclusions made after the limit was exceeded, and notifies appraisers of any reappraisable percentages. For claims exceeding the \$1,000,000 limit involving multiple properties, the assessor contacts the property owner and allows the property owner to decide which property to exclude and which to reassess. For multiple properties involving multiple counties, the assessor

makes the necessary contact with the counties involved to coordinate the value allocations between the properties.

Pursuant to section 63.1(i), the assessor ensures that all claim forms are held confidential by keeping them in a secure file room not accessible to the public.

We reviewed several section 63.1 claim forms and found them to be properly handled.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

The following table represents the number of section 69.5 claims filed and granted in recent years:

YEAR	CLAIMS FILED	CLAIMS GRANTED
2011-12	9	7
2010-11	7	5
2009-10	18	8
2008-09	19	17
2007-08	70	N/A

Solano County does not accept base year value transfers from other counties. Section 69.5 applications are available to the public at the assessor's office and on the assessor's website.

If a PCOR indicates a transfer may involve a base year value exclusion and a claim form has not already been submitted, a cover letter and claim form are sent to the property owner. Submitted claim forms are sent to the clerical operations manager, who completes a worksheet for each claim submitted identifying the sale price and date of sale of the original property, as well as the purchase price and date of purchase of the replacement property. The worksheet is then placed in the appropriate appraiser's work drawer for valuation. The appraiser determines the fair market value of both the replacement and original properties, computes the value comparison of the

replacement property as needed, and determines if a section 69.5 claim will be granted. The property owner is notified when a claim is denied.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. When the assessor receives a quarterly *Duplicate SSN Report* from the BOE, it is reviewed to aid in determining if any claims are duplicated within the county, have been made previously in another county, or have been filed and qualify for a second section 69.5 exclusion due to a severe and permanent disability.

Pursuant to section 69.5(n), the assessor ensures that all claim forms are held confidential by keeping them in a secure file room not accessible to the public.

We reviewed several section 69.5 claim forms and found them to be properly handled.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to confirm whether the reported sale price reflects market value. The sale price is not automatically enrolled and may be overridden when data is available to rebut the presumption stated in Rule 2.

The assessor's computer system maintains a residential and commercial sales database to assist appraisers in the valuation process. The database is updated daily as sales are enrolled into the computer system. Typically, residential properties experiencing a change in ownership are valued using the comparative sales approach, while commercial properties are valued using the comparative sales approach or the income approach. For partial interest transfers, the reappraisable portion is valued at market value and added to the factored base year value of the non-reappraisable portion. The partial interest is given a separate base year value and the correct inflation factor is applied. Market value conclusions are documented on the appraisal record and any supporting documents are attached to the file. Field inspections are conducted at the appraiser's discretion.

Our review of several property record files indicates the assessor properly values properties subject to reappraisal due to changes in ownership, including foreclosures and partial interest transfers. In addition, the assessor correctly creates supplemental assessments when appropriate.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraiser involvement. In Solano County, the assessor uses a non-automated direct enrollment program for enrolling transfers of residential properties meeting certain criteria. To be considered for direct enrollment, the residential property transfer must be a sale involving a 100 percent change in ownership, must have a documentary transfer tax indicated on the recorded deed that was computed on the full value of the property conveyed, must have a corresponding PCOR with a reported sale price, and the reported sale price must reflect the documentary transfer tax indicated on the recorded deed. In addition, the sale cannot

involve a foreclosure or a possible parent/child exclusion, and the property cannot be in poor condition.

The duty appraiser initially identifies potential sales for the direct enrollment program from the daily recordings. Those potential sales are then forwarded to the assistant assessor for further review. Once the assistant assessor determines whether the sale meets the initial criteria for the program, the sale is forwarded to the appraiser assigned to that area for a more thorough review. The appraiser verifies the characteristics and condition of the property, and uses comparable sales from the sales database and/or the Multiple Listing Service (MLS) to verify whether the reported sale price from the PCOR is within market value range. If the appraiser determines that the sale should be enrolled in the direct enrollment program, the sale is sent back to the assistant assessor for a final review before being approved for the program. Once the assistant assessor approves the sale for direct enrollment, it is coded and input into the computer system by an OA and a supplemental assessment(s) is created. Acceptance into the direct enrollment program also means the sale will appear in the assessor's sales database to be used as a comparable sale for other similar residential property transfers.

Improvement Bonds

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

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration paid for a property exclusive of the lien amount. An assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in that consideration.

Solano County has several parcels encumbered by improvement bonds. The assessor is notified on an annual basis of the outstanding bond amounts and the parcels involved. We reviewed several of these properties encumbered by improvement bonds and we have the following recommendation:

RECOMMENDATION 5: Value properties subject to improvement bonds in accordance with section 110(b).

We found several commercial properties in which the assessor had added value for bond improvements to the purchase price paid without including supporting evidence. The assessor does not have a study or other documentation to establish by a preponderance of the evidence that all or a portion of the value of the improvement bond is not already reflected in the consideration paid for the commercial property. It is the assessor's contention that for commercial properties, the outstanding bond indebtedness is an expense to the property that the

investor must consider when purchasing the property and determining the fair market value of the property.

Section 110(b) provides there is a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration.

The assessor's practice of adding the bond amount to the purchase price paid for commercial properties without evidence to prove the bond amount is not already included in the purchase price is contrary to statute and could result in overassessments.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c) and (d), and sections 73 through 74.7 address these exclusions.

The assessor has written procedures dealing with the assessment of new construction. The assessor's website provides information to assist taxpayers in regards to new construction, such as frequently asked questions, as well as various new construction claim forms.

Discovery

Building permits are the assessor's primary means of discovering new construction. The assessor receives building permits from eight permit-issuing agencies: Solano County Building and Safety Services Division of the Resource Management Department, City of Benicia Building Division, Dixon Building Section, City of Fairfield Building & Fire Safety Division, City of Rio Vista Building Division, City of Suisun Building & Public Works Department, City of Vacaville Building Division, and City of Vallejo Building Division. In addition, the assessor receives permits for water wells and septic systems from the Solano County Environmental Health Services Division of the Resource Management Department.

Other discovery methods for new construction include field canvassing by appraisers in their assigned areas, using aerial-viewing software, receiving information from taxpayers, and reviewing business property statements and newspaper articles.

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

YEAR	PERMITS RECEIVED	NEW CONSTRUCTION ASSESSMENTS
2011-12	9,515	316
2010-11	9,334	673
2009-10	9,110	777
2008-09	9,466	1,070
2007-08	11,244	1,799

Permit Processing

The assessor receives all building permits from each of the permit-issuing agencies, including those permits that are deemed non-assessable new construction, such as reroofing or replacement/repair permits. Building permits are received in hard-copy format from the permit-issuing agencies in Dixon and Vacaville, while the remaining agencies send the building permits electronically. The permit-issuing agencies encode each building permit with the nature of the work being performed as indicated on the permit, enabling the assessor to filter permits that do not represent assessable new construction. If the nature of the work of a certain permit is in question, an appraiser will perform a field inspection to verify whether the permit is for assessable new construction. Although not required by ordinance, the assessor's parcel number (APN) is listed on the permit.

Data for unpermitted new construction is entered into the computer system upon discovery. The escaped new construction is valued and enrolled as of the date of completion, whenever possible. If the appraiser is unable to determine the date of completion, they will use their best judgment to determine a completion date for enrolling the unpermitted new construction. The assessor enrolls supplemental assessments, as allowed by law, for unpermitted new construction when discovered.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For CIP, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We reviewed several property records and found that the assessor is correctly valuing CIP.

Valuation

The appraisers typically value new construction for residential properties using the comparative sales and cost approaches. When valuing new construction for commercial and industrial properties, appraisers use the income approach, as well as the comparative sales and cost approaches. The assessor uses a variety of sources to develop a cost indicator of value for new construction, such as Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), the owner's reported costs, and *Marshall Valuation Service* for commercial and industrial properties. The appraiser documents the unit cost factors and the source of the costs on the property record.

The assessor sends cost questionnaires to the property owners of almost every building permit received in order to gather information to assist the appraiser in the valuation process of the new construction. If the questionnaire is not returned, a second questionnaire is sent. Appraisers also utilize an income and expense questionnaire for some properties to assist in an accurate valuation.

Field inspections are performed at the discretion of the appraiser. Appraisers prepare diagrams for all newly constructed buildings using computer drawing software. The diagrams are either based on the building plans or actual field measurements, and they are attached to the building record located in the property record file. Supplemental assessments are created and issued based on the date of completion of the new construction.

Summary

We reviewed several new construction records and found the assessor's program for the discovery and assessment of new construction to be well managed. We found the property records to be well documented and the values to be reasonable. We have no recommendations for this program.

Declines in Value

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

The following table shows the number of decline-in-value assessments in Solano County in recent years:

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2011-12	78,150
2010-11	67,624
2009-10	63,474
2008-09	57,710
2007-08	33,938

Due to unfavorable economic conditions, Solano County has experienced a notable decline in property values. Consequently, there has been a significant increase in the total number of properties eligible for decline-in-value assessment. As can be seen in the previous table, the increase in the number of decline-in-value assessments has resulted in a major workload increase for the assessor and his staff.

The assessor has written procedures for identifying and processing declines in value. Discovery and valuation of properties with declines in value are high priority to the assessor and he has been proactive in adjusting the assessments of properties affected by declines in value. The assessor's primary method of discovering declines in value are through taxpayer requests for an informal review and appraisers' familiarity with their assigned areas.

Taxpayers may request an informal review of their assessment by completing and submitting an *Assessment Review Request (Prop 8)* form to the assessor. This form is available to the public at the assessor's office and on the assessor's website. The form properly notifies taxpayers of their rights to file a formal assessment appeal if they disagree with the assessor's value determination. All requests must be submitted or postmarked no later than November 30. Taxpayers filing an informal request for review are notified of the results by letter.

The assessor has implemented an automated computer program, which is independent of the assessor's computer system, to aid in the valuation of all residential properties experiencing a decline in value. This program is a computerized mass appraisal system, which generates a list of comparable sales for a given subject property, determines which of those sales are most similar to the subject property, and makes any necessary adjustments to the comparable sales for differences when comparing them to the subject property. If necessary, the appraiser can manually adjust the data to better reflect the subject property. Based on the data used, the program automatically generates a market value for the subject property.

As a safeguard, management runs reports to identify any changes made to the market value generated from the automated computer program. Any changes made by an appraiser that are considered to be outside of an acceptable level (as determined on a case by case basis) are investigated. The assistant assessor sends an email to the supervisor of the area in question to further investigate and determine whether the adjustments were reasonable.

Once the automated computer program generates a market value for a property, the results are imported to the assessor's computer system in order to be manually reviewed by an appraiser. A market value determination can also be made using the assessor's computer system. The appraiser can run comparable sales through the assessor's computer system and it will automatically generate a market value based on those comparable sales. The appraiser can use the market value derived from either the automated computer program or the assessor's computer system, whichever value the appraiser deems to more accurately reflect the subject property's market value. This value is then compared to the subject property's FBV, and the lower of the two values is enrolled.

The assessor does not have an automated computer program to value commercial properties experiencing a decline in value. Commercial properties are reviewed for potential declines in value only when the taxpayer requests an informal review, the appraiser of the area becomes aware of a potential decline in value, or the taxpayer files an assessment appeal.

When the assessor receives a request for an informal review on a commercial property, a letter is sent to the taxpayer requesting further documentation, such as income and expense data. This information is used to assist the assessor in determining the current market value of the property in question. Commercial properties experiencing a decline in value are reviewed on an individual basis and appraisers rely on the income and cost approaches to value.

Each year the assessor sends value notices by mail to taxpayers when their assessed value has been temporarily reduced due to a decline in value, or when the assessed value has been either partially or fully restored back to its FBV. Information included in this notice includes the FBV, market value, and proposed current assessed value. In addition, the notice provides information about the assessment appeals filing process.

We reviewed several decline-in-value assessments and found that the property records were appropriately documented, indicating annual valuation and the restoration value needed for a return to FBV. Each decline-in-value assessment is coded to prevent the assessor's computer program from automatically applying the annual inflation factor to the prior year's taxable value and to ensure that the decline-in-value assessment will be annually reviewed.

Overall, the assessor's program is effective and well administered. We have no recommendations for this program.

California Land Conservation Act Property

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

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

the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

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

For the 2011-12 roll year, Solano County had 2,203 parcels encumbered by CLCA or other types of open space contracts, encompassing approximately 270,550 acres. The total assessed value for land and improvements was \$610,927,796. Included in these statistics are 35 parcels totaling 4,864 acres that are restricted by agricultural conservation easements; the total assessed value for these properties was \$15,090,588. Solano County has 53 parcels totaling 2,367 acres in nonrenewal status. There have been no contracts cancelled in recent years.

Solano County had approximately \$292 million in gross agricultural production in 2011, which reflected a 12.4 percent increase from the 2010 production value. In 2011, the top five crops by value in Solano County were walnuts, alfalfa, tomatoes (processing), nursery products, and cattle and calves.

The valuation of CLCA property in Solano County is the responsibility of one appraiser. The CLCA assessment program is computerized, including the annual recalculation of nonrenewal values and the comparison between their current restricted values, factored base year values, and current market values. The assessor compares the total restricted value of the appraisal unit to the factored base year value of the same unit and the current market value as if unrestricted, enrolling the lower of the three values.

Market land rents in the county are updated in the computer system after an extensive analysis of rental and expense data collected from agricultural questionnaires and information from the county's annual crop report. In developing the capitalization rate used in the valuation process, the assessor correctly includes the current interest component provided annually by the BOE, a risk component, and a property tax component.

In our review of the Solano County CLCA property program, we noted a number of positive practices. We found the assessor used an inclining-stable-declining method to value living improvements and properties in nonrenewal were valued correctly. In addition, we found that the agricultural appraisal staff does extensive research to determine appropriate income and expense rates. However, we found an area in need of improvement.

RECOMMENDATION 6: Improve the CLCA property program by valuing compatible commercial use sites utilizing an economic commercial rent.

We found that the assessor values compatible commercial use sites using a capitalized agricultural land rent per acre.

Solano County's CLCA contract permits compatible uses such as processing, packaging, and shipping of agricultural products on parcels devoted to agriculture. Other allowable compatible uses include agricultural commercial sales, rental or repair of agricultural machinery or

equipment, and commercial agricultural storage facilities. In general, pursuant to Government Code sections 51238.1, 51238.2, and 51238.3, the assessor must assume that any use allowed by a contract approved by the county or city is a compatible use.

If a portion of a restricted property is used by the property owner for a permitted compatible use, the appropriate method of valuation is the capitalization of an economic site rent using the open-space capitalization rate. The estimate of the economic site rent can be based on actual rents of comparable commercial sites or by multiplying the estimated market value of comparable commercial land by a market-derived capitalization rate.

The assessor's practice of using agricultural land rents instead of typically higher commercial site rents to value the land on which compatible uses are occurring may have resulted in underassessments.

Taxable Possessory Interests

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

For the 2011-12 roll year, the assessor enrolled 400 taxable possessory interests with a total assessed value of \$90,938,819. The assessor annually contacts 63 different public agencies in an effort to discover and track taxable possessory interests. Some of the uses on these publicly-owned properties include employee housing, airplane hangars at the county airfields, grazing permits, marina slips, and cable television franchises. Taxable possessory interests are assessed on the unsecured roll. The assessment roll correctly shows the name of the specific local, state, or federal agency that holds title to the real property where the taxable possessory interest is situated. A real property appraiser is responsible for the assessment of all taxable possessory interests in Solano County.

The assessor maintains appraisal records for each taxable possessory interest. The records contain the names of the lessee, the fee owner or public agency, the possessory interest assessment number, the assessor's parcel number of the underlying parcel, a description of the use, the base year, the base year value, the term of possession used by the assessor to establish the base year value, a tenant history, and value calculations. This information assists the assessor in identifying when a change in ownership occurred due to a creation, renewal, extension, or assignment of a taxable possessory interest. Hard copies of the appraisal record are maintained in individual property folders, as well as in group folders of similar types of taxable possessory interests.

The primary method of valuation used by the assessor to value taxable possessory interests is the income approach-direct method. In the direct method, the value of the taxable possessory interest is determined by discounting the estimated future market rent over the reasonably anticipated term of possession.

Our review of the assessor's taxable possessory interests program found several areas in need of improvement.

RECOMMENDATION 7: Improve the taxable possessory interests program by:
(1) assessing all taxable possessory interests,
(2) reappraising taxable possessory interests in compliance with section 61(b)(2), (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (4) properly issuing supplemental assessments for taxable possessory interests.

Assess all taxable possessory interests.

We found several taxable possessory interests at the two publicly-owned fairgrounds that were not being assessed. The assessor does not request vendor or concessionaire information from the Dixon May Fair, and fails to request information from some of the larger concessionaires at the Solano County Fairgrounds. We obtained data from both of these facilities and found that while the county does have a low-value resolution exempting real and personal property of \$5,000 or less from assessment, some of these taxable possessory interests have values over the \$5,000 limit and should be assessed.

In addition, we found that the assessor failed to identify potential taxable possessory interests at the Rio Vista Airport. We obtained a list of tenants from the City of Rio Vista, indicating there are several hangars currently not being assessed that may qualify as taxable possessory interests with a value above the county's low-value resolution.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide a private benefit. Uses of the county's fairground facilities by private persons or entities could constitute taxable possessory interests and should be reviewed for possible assessment. Failure to assess all taxable possessory interests located at the fairgrounds and the Rio Vista Airport may result in taxable property escaping assessment.

Reappraise taxable possessory interests in compliance with section 61(b)(2).

We found that the assessor does not consistently reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used by the assessor to value the taxable possessory interest.

Section 61(b) provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property for any term. Section 61(b)(2) further provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used by the assessor to value the interest does not result in a change in ownership until the end of the reasonably anticipated term of possession. At that time, the assessor must establish a new base year value for the taxable possessory interest based on a new reasonably anticipated term of possession as determined by the assessor.

By not reappraising taxable possessory interests at the end of the reasonably anticipated term of possession used by the assessor to initially value the interest, the assessor is not in compliance with statutory provisions and may be enrolling incorrect assessments.

Periodically review all taxable possessory interests with stated terms of possession for declines in value.

We reviewed several taxable possessory interests with stated terms of possession and found several instances where the assessor did not periodically review these taxable possessory interests for possible declines in value. Instead, the assessor enrolled the factored base year value each year until either a change in ownership occurred or the term of possession ended.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

Properly issue supplemental assessments for taxable possessory interests.

We found that the assessor does not issue supplemental assessments for any assessable events involving taxable possessory interests. The assessor indicated that this is due to the fact that taxable possessory interests are enrolled on the unsecured roll and the assessor's computer system does not allow supplemental assessments to be issued for property on the unsecured roll.

Taxable possessory interests, like other real property, are subject to supplemental assessment whenever there is a change in ownership or completed new construction. Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a

change in ownership or completion of new construction. Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), advises that the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

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

Mineral Property

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

There are no high temperature geothermal properties in Solano County.

Petroleum Property

There are several gas fields located in Solano County that are appraised by a mineral consultant. A review of the petroleum property files indicates that these appraisals conform to Board-recommended practices. We have no recommendations regarding petroleum property assessments in Solano County.

Mining Property

There are two sand and gravel properties located in Solano County. The mineral consultant also appraises both of these properties. A review of the mining property files indicates that these appraisals conform to Board-recommended practices. We have no recommendations regarding mining property assessments in Solano County.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we review the assessor's audit, business property statement, business equipment valuation, manufactured homes, aircraft, and vessels programs.

Audit Program

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

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer had assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

In Solano County, the audit responsibility falls upon the supervising auditor-appraiser and two auditor-appraisers.

As previously noted, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 62 audits per year. However, the assessor completed only 17 audits during the 2010-11 roll year and only 9 audits during the 2011-12 roll year. Given recent and current audit production levels, the assessor has failed to meet the minimum number of audits required as defined by section 469.

RECOMMENDATION 8: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

The assessor did not conduct the minimum number of audits required under the provisions of section 469. The assessor's shortfall may be due to the recent loss of audit staff resulting from budgetary reductions. There is no indication that resources will be available in the near future to fill the vacant positions. Consequently, it appears the assessor will continue to fall short in meeting his statutory obligations for the near future.

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

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

Statute of Limitations

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

The assessor requests signed waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. We reviewed a number of waivers presented to property owners during recent years and found them to be adequately prepared and properly executed.

Audit Quality

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

The supervising auditor-appraiser has gone to great lengths to train her audit staff and establish consistent adherence to audit quality controls. During our review, we found that the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. We sampled several recently completed audits and found that in all cases the audit findings were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. The assessor's audit quality is further enhanced by a standardized review process where every completed audit is reviewed by the supervising auditor-appraiser.

Business Property Statement Program

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

Discovery

The assessor utilizes a wide range of tools for discovering taxable business property. In addition to taxpayer self-reporting, the assessor reviews city and county business licenses, business directory services, real property appraiser referrals, landlord reports of tenants, and BOE notifications. The assessor also canvasses newly constructed commercial developments when staffing resources permit. Overall, we found that the assessor employs a sufficiently diversified program for discovering business personal property.

General Statement Processing

Newly submitted BPSs are first reviewed by appraisal support staff for completeness and the inclusion of an authorized signature. Incomplete BPSs, including those submitted without an authorized signature, are copied and returned to the property owner, along with a letter indicating the reason for the rejection. Timely submitted BPSs are tracked by the assessor with the aid of a database spreadsheet containing all active business property accounts. Once BPSs are screened and the timely submission is recorded, they are forwarded to appraisal staff for valuation. Certified appraisal staff make all value judgments by assigning life tables to business classifications in new accounts. Furthermore, complex accounts are processed entirely by

certified staff each year. Support staff participation is limited to data input activities where value judgments are not required. Later in the season, the assessor utilizes the business property account database to determine which accounts failed to submit completed BPSs by the statutory deadline of May 7, making them subject to the application of a section 463 penalty assessment.

Summary

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, application of penalties, coordination with the real property division, and record storage and retention. In addition, we reviewed several recently processed BPSs. In all cases observed, we found that BPSs accepted by the assessor evidenced the proper usage of Board-prescribed forms and were completed in sufficient detail. Overall the assessor's BPS processing program is well administered. However, we found an area in need of improvement.

RECOMMENDATION 9: Value taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement (BPS).

When a completed BPS is submitted late, the assessor correctly calculates the current market value of reported taxable business property owned and controlled by the property owner and applies the statutorily-defined 10 percent penalty. However, in cases where the BPS is not returned, the assessor does not estimate the current market value of the known taxable business property; he simply carries forward the previous year's enrolled value and applies the 10 percent penalty.

Section 441(b) provides that a BPS is considered late if it is not filed by May 7. If an assessee does not file a BPS by May 7, section 501 provides that the assessor shall estimate a value based on available information and add a 10 percent penalty to that estimated value. If a BPS was received during the previous year, it is usually reasonable to use the reported cost data as a basis for estimating the current year's value. However, when allowing estimated assessments to continue for several years without any new information, the values become increasingly susceptible to error. By carrying forward the previous year's enrolled value, which has not been applied to current valuation tables, the assessor is enrolling arbitrarily determined values with no supporting basis. Any estimated enrollments should be supported by available information in conformance with section 501.

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

Business Equipment Valuation

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

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

The supervising auditor-appraiser has prepared written procedures to provide guidance for staff in the valuation of business equipment. We reviewed the written procedures and standardized valuation policies related to business equipment valuation and found them to be adequately compiled and sufficiently detailed.

Application of Board-Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The indices and factors parallel those published in AH 581, with the exception of specific types of equipment (such as pagers, facsimile equipment, and high tech medical equipment), which the CAA recommends should not be trended. We reviewed the assessor's valuation tables and a number of processed BPSs. We found the assessor's application of Board-recommended tables to be appropriately used and consistently applied.

Mobile Agricultural and Construction Equipment Valuation Factors

The assessor currently utilizes separate and appropriate factor tables for new and used mobile construction and agricultural equipment in accordance with the instructions on Table 5 and Table 6 in AH 581. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile construction and mobile agricultural equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. When the condition is indicated, the assessor should use the "new" or "used" table. We reviewed the assessor's factor tables related to this issue and found the Board-recommended cost index and depreciation tables to be correctly compiled.

Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements), depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. We reviewed several business equipment valuation calculations and found an area in need of improvement.

RECOMMENDATION 10: Correctly classify machinery and equipment reported on business property statements (BPS).

We found that the assessor is not classifying a portion of machinery and equipment reported in bulk as fixed machinery and equipment when processing BPSs filed for industrial manufacturing and service stations.

When machinery and equipment are reported in bulk, particularly in industries such as manufacturing, there is often some percentage of assets that meet the criteria for fixtures.

Furthermore, service station related fixtures (such as fuel pumps, dispensers, piping, hoists, island curbing, built-in freezers, and other retail fixtures) are often reported with machinery and equipment. Letter To Assessors No. 92/27 provides assessors guidance in making classification decisions when enrolling service station business equipment.

Classification is an important element of the local assessment function for several reasons. Principally, it is important because property tax law requires the assessment roll to show separate values for land, improvements (including fixtures), and personal property. It is also significant because of the assessment differences between real property and personal property. Those differences include: (1) only real property receives special assessments, (2) personal property is appraised annually at market value, while fixtures are assessed at the lower of current market value or factored base year value, and (3) fixtures are a separate appraisal unit when measuring declines in value.

The assessor should use specific and consistently applied proration estimates to allocate machinery and equipment costs reported on Schedule A of the BPS between personal property and fixtures. Pre-established proration estimates specific to individual business sectors can be utilized for mass appraisal purposes. For more accurate estimations, the assessor should establish percentages based on a physical inspection or adjust previous estimates based on audit findings. The assessor's current practice may lead to inaccurate fixture allocations in specific industry settings.

Manufactured Homes

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

Solano County had 1,213 manufactured homes enrolled for the 2011-12 roll year, with a total assessed value of \$38,088,377. There are 52 mobilehome parks in Solano County.

The assessor classifies manufactured homes as personal property and enrolls them on the secured roll. Manufactured homes are identified on the roll by the assignment of a fictitious parcel number that begins with 0098. All manufactured homes are valued by one appraiser.

Once a manufactured home has been permanently affixed to an approved foundation system, the home is reclassified as real property and assigned to the appraiser responsible for all residential property in that geographic location. Prior to reclassification, the assessor verifies that each home is affixed to an approved foundation in accordance with section 18551 of the Health and Safety Code and requires proof that the notice of affixation, HCD Form 433A, *Notice of Manufactured Home (Mobilehome) or Commercial Coach, Installation on a Foundation System*, has been recorded. Copies of the building permit and the recorded HCD Form 433A are kept in the property record file.

The assessor discovers assessable manufactured homes through information received from the Department of Housing and Community Development (HCD), dealer reports of sale, mobilehome tax clearance certificates, building permits, and field inspections. Assessable manufactured home accessories are typically discovered by site visits initiated by building permits.

The assessor uses Assessors' Handbook Section 531.35, *Manufactured Housing* (AH 531.35), to value manufactured homes. The assessor also takes into consideration the condition of the manufactured home and includes value for accessories, such as awnings, porches, and skirting, as part of the valuation process.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. Although not required to reappraise all properties each year, the assessor has created a spreadsheet to annually review the assessments of all manufactured homes to ensure that declines in value are recognized accurately and consistently. The current market value determined for each manufactured home is compared to its factored base year value, and the lower of the two values is enrolled.

We reviewed several manufactured home assessments and found that the assessor is correctly valuing manufactured homes using a recognized value guide and is properly issuing supplemental assessments when appropriate. Overall, the assessor has an effective program for the discovery and assessment of manufactured homes. We have no recommendations for this program.

Aircraft

General Aircraft

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

In Solano County, the assessor enrolled 169 total aircraft assessments, with a total assessed value of \$35,256,424 for the 2011-12 roll year. The assessor discovers assessable aircraft through aircraft seller/buyer referrals, referrals from other counties, and Federal Aviation Administration (FAA) reports.

Periodically, the assessor mails BOE-577, *Aircraft Property Statement*, to the known owner of each aircraft in the county requesting current information. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. An auditor-appraiser processes each returned property statement. Submitted statements are first

reviewed for completeness and the inclusion of authorized signatures. Incomplete statements are returned to the property owner for completion.

The assessor uses *Bluebook* as the primary guide for valuing general aircraft. *Bluebook* values are adjusted for condition, engine hours, and sales tax. A valuation worksheet is generated and completed for each aircraft to document the source and components included in the value conclusion.

We reviewed several general aircraft records for valuation methodology, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found that the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to most statutory provisions and guidelines set forth in the Assessors' Handbook Section 577, *Assessment of General Aircraft* (AH 577), and Letter To Assessors (LTA) No. 97/03. However, we found an area in need of improvement.

RECOMMENDATION 11: Correctly apply penalties when BOE-577, *Aircraft Property Statement*, is not returned timely.

It is the assessor's policy not to apply a penalty when a BOE-577 is not returned or not returned timely. Section 5367 requires any person requested to file a statement pursuant to section 5365 to file such statement by the time specified by the assessor or a penalty of 10 percent of the market value of the unreported aircraft shall be added to the value of the aircraft and placed on the current roll. By not applying penalties to aircraft assessments when the taxpayer fails to file the property statement or files the property statement late, the assessor is not in compliance with statute.

Fractionally Owned Aircraft

Fractionally owned aircraft are fleets of aircraft managed and maintained by an operating company where ownership is distributed on a fractional basis similar to a timeshare in real property. The management company handles all operating requirements of the aircraft, including availability, maintenance, billings, shareowner usage, training, and flight crews.

Pursuant to section 1161, fractionally owned aircraft are assessed on a fleet-wide basis to the manager in control of the fleet. Like certificated aircraft, fractionally owned aircraft are assessed on an allocated basis using an "allocation factor." This allocation factor is a fraction, the numerator of which is the total number of landings and departures made by the fleet type in the county during the previous calendar year, and the denominator of which is the total number of landings and departures made by the fleet type worldwide during the previous calendar year.

Section 1162 contains a provision for the appointment of a lead county assessor's office to facilitate property reporting, allocation calculations, the transmittal of allocated values to other jurisdictions where situs has been established, and provide for coordinated multi-county audits.

Section 1161(b) provides that a fleet of fractionally owned aircraft has situs in California if an aircraft within the fleet makes a landing in this state. A lead county will be designated for each manager in control of a fleet of fractionally owned aircraft that has situs in this state. The lead county is responsible for obtaining a property statement from each manager and calculating the

allocation factor. This information is then transmitted electronically to each county in which the fleet of fractionally owned aircraft has situs. Solano County does not serve as a lead county to any fractionally owned fleets.

There were three fractionally owned aircraft reported in Solano County for the 2011-12 roll year. We reviewed the fractionally owned aircraft files and the assessor's procedures for the valuation of fractionally owned aircraft. We found that the allocated value was accurately calculated on the basis of arrivals and departures in the county in accordance with section 1161.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time, and the number of arrivals and departures during a representative period (designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

There were four certificated aircraft reported in Solano County for the 2011-12 roll year. Solano County is not a lead county for certificated aircraft.

We reviewed the assessor's certificated aircraft files. We have no recommendations for certificated aircraft.

Historical Aircraft

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

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

For the 2011-12 roll year, Solano County had 28 historical aircraft. We reviewed several historical aircraft assessments and exemption claims. We found an area in need of improvement.

RECOMMENDATION 12: Grant the historical aircraft exemption only when all qualifying conditions have been met pursuant to section 220.5.

We reviewed a sampling of historical aircraft and found instances where the assessor granted the exemption, even though not all conditions had been met as specified in section 220.5. We found several historical aircraft exemption claims granted where the claimant did not file as an individual owner. We also found several historical aircraft exemption claims where the claimant did not report the date of the events in sufficient detail, making it difficult to determine whether the aircraft satisfied the required number of days the aircraft was displayed at the event to the public. In addition, we found several historical aircraft exemption claims that did not have the proper certificate of attendance signed by the event coordinator of the event where the aircraft was being displayed.

Section 220.5(b) provides that an aircraft of historical significance shall be exempt from taxation only if all of the following conditions are satisfied:

- The assessee is an individual owner who does not hold the aircraft primarily for purposes of sale.
- The assessee does not use the aircraft for commercial purposes or general transportation.
- 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 for which the exemption is claimed. When applying for an exemption pursuant to this section, the claimant shall attach to that application a certificate of attendance from the event coordinator of the event at which the aircraft was displayed.

Section 220.5(c) provides that when claiming a historical aircraft exemption, the claimant shall provide all information required and answer all questions contained in an affidavit furnished by the assessor. The claimant shall sign the affidavit under penalty of perjury. The assessor may require additional proof of the information or answers provided in the affidavit before allowing the exemption.

Further, Letter To Assessors (LTA) No. 2002/090 states that the term "available for display to the public" means actual display or documented willingness to display at either (a) an organized airshow, (b) a museum, or (c) a special designated area set aside for historical aircraft open to the public. To qualify as available for display to the public under any other situation, an individual must document that an aircraft is displayed in such a manner that the general public is aware that public viewing is clearly invited, and there are reasonable accommodations to allow public viewing of the aircraft. To qualify as available for display under any situation also means that there must be a reasonable effort to make the general public aware of the display and there must be reasonable viewing hours.

Before allowing the historical aircraft exemption, the assessor should verify that all conditions have been met, and when there is a discrepancy, the assessor should follow up with a field inspection and/or request that the claimant provide further documentation to support the claim. When the assessor grants historical aircraft exemptions without following the provisions of section 220.5, it may cause unequal treatment of taxpayers, and certain taxpayers may receive either full or partial exemptions that they may not be entitled to receive.

Vessels

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

In Solano County, the assessor enrolled a total of 4,219 vessels for the 2011-12 roll year, with a total assessed value of \$82,566,821. The assessor's primary sources for discovering assessable vessels are from reviewing DMV reports, marina reports, and referrals from other counties.

Valuation

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. For the purposes of California property taxation, vessels are valued at their fair market value every year as of the January 1 lien date. Sections 401 and 401.3 require the assessor to value boats at market value each year. In Solano County, newly enrolled vessels are valued with the aid of the *ABOS Marine Bluebook*, National Automobile Dealers Association *Marine Appraisal Guide* (NADA), and *BUC Used Boat Price Guide* (BUC). For subsequent years, the assessor reviews and values all vessels each year.

Vessel Property Statements

The assessor sends a county-developed form, *Vessel Ownership Report*, to the registered owner of each vessel that is either newly enrolled in the county or has undergone a change in ownership. The assessor also sends BOE 576-D, *Vessel Property Statement*, annually to all registered owners of vessels with a cost of \$100,000 or more, in compliance with section 441.

Vessels Qualifying for the 96 Percent Exemption

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements as specified in section 227. In order for vessel owners to qualify for the exemption, they must file a BOE-576-E, *Affidavit For 4 Percent Assessment Of Certain Vessels*. If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent (80 percent of the 96 percent exemption). However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

We reviewed several partially exempt vessels and found that the exemption forms were sufficiently completed and exemptions were appropriately granted when the qualifications in section 227 were met.

We found have no recommendations for the assessor's vessels program.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Solano County

Chief

Dean Kinnee

Survey Program Director:

Mike Harris

Manager, Property Taxes

Survey Team Supervisor:

Ronald Louie

Supervisor, Property Taxes

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Tammy Aguiar

Senior Specialist Property Appraiser

Andrew Austin

Senior Specialist Property Appraiser

Heather White

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

David Barbeiro

Associate Property Auditor-Appraiser

Hardeep Pannu

Associate Property Auditor-Appraiser

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 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 ten 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 ten 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 ten 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 audits in accordance with Revenue and Taxation Code section 469.
- (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 Board a response to the findings and recommendations in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

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

ASSESSOR / RECORDER

MARC C. TONNESEN
Assessor/Recorder



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April 18, 2014

Mr. Dean R. Kinnee, Chief
County-Assessed Properties Division
Property and Special Taxes Department
State Board of Equalization
450 N Street
Sacramento, CA 94279-0064

RECEIVED

APR 21 2014

County-Assessed Properties Division
State Board of Equalization

Dear Mr. Kinnee:

Thank you for the opportunity to respond to the recommendations in the State Board of Equalization's Assessment Practices Survey performed July through August 2012. I also want to thank you for including program elements you found particularly effective that describe areas of improvement within my office since our October 2006 survey.

I submit Pursuant to Section 15645 of the California Government Code, my written response to the findings and recommendations contained in the *March 2014 Solano County Assessment Practices Survey*. Please include my response in the published survey.

I wish to express my sincere appreciation to the entire Board of Equalization survey team for the professional and courteous manner in which they performed the survey. I regard the survey as an important tool for the continuing dialogue between the State Board and local Assessors that can be of benefit to both organizations.

I also wish to thank my staff for the dedication and professionalism they exhibit every day in their professional lives. The findings in this report are a testament to their commitment to providing fair and equitable assessments to the citizens of Solano County. They are a great staff and their commitment to excellence is unequalled.

Sincerely,

A handwritten signature in blue ink, appearing to read "M. Tonnese", is written over a faint, larger signature that is partially obscured.

MARC C. TONNESEN
Assessor/Recorder

Enclosure

Solano County Assessor
Responses to State Board of Equalization
Assessment Practices Survey Report
March 2014

Recommendation 1: Improve the low-value property exemption program by tracking the factored base year values of all exempted low-value properties.

Response: We agree with this recommendation which requires a computer system fix which is in process.

Recommendation 2: Improve the administration of the disabled veterans' exemption by: (1) correctly calculating the amount of the exemption to be granted for late-filed claim on the low-income disabled veterans' exemption, and (2) granting the disabled veterans' exemption on a prorated basis for the initial qualifying year in accordance with sections 276.1 and 276.2.

Response: We agree with this recommendation and have already put in place corrective measures to improve the administration of disabled veterans' exemptions.

Recommendation 3: Ensure the assessor's transfer list does not include any confidential information.

Response: We agree with this recommendation and have disabled the link that inadvertently displayed the reported sale price indicated on the Preliminary Change in Ownership Report (PCOR).

Recommendation 4: Improve the LEOP program by applying appropriate penalties as required by section 482(b).

Response: We agree with this recommendation and will implement as time and resources become available.

Recommendation 5: Value properties subject to improvement bonds in accordance with section 110(b).

Response: We agree with this recommendation and will include with the appraisal file the supporting evidence to prove the bond amount is not already included in the purchase price.

Recommendation 6: Improve the CLCA property program by valuing compatible commercial use sites utilizing an economic commercial rent.

Response: We agree with this recommendation and will implement as time and resources become available.

Recommendation 7: Improve the taxable possessory interests program by: (1) assessing all taxable possessory interests, (2) reappraising taxable possessory interests in compliance with section 61(b)(2), (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (4) properly issuing supplemental assessments for taxable possessory interests.

Response: We agree with this recommendation and will implement as time and resources become available.

Recommendation 8: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

Response: We agree with this recommendation and will implement as time and resources become available.

Recommendation 9: Value taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement (BPS).

Response: We agree in part. We will implement if and when a computer system change could handle this programmatically. Reviewing habitual non-filers is very time consuming and not practical given current staffing levels.

Recommendation 10: Correctly classify machinery and equipment reported on business property statements (BPS).

Response: We agree and we will establish guidelines for allocating machinery and equipment costs between personal property and fixtures per business type.

Recommendation 11: Correctly apply penalties when BOE-577, *Aircraft Property Statement*, is not returned timely.

Response: We agree with this recommendation to add the 10% penalty to the market value of the aircraft when BOE-577 is not returned timely.

Recommendation 12: Grant the historical aircraft exemption only when all qualifying conditions have been met pursuant to section 220.5.

Response: We in agree and advise all historical aircraft owners if their claim lacks the proper documentation.