

# SOLANO COUNTY ASSESSMENT PRACTICES SURVEY

OCTOBER 2006

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October 18, 2006

TO COUNTY ASSESSORS:

SOLANO COUNTY  
ASSESSMENT PRACTICES SURVEY

No. 2006/042

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 Property Tax Division from June through July 2005. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Both the retiring assessor, the Honorable Skip Thomson, and the current assessor, Mr. Tonnesen, gave us their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:jm  
Enclosure

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## INTRODUCTION

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Solano County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Marc C. Tonnesen, Solano County Assessor/Recorder,<sup>1</sup> 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*) 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.

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<sup>1</sup> This report covers only the assessment functions of the assessor's office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

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

Our survey of the Solano County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in 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.<sup>3</sup>

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.

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<sup>2</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

<sup>3</sup> 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.

In our 2002 Solano County Assessment Practices Survey, we made 22 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 11 of the recommended changes. Three recommendations no longer apply due to a change in BOE guidance or legislative changes. The remaining recommendations that were not implemented, or only implemented in part, are repeated in this report.

In the area of administration, we noted:

- The Solano County assessment roll value has increased more than 49 percent between fiscal years 2001-02 and 2005-06; however, staffing levels have remained constant over the same period.
- Administrative elements of the assessor's office, including assessment appeals, the exemption program, and assessment roll changes, conform to statutory requirements.

We did find some problems in administrative areas, which are addressed in this report and summarized here.

- The assessor's contracts for appraisal services with two consulting firms do not meet the requirements of section 674.
- The assessor does not include the correct appeals filing period in the notice of proposed reassessment to property owners for disaster relief.
- The assessor still does not apply the low-value property exemption to all qualifying properties.
- The assessor uses three unapproved, rearranged BOE-prescribed forms and has several outdated versions of BOE-prescribed forms available to the public on his website.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, declines in value, water company property, pipeline rights-of-way, and historical properties. Other real property types and procedures should be given more attention, as the following summary indicates.

- The assessor still fails to apply the penalty for a failure to file the *Change of Ownership Statement* as required by section 482(a).

- The assessor does not properly determine supplemental assessments for newly developed homesites on properties subject to California Land Conservation Act contracts.
- The assessor does not follow BOE guidelines in determining the base year value of taxable government-owned properties and improperly assesses possessory interests for agricultural leases of such property.
- The assessor still does not obtain all the lease agreements creating taxable possessory interests, still does not reappraise taxable possessory interests at the end of their anticipated term, still uses an erroneous electronic worksheet to value taxable possessory interests by the indirect income approach, does not issue supplemental assessments of taxable possessory interests, and does not assess all taxable possessory interests at the county fairgrounds.

The assessor has effective programs for assessing business property (including leased equipment) and aircraft, but we noted room for improvement in several other areas, as shown below.

- The assessor's mandatory audit program continues to be in arrears, and the assessor fails to request a waiver of the statute of limitations when an audit will not be completed timely.
- The assessor still uses unsupported minimum percent good factors when assessing business equipment.
- The assessor does not consider published value guides when establishing base year values for manufactured homes and still does not review assessments of manufactured homes located in rental parks for declines in value.
- The assessor does not include sales tax as a component of the value of vessels when preparing value indications from published value guides.

Despite the problems noted above, 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.

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

- RECOMMENDATION 1:** Revise the appraisal consultants' contracts to meet the statutory requirements of section 674.....12

**RECOMMENDATION 2:** State the appeals filing period specified by section 170 in the notice of proposed reassessment.....14

**RECOMMENDATION 3:** Apply the low-value property exemption to all qualifying properties. ....16

**RECOMMENDATION 4:** Revise assessment forms by: (1) using only approved assessment forms, and (2) ensuring that current assessment forms are available on the assessor's website. ....19

**RECOMMENDATION 5:** Apply the penalty for a failure to file *Change of Ownership Statement* as prescribed in section 482(a).....24

**RECOMMENDATION 6:** Issue supplemental assessments only for new construction on homesites. ....30

**RECOMMENDATION 7:** Revise assessment procedures for taxable government-owned property by: (1) correctly establishing base year values for all taxable government-owned property, and (2) discontinuing the assessment of agricultural leases of taxable government-owned property. ....31

**RECOMMENDATION 8:** Improve the taxable possessory interest assessment program by: (1) obtaining copies of all lease agreements that create taxable possessory interests, (2) reappraising taxable possessory interests in compliance with section 61, (3) correcting the error in the electronic worksheet used to calculate the assessed values of taxable possessory interests via the indirect income approach, (4) issuing supplemental assessments on taxable possessory interests when appropriate, and (5) assessing all taxable possessory interests at the county fairgrounds. ....32

**RECOMMENDATION 9:** Revise audit procedures by: (1) timely auditing the books and records of professions, trades, and businesses pursuant to section 469; and (2) requesting a waiver of the statute of limitations when an audit will not be completed in a timely manner. ....38

**RECOMMENDATION 10:** Use supportable minimum percent good factors. ....42

**RECOMMENDATION 11:** Revise manufactured home assessment procedures by: (1) considering published value guides when establishing base year values for manufactured homes located in rental parks, and (2) periodically reviewing assessments of manufactured homes located in rental parks for declines in value. ....44

**RECOMMENDATION 12:** Include sales tax as a component of market value when appraising vessels. ....47

## RESULTS OF 2002 SURVEY

### ***Disaster Relief***

We recommended the assessor process disaster relief claims only when the property owner submits a timely application. The assessor has implemented this recommendation. We also recommended the assessor obtain fire reports from local fire departments. The assessor has not implemented this recommendation; however, we did not find any evidence that the assessor has missed any calamities caused by fire, and, therefore, we do not repeat this recommendation.

### ***Assessment Roll Changes***

We recommended the assessor cite the caption required by section 533 when enrolling escape assessments. Due to recent legislative changes to section 533, this recommendation is no longer applicable.

### ***Low-Value Property Exemption***

We recommended the assessor apply the low-value property exemption uniformly to all qualifying properties. Since the assessor's practice has not changed, we repeat this recommendation.

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

We recommended the assessor properly investigate changes in control listed on reports from the BOE's Legal Entity Ownership unit, include the name of the transferee and the transfer date on the transfer database available to the public, and delete sales prices reported on *Change of Ownership Statements* from this transfer database. The assessor has implemented these recommendations. We also recommended the assessor apply the *Change of Ownership Statement* nonfiling penalty as required by section 482(a). The assessor's practice has not changed and we repeat this recommendation.

### ***New Construction***

We recommended the assessor record all building permits on the assessment records and better document new construction assessments. The assessor has implemented these recommendations.

### ***Possessory Interests***

We recommended the assessor revise the written procedures for valuing possessory interests. The assessor has implemented this recommendation. We also recommended the assessor obtain copies of lease agreements, reappraise possessory interests upon renewal, and revise the computer program used to calculate the assessed values. The assessor has not implemented these recommendations and they are repeated in this report.

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

We recommended the assessor revise the written procedures for valuing taxable government-owned property and establish a base year value for these properties. The assessor has implemented these recommendations; however, his base year value is incorrectly determined and we address that issue in this report.

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

We recommended the assessor consider the income, reproduction cost, and replacement cost approaches to value when valuing California Public Utilities Commission regulated water companies. The assessor has complied with this recommendation.

### ***Audit Program***

We recommended the assessor bring the mandatory audit program to current status and include organizations receiving the welfare exemption in the mandatory audit program. The assessor is still behind in his mandatory audits and we repeat this recommendation. Although the assessor has not implemented the second part of this recommendation, recent legislative changes have eliminated the need for this recommendation.

### ***Business Property Valuation***

We recommended the assessor discontinue using unsupported minimum valuation factors. The assessor has not implemented this recommendation and it is repeated in this report.

### ***Manufactured Homes***

We made the recommendation the assessor classify manufactured homes as personal property and review manufactured homes for declines in value. The assessor has complied with the first recommendation but still does not review manufactured homes for declines in value. This recommendation is repeated.

## OVERVIEW OF SOLANO COUNTY

Solano County is located approximately 30 miles east of San Francisco. It is one of California's original 27 counties, created in 1850 by the State Legislature. The county has a population of approximately 411,900 inhabitants, most of whom live in Benicia, Dixon, Fairfield, Rio Vista, Suisun City, Vacaville, and Vallejo. Solano County encompasses approximately 907 square miles. Major industries are health services, tourism, refinery production, biotech manufacturing, and agricultural products. Sixty-five percent of the county's acreage is dedicated to agricultural uses, including nursery stock, tomatoes, and cattle. Solano County is bordered by Sonoma, Napa, Yolo, Sacramento, and Contra Costa counties.

The following table displays information pertinent to the 2005-06 assessment roll:

	<b>PROPERTY TYPE</b>	<b>NUMBER OF ASSESSMENTS</b>	<b>ENROLLED VALUE</b>
<b>Secured Roll</b>	Residential	118,215	\$26,713,706,034
	Commercial/Industrial	5,754	\$7,226,790,336
	Agricultural	3,397	\$663,614,954
	Manufactured Homes	1,080	\$58,846,994
	Other Secured	7,919	\$218,782,197
	<b>Total Secured</b>	<b>136,365</b>	<b>\$34,881,740,515</b>
<b>Unsecured Roll</b>	Personal Property & Fixtures	9,133	\$1,504,631,608
	<b>Total Assessment Roll</b>	<b>145,498</b>	<b>\$36,386,372,123</b>

The next table illustrates the growth in assessed values for recent years:

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>INCREASE</b>	<b>STATEWIDE INCREASE</b>
2005-06	\$36,386,372,123	12.72%	11.1%
2004-05	\$32,280,154,735	9.97%	8.3%
2003-04	\$29,353,766,624	10.52%	7.3%
2002-03	\$26,560,455,206	9.12%	7.3%
2001-02	\$24,340,024,064		

## ADMINISTRATION

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

### ***Budget and Staffing***

Solano County has a staff of 44 full-time employees. This includes the assessor, the assistant assessor, the chief appraiser, 2 supervising appraisers, 16 real property appraisers, a supervising auditor-appraiser, 4 auditor-appraisers, 12 clerical staff, 2 technicians, and 4 drafting technicians. Staffing has remained relatively constant over the past five years, with minor changes due to retirements and promotions.

The assessor's budget has grown from \$3,125,227 in 2001-02 to \$5,127,610 for 2005-06. The following chart shows the assessor's increased budget over this period of time. Figures do not include PTAP funds, which are kept and accounted for in a separate budget account.

FISICAL YEAR	GROSS BUDGET	PERCENT CHANGE
2005-06	\$5,127,610	20.11%
2004-05	\$4,269,162	5.08%
2003-04	\$4,062,849	14.22%
2002-03	\$3,557,046	13.82%
2001-02	\$3,125,227	--

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

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.<sup>4</sup> This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07.<sup>5</sup> The grant program operates in essentially the same manner as the loan program except that if a county does not meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

<sup>4</sup> Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

<sup>5</sup> State-County Property Tax Administration Program funding has been suspended for two years, beginning with the 2005-06 California State Budget.

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

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

Base funding and staffing levels are \$2,150,468 and 37 positions. Providing the county meets this base funding amount, the state provides additional funds in the amount of \$469,207. The assessor utilizes this additional funding to complete mandatory and nonmandatory audits, to timely prepare assessment appeals, to review properties experiencing a decline in value, and to enroll escaped new construction and business accounts. Funds have also been used to purchase new information technology hardware, software, and related staff training. The PTAP funds also augment the assessor's staff with five additional positions: two real property appraisers and three clerical staff. The county auditor has certified that the assessor's office has met its obligation each year for the supplemental funding provided by PTAP.

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties or exercise the authority of an appraiser for property tax purposes as an employee of any county or city and county, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificate issued by the BOE. Additionally, section 671 provides that, in order to retain a valid appraiser's certificate, every holder shall complete at least 24 hours of training (12 hours in the case of a holder of an advanced certificate) conducted or approved by the BOE.

In Solano County, there are a total of 26 certified appraisers on staff; 13 hold advanced certificates, 12 have appraiser's certificates, and one has a temporary certificate. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d).

We also reviewed the training records maintained by the BOE's Training Section, as well as the training records maintained by the assessor, for all staff required to be certified. Based on the training summary provided by the BOE for the 2005-06 fiscal year, all staff, including the assessor, are current in their training hours.

The County of Solano has contracted with three private consulting firms to provide services to the assessor for the appraisal of oil, gas, and aggregate rock mineral rights, oil refineries and a brewery. All of the contractors possess either permanent or temporary appraiser's certificates. We reviewed the current agreements to determine whether the provisions required by section 674 have been met and found them to be deficient.

**RECOMMENDATION 1:** Revise the appraisal consultants' contracts to meet the statutory requirements of section 674.

We found that the contract language of the agreements for the contract appraisers did not meet the statutory requirements of section 674. These agreements lack definite provisions for the control and disposition of the assessee's confidential information and records and do not require the contractor to purge and return to the assessor any assessee records that may be in their possession.

Section 674(d) requires that these provisions be incorporated into all appraisal contracts using language prescribed by the BOE. In Letter To Assessors 2000/055, dated September 15, 2000, the BOE recommended contract provisions that would satisfy the requirements of section 674. The assessor's appraisal services contracts do not conform to the requirements of law.

We recommend the assessor better protect assessee's confidential information by revising his consultants' contracts to conform to the requirements of section 674.

### ***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 BOE has adopted Rules 301 through 326 to regulate the assessment appeal process.

The board of supervisors appoints members of the assessment appeals board. These members have completed the training required by section 1624.02. There are no hearing officers; instead, the assessment appeals board hears all scheduled appeals.

We reviewed assessment appeals activities of the assessor's office and the assessment appeals board. The two agencies have a good working relationship that makes the entire appeals process effective and efficient, particularly in the case of scheduling and document processing. They maintain the statutory separation of authority and responsibility of both agencies.

No appeal has gone unresolved for more than two years, unless the taxpayer agrees to a waiver of the statutory time limits as provided in section 1604(c)(1) and Rule 309(b).

Applications received by the clerk of the assessment appeals board are reviewed, validated, and entered into the system, and then scheduled for hearing. Pursuant to Rule 306, the clerk transmits to the assessor a copy of each application for a change in assessment and each written request for amendment or correction that is received.

We found the assessor's appeals process to be complete and timely. Most of the appeals presentations are made by the appraisal staff who are familiar with the subject property. For unique or complex properties, a senior appraiser may lead the presentation. Although two staff members represent the assessor at all assessment appeal hearings, additional staff members may

be called to give testimony. We attended several assessment appeals board hearings and found that the staff handling appeals was experienced and well prepared.

The following table illustrates the appeal workload for recent years:

APPEALS	ROLL YEAR				
	2005-06	2004-05	2003-04	2002-03	2001-02
<b>Appeals Filed</b>	11	261	244	219	225
Appeals Carried Over from Prior Year	354	109	19	7	
<b>Total Appeals</b>	<b>365</b>	<b>370</b>	<b>263</b>	<b>226</b>	<b>225</b>
<b>Resolution:</b>					
Withdrawn		8	113	137	120
Stipulation		5	5	26	47
Appeals Reduced			3	6	5
Appeals Upheld		3	30	37	42
Appeals Increased				1	
Invalid Appeals (Voided)			3		4
Disposition unknown					
<b>Total Resolved</b>		<b>16</b>	<b>154</b>	<b>207</b>	<b>218</b>
<b>To be Carried Over</b>		<b>354</b>	<b>109</b>	<b>19</b>	<b>7</b>

### ***Disaster Relief***

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under an ordinance, assesses must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he or she may revalue the property on lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by

\$10,000 or more, the assessor shall then determine the percentage of value reductions and reduce the assessed values accordingly.

The assessor discovers instances of disaster or calamity by reviewing newspaper articles and building permits, field canvassing, and taxpayer-initiated contacts. Upon discovery, the assessor mails an application to the property owner. Returned applications are logged in, analyzed, and processed if accepted. If denied, property owners are notified by letter.

The Solano County Board of Supervisors amended their disaster relief ordinance in 1980. This ordinance applies to a misfortune or calamity involving any taxable property, both real and personal. Section 170 has been extensively modified since 1980. In our review of the disaster relief program, we found that both the assessor's program and the current county disaster relief ordinance reflect the provisions of section 170.

In our 2002 survey, we recommended the assessor grant disaster relief only upon the filing of a timely application. Currently, we found that the assessor reassessed property for disaster relief purposes only upon receipt of a properly completed, timely filed application in full compliance with section 170(d). We also recommended the assessor obtain fire reports from local fire districts. Although this recommendation has not been implemented, we did not find any evidence that the assessor has missed any calamities caused by fire and, therefore, we do not repeat this recommendation. However, we did find one problem with the assessor's disaster relief program.

**RECOMMENDATION 2:** State the appeals filing period specified by section 170 in the notice of proposed reassessment.

The assessor's notice of proposed reassessment does not inform the owners of their proper assessment appeal rights as required by section 170(c). The notice currently used by the assessor to notify the applicant of the proposed reassessment due to a disaster relief claim is the same as that used to notify an assessee of an escape or correction to the assessment roll.

The appeals filing period stated on both notices is 60 days. However, section 170(c) provides that the applicant may appeal the proposed reassessment to the local board of equalization within six months of the date of mailing the notice.

### ***Assessment Roll Changes***

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, if a correction is made that will decrease the amount of the unpaid taxes, the consent of the board of supervisors is necessary. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The assessor processed 1,231 roll changes in the assessment year 2004-05. The following table shows the number of roll changes processed for recent years:

ROLL YEAR	SECURED ROLL CHANGES	UNSECURED ROLL CHANGES
2004-05	339	892
2003-04	742	763
2002-03	371	633
2001-02	359	981
2000-01	1,573	934

Only appraisers and auditor-appraisers can initiate roll changes. The changes are then sent electronically to a supervising appraiser for approval. Once approval is made, the property tax management system automatically generates a *Notice of Proposed Escape Assessment* letter, and notifies the county auditor/controller. After 10 days, the *Notice of Enrollment of Escape Assessment* letter is sent; then, 14 days later, the property tax management system creates a tax bill for the escaped assessment.

In our 2002 survey, we recommended the assessor cite the caption required by section 533 when enrolling escape assessments. Due to recent legislative changes to section 533, this recommendation is no longer applicable.

We reviewed documentation for assessment roll changes completed in 2005 and found roll changes are correctly prepared, well documented, and timely enrolled.

### ***Low-Value Property Exemption***

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

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

Solano County adopted Resolution No. 96-15 on January 23, 1996, authorizing the exemption of all personal and real property with a full value of \$5,000 or less.

In our 2002 survey, we recommended the assessor apply the low-value property exemption uniformly to all qualifying properties. Specifically, we found that some manufactured homes with values less than \$5,000 were not exempted. During our current survey, we found no

manufactured homes with values less than \$5,000 assessed on the 2005-06 roll. However, we found that the low-value property exemption is still not being applied uniformly.

**RECOMMENDATION 3:** Apply the low-value property exemption to all qualifying properties.

We found a number of real property parcels that were eligible for the low value exemption that have been assessed. The following table summarizes by year the number of incorrectly assessed parcels that qualify for the low-value property exemption.

ROLL YEAR	NO. OF PROPERTIES	TOTAL ASSESSED VALUE
2005-06	63	\$186,028
2004-05	65	\$190,447
2003-04	92	\$276,844
2002-03	510	\$856,316

The appraisers are required to identify and code each low-value property so that a tax bill is not generated for the taxpayer. However, some qualified low-value properties were not identified.

We repeat our recommendation advising the assessor to apply the low-value property exemption uniformly to all qualifying properties.

**Exemptions**

In the Solano County Assessor's Office, both individual exemptions (homeowners', veterans', and disabled veterans') and institutional exemptions (religious, church, and welfare) are processed by the exemptions unit, which is staffed with one clerical operations manager and two office assistants. The staff uses the exemption procedures found in the instructional materials received from the BOE, such as Letters To Assessors, Assessors' Handbook Section 267, and a welfare exemption workshop binder to process all exemption claims.

**Church and Religious Exemptions**

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

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be

organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

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

The exemption unit processes the church and religious exemption claims and carefully adheres to statutory filing requirements. If follow-up inspections are needed, they are assigned to the appraiser responsible for the area in which the exempt property is located. If a claimant fails to return the religious exemption termination notice, the assessor may conduct a field inspection to verify continued eligibility for the religious exemption.

The following table presents the number of properties and the amount of assessed value exempted under church and religious exemptions for recent years:

ROLL YEAR	RELIGIOUS		CHURCH	
	Number	Exempted Value	Number	Exempted Value
2005-06	130	\$96,169,248	63	\$45,820,723
2004-05	139	\$88,001,954	60	\$36,228,981
2003-04	135	\$76,928,413	58	\$19,991,243
2002-03	146	\$79,481,618	72	\$17,704,402
2001-02	151	\$76,018,949	69	\$14,279,556

We reviewed several church and religious exemption claims and found that the church and religious exemption claims are being properly administered.

### Welfare Exemption

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

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether

the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

If the welfare exemption claims are incomplete or denied, the assessor informs the claimant of that determination. The claimant has 30 days to submit additional information to support the claim.

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

ROLL YEAR	WELFARE	
	Number	Exempted Value
2005-06	233	\$771,297,929
2004-05	346	\$751,224,077
2003-04	331	\$536,474,622
2002-03	306	\$603,472,184
2001-02	313	\$594,645,557

We reviewed a number of welfare exemption claims, concentrating on first-time filings, denied claims, and late filings. Some of the specific property types we reviewed included hospitals; reasonably necessary staff housing, low-income/handicapped/elderly rental housing, transitional housing; and churches. We found no problems with the assessor's welfare exemption program.

### **Assessment Forms**

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.<sup>6</sup> For the 2004 lien date, the BOE prescribed 75 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

The BOE annually sends three form checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists and any rearranged forms to the BOE by October 15 in the case of property statements

<sup>6</sup> Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

We noted a few areas that could lead to possible confusion or misunderstanding of assessment forms.

**RECOMMENDATION 4:** Revise assessment forms by: (1) using only approved assessment forms, and (2) ensuring that current assessment forms are available on the assessor's website.

**Use only approved assessment forms.**

The assessor uses three unapproved, rearranged BOE-prescribed forms. The assessor has combined forms BOE-571-L (*Business Property Statement*) and BOE-571-D (*Supplemental Schedule of Monthly Acquisitions and Disposals*) into one form, reduced Form BOE-571-L from four pages to two, and rearranged Form BOE-576-D (*Vessel Property Statement*) by deleting or adding wording.

Rule 171(a) provides that the assessor may rearrange BOE-prescribed forms, but may not add or delete any part of the form. Rule 171 also provides that the assessor must notify the board annually of those board-prescribed forms he will use and a copy must be submitted for approval.

In addition, the assessor uses three BOE-prescribed forms that he had indicated he would not be using. These forms were never submitted for review. Section 452 provides that assessor's must submit property statements forms to the board for approval prior to use.

**Ensure that current assessment forms are available on the assessor's website.**

The assessor makes 13 BOE-prescribed forms available on his website. Of these, eight are outdated versions of the forms. Using forms that are outdated or obsolete may lead to incorrect application of the underlying property tax law and cause erroneous assessments. The assessor should update his website with current versions of BOE-prescribed forms.

## 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, and taxable government-owned property.

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

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

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership pursuant to section 110.1.

### **Document Processing**

The Solano County Recorder received 29,964 recorded documents pertaining to 33,909 parcels for the 2004 calendar year. All document information provided is reviewed, verified, and scanned into the recorder's computer system. These documents are also pre-screened by the clerical staff for potential changes in ownership coded as to transfer type based on a list of document types, and forwarded electronically to the assessor's office. The property transfer section of the assessor's office separates incoming documents into appraisable and nonappraisable events.

Data from Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), and Form BOE-502-AH, *Change of Ownership Statement* (COS), are entered into the assessor's system. Short legal descriptions are also noted on the deed, while more complicated legal descriptions are forwarded to mapping. After analysis, the mapping unit supplies the proper assessor's parcel number (APN) and then sends the document back to the property transfer section.

Clerical staff place the new transfer data in the property file for the appraisal staff. Approximately 95 percent of the deeds received from the recorder have PCORs attached. PCORs are available at no charge from the assessor and recorder, and are also available to title companies online. The recorder charges \$20 when a deed is presented for recordation without a PCOR.

Generally, the time period for processing documents is about two to three weeks, with about six weeks being typical for transfers needing additional documentation.

A history of the number of changes in ownership for recent years:

CALENDAR YEAR	TRANSFER DOCUMENTS	NO. OF PARCELS TRANSFERRED
2004	29,964	33,909
2003	29,496	33,330
2002	25,680	28,088
2001	22,409	25,665
2000	20,251	23,089

The information below indicates substantial roll value increases resulting from reappraisal of real property experiencing changes in ownership for recent years:

ROLL YEAR	ROLL VALUE ADDED	TOTAL ROLL VALUE	PERCENTAGE INCREASE
2005-06	\$2,946,682,308	\$36,839,683,379	8.0%
2004-05	\$1,921,717,835	\$32,733,946,293	5.9%
2003-04	\$1,517,679,284	\$29,807,715,945	5.2%

Homeowners' exemptions are automatically removed following a change in ownership. Partial transfer deeds for properties with this exemption are directed to the exemptions unit to determine if the exemption should be retained. When a valuation notice is sent to a new homeowner, a homeowners' exemption claim form is included in the mailing.

### Section 69.5 Base Year Value Transfer

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner is at least 55 years of age, or severely and permanently disabled, the owner files a claim timely and the properties are within the same county. The transfer staff prepares the section 69.5 reports quarterly for the BOE as required by section 69.5(b)(7).

### Section 63.1 Exclusion

Section 63.1 excludes from the definition of change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first \$1 million of other real property between parents and children when a claim is filed timely. Subsequent amendments to section 63.1 also exclude certain transfers between grandparents and their grandchildren.

Information regarding the provisions of section 63.1 is available at the assessor's public counter along with claim forms. Claim forms are also available on the assessor's website. The transfer staff prepares the section 63.1 quarterly reports as requested by the BOE.

We found that applications are properly processed and that this program fully complies with the provisions of section 63.1.

### Section 408.1 Transfer Lists

Section 408.1 requires that the assessor maintain a list available to the public, showing property transfers that have occurred in the prior two years. In Solano County, the assessor updates this list at the end of every month. Public viewing is available online via computer terminals at the public counter during business hours or through the purchase of a compact disc for \$10.

In our 2002 survey, we recommended the assessor include the name of the transferee or grantee and transfer date on the transfer list as required by section 408.1. We also recommended that the assessor delete sales prices reported on the COS from the transfer database. Currently, the transfer list contains the following information: assessor's parcel number, situs address, document number, recording/transfer date, use code/zoning, documentary stamp tax converted to sale price, stamp code (if available), property specifications (if available), grantee, and grantor.

The assessor has implemented our recommendations and the county's two-year transfer list is now in full compliance with section 408.1.

### Legal Entity Ownership Program (LEOP)

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

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by

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

When the LEOP listing is received from the BOE, the mapping division reviews the list, identifies the parcels, and updates the computer system. We found that the assessor processes LEOP notices properly and promptly revalues parcels that have undergone a change of ownership.

In our 2002, survey, we recommended that the assessor properly investigate changes in control listed on BOE's LEOP reports. We reviewed eight legal entities reported to the assessor as having experienced a change in control. We found that the assessor took appropriate action in reviewing and reappraising the real property parcels acquired by these entities and that the staff processes LEOP transfers in a timely manner.

### Direct Enrollment

Direct enrollment is a program used in many assessors' offices to streamline the processing of uncomplicated transfers of residential properties. In Solano County, the assessor's direct enrollment program is used only to enroll qualifying single-family residences and condominiums.

For the 2004-05 roll year, approximately 7,300 transfers were enrolled through this program, which involves computer analysis of any residential transfers that have been entered by the appraisal staff for confirmed sales that conform to specific criteria. The parameters that a property must meet to qualify for direct enrollment include the following:

- The transfer must convey 100 percent interest,
- The event must be a first-time sale (new construction) or a resale,
- The subject property must be located within areas designated by the assessor as direct enrollment-eligible residential subdivisions,
- The deed must show a transfer tax based on the full sale price,
- The sale price must exceed the current assessed value, and
- The PCOR must indicate a sale through a real estate broker.

Direct enrollment subdivisions have been identified throughout the county for their homogeneous qualities, such as lot size, design or style, type of materials used in construction, range of age for improvements, and common amenities such as parks, schools, streets, and shopping. Within these designated areas, sales comparables must be no more than six months old with preference given to the most recent transfers.

Baseline data for values are tracked for each subdivision as part of an annual study. In markets with rapidly accelerating sales prices, these studies may occur as often as every six months or at

the discretion of the assessor's staff. Lot values are established for the entire neighborhood by analysis of the range of purchase prices paid, with consideration given to size, location, and additional external influences close in proximity. If a transferred property is not eligible for direct enrollment, it is assigned for review as part of the appraisal workload.

About 85 percent of the transfers that initially qualify are ultimately enrolled through this program. We reviewed a number of transfers in three different subdivisions and found the processing for these assessments consistent with parameters of the county's direct enrollment program.

## Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements that generally enhance the land value of privately owned real property, such as sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with 1911, 1913, or 1915 Bond Acts.

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

The assessor's current market analysis for residential properties in Solano County has determined that there is no evidence in the marketplace to justify the addition of bond amounts to purchase prices. However, analysis of transfers of commercial properties showed that some sale prices were lower due to bond encumbrances. If the sales price of a commercial property including the bonds is within the range of value for similar transfers without bond encumbrances, then the assessor allows the addition of bonds to the sale price to establish the current market value.

We found that the assessor complies with section 110(b) and adds improvement bond values to selling prices only when he has established that this adjustment is warranted.

Overall, the assessor's change in ownership program is well administered; however, we did find one area where the program can be improved. In the March 2002 survey, we recommended the assessor timely apply the penalty for a failure to file a *Change of Ownership Statement*, Form BOE-502-AH (COS), as prescribed in section 482(a). The assessor has not implemented this recommendation and it is repeated.

**RECOMMENDATION 5:** Apply the penalty for a failure to file *Change of Ownership Statement* as prescribed in section 482(a).

We found the assessor has not been properly penalizing taxpayers that fail to file a COS. The assessor maintains a log of COS requests but does not indicate delinquent or noncompliance status in any office records.

Section 480 provides that transferees shall file a COS with the recorder or assessor in the county where the subject property is located. Section 482(a) further provides that if, upon written request from the assessor, a required party fails to file the statement within 45 days, a penalty shall be applied. The penalty is either \$100 or 10 percent of the taxes applicable to the new base year value reflecting the change in ownership, whichever is greater, but not to exceed \$2,500.

The information contained in a properly completed COS assists the assessor's staff with the verification of specific transfer details. The assessor's practice is contrary to the requirement of section 482(a).

### ***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 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 73 through 74.7 address these exclusions.

### **Building Permits**

Building permits are the assessor's primary means of discovering assessable new construction. There are eight permit-issuing agencies in Solano County: the cities of Benicia, Dixon, Fairfield, Rio Vista, Suisun, Vacaville, and Vallejo; and the County of Solano. The assessor's office receives permits from all issuing agencies. The following is a table indicating the number of permits reported to the assessor by each permit-issuing agency in recent years.

PERMIT ISSUING AGENCY	Permits Issued in 2004-05	Permits Issued in 2003-04	Permits Issued in 2002-03	Permits Issued in 2001-02	Permits Issued in 2000-01
Benicia	1,099	880	372	269	271
Dixon	657	661	226	157	159
Fairfield	3,515	2,828	1,229	1,386	1,230
Rio Vista	532	514	482	304	345
Vacaville	2,436	2,347	1,220	895	1,150
Suisun	788	642	361	220	225
Vallejo	2,914	2,392	945	796	911
Solano County	888	899	481	304	340
<b>Total</b>	<b>12,829</b>	<b>11,163</b>	<b>5,316</b>	<b>4,331</b>	<b>4,631</b>

In our 2002 survey report, we recommended the assessor record all issued permits on the property record. The assessor has complied with this recommendation.

The county's various permit-issuing agencies deliver permits to the assessor's office on a regular basis. The assessor also discovers new construction during field canvassing by appraisers in their assigned areas, through a review of business property statements, and during review of changes in ownership of real property. When new construction is noted on Form BOE-571-L, *Business Property Statement* (BPS), the auditor-appraiser sends a copy of the BPS - Schedule B to the real property division.

The assessor's office receives all building permits issued in the county including all non-assessable new construction such as repairs and replacements. The permit-issuing agencies encode the nature of the work indicated on all building permits, enabling the assessor to filter permits that do not represent assessable new construction. However, appraisers perform field reviews of all new construction, including repairs and replacements, to verify that there is no assessable new construction. Area appraisers and/or appraisal technicians are responsible for preparing the sketches of new construction using DC Sketch software and attaching it to the property record.

The assessor appraises construction-in-progress as of the lien date, appraises completed new construction as of the date of completion, and applies the appropriate supplemental assessments based on such dates.

## Valuation

The assessor sends a *Property Owners Statement of New Construction* questionnaire for new construction deemed to be assessable. The primary approach to value is the cost approach when appraising new construction, but market and income approaches are also applied if sufficient data exist. When the replacement cost method is utilized to estimate new construction value, the assessor considers the remaining economic life for the entire property.

The assessor has not conducted a formal study to determine the value added by miscellaneous new construction such as new residential pools; however, individual appraisers conduct their own informal studies using paired sales to determine the appropriate value to add. In addition, the assessor relies on costs supplied by property owners on the *Property Owner's Statement of New Construction*.

Fair market value is estimated as of lien date for new construction, and the base year and base year value are maintained on the property record for each item of new construction. Entrepreneurial profit is added, where appropriate, to the cost approach, but the amount is the responsibility of the individual appraiser to estimate and document.

### **Exclusions and Exemptions**

The assessor's office exempts newly planted orchards for the first four years and newly planted vineyards for the first three years. Active solar heating systems, seismic safety-masonry wall construction, seismic safety-rehabilitation, and severely disabled person exclusions are granted on a case by case basis. Procedures exist addressing each of these exclusions.

However, there is no tracking system in place to locate such exclusions once granted, and consequently, there is no way to summarize the impact of any or all exclusions. It is the assessor's opinion that the impact is minimal because few exclusions are granted.

The assessor's new construction program is well managed.

### ***Declines in Value***

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

Real estate values in Solano County have continued to increase dramatically over the last five years, resulting in a significant decrease in the number of parcels enrolled at less than their factored base year value.

The following table illustrates the total number and distribution of properties that had a decline in value in recent years:

ROLL YEAR	RESIDENTIAL	COMMERCIAL/INDUSTRIAL/ AGRICULTURAL
2004-05	96	420
2003-04	112	375
2002-03	184	744
2001-02	198	745
2000-01	417	1,280

The assessor has written policies, procedures, and forms dealing with declines in value. The appraisers annually review all decline-in-value properties in their assigned areas of the county to determine whether factored base year value should be restored.

The assessor has an effective and thorough program of annually reviewing and adjusting real property assessment to reflect declines in value.

### **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, e.g., 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 BOE-approved guidance for the appraisal of these properties.

For the 2005-06 assessment roll, there were approximately 264,000 acres in Solano County encumbered by CLCA contracts, including 3,330 acres in nonrenewal. The total assessed value for CLCA land and restricted living improvements for 2005-06 was approximately \$341 million. The rural property in Solano County consists of prairie, rangeland, marshland, and an arid portion of the Coast Range. Most of the agricultural revenue generated in Solano County is derived from nursery stock, livestock, alfalfa, tomatoes, wine grapes, and nuts.

The valuation of CLCA properties in Solano County is the responsibility of three real property appraisers. A computerized system calculates restricted values, using the correct capitalization rate. Rents are updated based on information reported from assessor-generated questionnaires and the appraiser's knowledge of the market. The computer program compares and selects the lowest of three values: restricted, factored base year, or current market. The assessor issues supplemental assessments on homesites and improvements on CLCA properties that experience changes in ownership and for any subsequent new improvements.

In Solano County, most of the water supplied for agriculture is provided by Solano Irrigation District; however, wells meet the additional demand during drier years. Wells are also used for frost protection, as this water source is substantially warmer than available surface water during the colder months. Pursuant to AH 521, the assessor properly includes wells as a component of the land value for property tax purposes, and the return on the investment is included in the land capitalization rate. Fixed irrigation equipment associated with wells is separately valued using replacement cost less depreciation and separately assessed as a component of unrestricted improvements.

The AH 521 describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. All living improvements have similar shape of income: (1) a period of development, when production (income stream) commences and rises; (2) a period of maturity, when production remains relatively stable; and (3) a period of decline, when production drops as the living improvements near the end of their economic life. Most orchards and vineyards in Solano County are replanted before reaching the declining stage of production. With this practice of "early removal," the living improvements are removed from the tax roll. Upon planting, notation is made for new trees or vines to establish the exemption period for new orchards or vineyards before returning to capitalization of income from production in new or replanted areas or blocks.

The assessor recognizes that the risk component varies according to the risk associated with the development of the income to be capitalized; he assigns a 0.5 percent risk component for range land, 1.0 percent for crops, 2.0 to 2.5 percent for vineyards and orchards, and as high as 3.5 percent for olive trees.

The assessor compiles rental and expense data from questionnaires mailed annually to agricultural property owners. The assessor obtains additional information from interviews with tenants and owners. Data from the county's annual crop report are generally not used as a reference because the information is not available to the assessor in a timely manner.

By annually revaluing CLCA lands using the current yield rate and current economic income, the assessor has properly assessed these lands. We have only one recommendation for improvement.

**RECOMMENDATION 6:** Issue supplemental assessments only for new construction on homesites.

We found that the assessor incorrectly issues supplemental assessments for the portion of restricted land that is developed into a residential site where no change in ownership or new construction of the site occurred.

AH 521 provides that when a site for a new home is created on restricted property, there is no change in ownership that would warrant a reappraisal of the site despite the fact that new construction, such as grading, has brought about a change in use. Rule 463(b)(2) defines new construction to mean and include any substantial physical alteration of land which constitutes a major rehabilitation of the land or results in a change in the way the property is used. In any instance where an alteration is substantial enough to require reappraisal due to new construction, only the value of the alteration shall be added to the base year value of the pre-existing land or improvements.

Only the value added by the physical alteration is assessable as new construction and subject to supplemental assessment in accordance with section 75.10. The value attributable to the change in use is not assessable and not subject to supplemental assessment. Once this change in use occurs, the homesite is valued as provided in section 428, at the lower of factored base year value or market value.

The assessor's practice has probably resulted in overassessments of the homesite value assigned to the portion of restricted land that was converted into residential use.

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

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

There are 121 taxable government-owned properties in Solano County, including parcels owned by various cities and two local municipal utilities. The total assessed value of taxable government-owned properties on the 2005-06 assessment roll was \$14,991,472. The total acreage encompassed by these properties is approximately 14,602 acres, or about 2.5 percent of the county area.

In our 2002 survey, we recommended the assessor revise written procedures for the valuation of taxable government-owned property. The assessor has implemented this recommendation. We also recommended the assessor establish base year values for taxable government-owned property. The assessor has implemented this recommendation; however, some of the appraisal records do not clearly identify the base year and base year value. We encourage the assessor to

fully document the transfer date, transfer price, base year value, and the recorder's document number on the appraisal records.

To verify that all properties owned by public agencies are taxed if situated outside that agency's boundaries, we reviewed properties assessed as taxable government-owned properties. We also reviewed government-owned properties with a zero roll value to confirm that the properties were not located outside that agency's boundaries.

The assessor has been performing a three-way value comparison and enrolls the lowest of the restricted value, current market value, or factored base year value. However, we noted two aspects of these procedures that could be improved.

**RECOMMENDATION 7:** Revise assessment procedures for taxable government-owned property by: (1) correctly establishing base year values for all taxable government-owned property, and (2) discontinuing the assessment of agricultural leases of taxable government-owned property.

**Correctly establish base year values for all taxable government-owned property.**

The assessor annually compares the current market value, the restricted value, and the factored base year value of each parcel of taxable government-owned property and enrolls the lowest of the three values. However, the methodology he uses to determine the base year value is incorrect. He erroneously establishes base year values only at current market value at the time of acquisition and, thereafter, annually indexes that value by the inflation factor specified in article XIII A of the California Constitution.

Letter To Assessors 2000/037, dated June 23, 2000, states that the value limitations prescribed by article XIII, section 11 are applicable to taxable government-owned properties acquired both before and after March 1, 1975. This letter also recommends that base year values for taxable government-owned properties acquired after March 1, 1975 be established at the lower of current fair market value as of the date of change in ownership, or the 1967 assessed value multiplied by the appropriate factor as of the date of change in ownership. Once established, the base year value limitations of article XIII A of the California Constitution also apply. Therefore, if the value derived using the BOE-announced factor is lower than the current market value as of the date of the change in ownership; the restricted value becomes the base year value for the property.

The assessor's current practice has probably resulted in numerous overassessments of taxable government-owned property.

**Discontinue the assessment of agricultural leases of taxable government-owned property.**

We found the assessor was erroneously assessing agricultural leases on 13 parcels owned by a public utility that have been enrolled as taxable possessory interests. Although these are possessory interests, they are not assessable. Article XIII, section 11(f) of the California Constitution prohibits the enrollment of such interests, and Rule 29(b) excludes agricultural

leases from the specific assessment procedures for possessory interests in taxable government-owned property.

The assessor's current practice of assessing agricultural leases on taxable government-owned property has resulted in inappropriate assessment of nonassessable property rights.

### ***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.

The assessor has 1,105 taxable possessory interests on the 2005-06 assessment roll, totaling \$72,654,230. Approximately 55 percent of these possessory interests are exempted under the county's low-value property exemption. Of the remaining 45 percent, more than half are berths at a city marina. Taxable possessory interests in Solano County are located on property owned by about 90 public agencies.

In our 2002 survey report, we made four recommendations for improving the taxable possessory interest assessment program. The assessor implemented only the recommendation to revise the procedures manual section on the assessment of taxable possessory interests. The other recommendations were not implemented and are repeated in the first three parts of the following recommendation. There are also two other areas in the program needing improvement.

**RECOMMENDATION 8:** Improve the taxable possessory interest assessment program by: (1) obtaining copies of all lease agreements that create taxable possessory interests, (2) reappraising taxable possessory interests in compliance with section 61, (3) correcting the error in the electronic worksheet used to calculate the assessed values of taxable possessory interests via the indirect income approach, (4) issuing supplemental assessments on taxable possessory interests when appropriate, and (5) assessing all taxable possessory interests at the county fairgrounds.

#### **Obtain copies of all lease agreements that create taxable possessory interests.**

In our 2002 survey of the assessor's assessment practices, we found that several possessory interest appraisal records did not contain a copy of the lease for the interests being assessed, and recommended that copies of the leases be obtained. During the current survey, we again found that many files do not contain a copy of the current lease.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Subsection (d) explains that the stated term of possession is deemed the reasonably anticipated term of possession except in certain situations, and subsection (e)(3)(C) explains how to determine the income for capitalization purposes. These steps in the valuation process cannot be completed if the contract conveying the possessory interest is not reviewed. For example, the assessor may have some information relating to the initial lease term, but may not know of any renewal options contained in the lease or of lessor/lessee expense allocations.

The usage reports submitted annually to the assessor by government agencies that lease property to others provide some information; however, they are not adequate substitutes for the actual leases. Unconfirmed data may be inaccurate or incomplete and could lead to incorrect assessments.

### **Reappraise taxable possessory interests in compliance with section 61.**

In our 2002 survey, we found that the assessor neglected to reappraise several taxable possessory interests upon their renewal. In our current survey, we found that the assessor still does not reappraise possessory interests at the end of the term of possession used to value the possessory interest; instead, he continues to assess them at their factored base year value. In addition, the assessor reappraises some month-to-month interests annually rather than at the end of the anticipated term of possession used to value them.

Section 61 provides that a change in ownership, as defined in section 60, includes the creation, renewal, sublease, and assignment of a taxable possessory interest in tax exempt real property. Section 61(b)(2) provides that the assessor shall, at the end of the initial term of possession used by the assessor, establish a new base year value, based on an anticipated term of possession. Section 61(b)(2) also provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest does not result in a change in ownership until the end of that reasonable anticipated term of possession. By not revaluing possessory interests as provided in section 61(b)(2), the assessor has been enrolling inaccurate assessments and not recognizing the change of ownership that occurs at the end of the initial term of possession.

### **Correct the error in the electronic worksheet used to calculate the assessed value of taxable possessory interests via the indirect income approach.**

In our 2002 survey, we discovered an error in the electronic worksheet used for valuing the possessory interests by the indirect income approach. Currently, we found that the error had not been corrected and the worksheet continues to be used in valuing possessory interests by the indirect income approach.

The error occurs when estimating the reversionary value of the rights for the period subsequent to the possessor's term of possession. The worksheet template incorrectly requires the appraiser to insert the value of the improvement during the term of possession, rather than at the end of the term of possession, as the reversionary value. This has resulted in an incorrect value for the possessory interest value attributable to the improvements.

**Issue supplemental assessments on taxable possessory interests when appropriate.**

The assessor does not issue supplemental assessments for taxable possessory interests. 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 supplemental assessments shall be issued following a change in ownership or new construction. The assessor's current policy of not issuing supplemental assessments on possessory interests is contrary to statute.

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

We found a number of tenants have been using the Solano County Fairgrounds for several years; however, no assessments have been enrolled for these uses. These interests appear to have the exclusivity, durability, independence, and private benefit required of taxable possessory interests.

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. There are a number of private uses of the fairgrounds that appear to have these characteristics and should be assessed as taxable possessory interests.

The assessor's failure to enroll these interests may have allowed taxable property to escape assessment.

***Historical Property***

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

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

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

In Solano County, there are a total of 12 enforceably restricted historical properties on the local property tax roll. All of the properties are single-family residences located in the cities of Benicia and Vallejo; homeowners' exemptions have been granted on seven of the properties. The total assessed value for the 12 properties on the 2005-06 assessment roll is \$1,335,549.

The following table summarizes the assessed values for historical properties for recent years:

ROLL YEAR	NO. OF ASSESSMENTS	ASSESSED VALUE
2005-06	12	\$1,335,549
2004-05	10	\$1,166,403
2003-04	8	\$877,005
2002-03	5	\$548,781
2001-02	5	\$488,846

We reviewed the assessor's records for all historical properties. The property files contained a copy of the historic property preservation agreement and a worksheet showing the calculations for the assessed value. We found that the assessed values have been reviewed annually, economic rent is used in the income approach, and, as appropriate, supplemental assessments are not issued for property subject to a contract for historical preservation. We also found that the capitalization rate used includes all four required components, including the correct interest rate as reported by the BOE and the correct risk component based on the assessor's determination of which properties are owner-occupied.

### ***Leasehold Improvements***

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

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

When real property is reported on Form BOE-571-L, *Business Property Statement (BPS)*, coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

The Solano County Assessor's Office does not have written procedures for the assessment of leasehold improvements. However, there is an established routine for sharing information between the real property and business property divisions, in order to avoid double and escaped assessments. The real property division uses a form to alert the business property division when a new permit is reviewed and the action taken. Conversely, the business property division sends a copy of Forms BOE-571-L and BOE-571-D to the real property division when the property statement indicates expenditures for structural leasehold improvements and the account is secured.

When a BPS is filed on a secured account, it is forwarded on the real property division for analysis. The appraisers analyze the costs in a two-step process. First, it is determined whether the reported items are real or personal property. Then, it is determined whether the costs (1) are already included in the real property value, (2) are an expense item and should not be included, or (3) should be assessed as new construction of real property. If it is new construction, the appraisers are responsible for enrolling a supplemental assessment. The business property division is responsible for assessing unsecured leasehold improvements classified as fixtures

### **Discovery**

The primary discovery tools for leasehold improvements are business property statements, building permits, field checks, and bulk transfer notices. All costs reported on Forms BOE-571-L and BOE-571-D are investigated when a four-year audit is conducted.

### **Valuation**

The assessor classifies structural items as real estate or business fixtures and assesses them at the lower of their factored base year value or current market value. Leasehold improvements are assessed to the lessee except when there exists a documented agreement between lessor and lessee to do otherwise. When leasehold improvements are abandoned, the business property division inactivates the account and notifies the real property division, which determines whether the leasehold improvements should be added to the lessor's secured account.

Supplemental assessments are applied to structural leasehold improvements on the secured roll. Our sampling of the unsecured improvements indicates that the assessor correctly does not enroll supplemental assessments for items classified as fixtures.

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

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

We obtained a list of all water supply sources annually inspected by the California State Department of Health Services' Branch of Drinking Water Field Operations. We identified and reviewed the assessment of properties owned by 1 California Public Utilities Commission (CPUC) regulated company, 1 mutual water company, and 43 local government water systems found on this list.

In our 2002 survey, we recommended that the assessor consider the income, reproduction cost, and replacement cost approaches when valuing property owned by the one CPUC-regulated water company in Solano County. The assessor has complied with this recommendation. Additionally, the properties owned by the mutual water company and local government water systems reviewed were correctly assessed.

We have no recommendation for improvements to the assessor's procedures for assessing water company property.

### ***Pipeline Rights-of-Way***

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court Ruled that such assessments were outside the BOE's constitutional authority.<sup>7</sup> The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

The assessor has six right-of-way pipeline assessments on the local roll with a total assessed value of \$3,940,389 for the 2005-06 tax roll. All the pipeline rights-of-way are valued by one real property appraiser. The assessor maintains a separate base year value for each separate right-of-way interest, but assesses each taxpayer's intercounty pipeline rights-of-way to a single countywide parcel pursuant to section 401.8(a).

We checked the current roll values and confirmed that the values have been correctly factored from their 1975 base year. Each individual pipeline right-of-way receives a separate base year assessment. Additionally, each pipeline assessee files reports with the assessor either on Form BOE-571-RW, *Right-of-Way Property Statement*, or Form BOE-571-P, *Pipeline Property Statement*, pursuant to section 441.

The assessor properly administers his right-of-way assessment program.

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<sup>7</sup> *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4<sup>th</sup> 42.

## 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 programs for audits, business property statement processing, business property valuation, leased equipment discovery and assessment, manufactured homes, aircraft, and vessels.

### **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 provide the assessor with additional information to make fair and accurate assessments.

### **Mandatory Audits**

Pursuant to section 469 and Rule 192, audits are mandatory for those business property accounts having a full value of \$400,000 for four consecutive years. The assessor's audit program does not comply with statutory and regulatory requirements.

**RECOMMENDATION 9:** Revise audit procedures by: (1) timely auditing the books and records of professions, trades, and businesses pursuant to section 469; and (2) requesting a waiver of the statute of limitations when an audit will not be completed in a timely manner.

### **Timely audit the books and records of professions, trades, and businesses pursuant to section 469.**

In our 2002 survey, we recommended that the assessor bring the mandatory audit program to current status. We found that the assessor is still behind in timely completing audits of mandatory business property accounts. The assessor has a total workload of 323 mandatory audit accounts, resulting in an average annual workload of 81 audits per year.

Section 469 requires that audits be performed regularly for qualifying accounts. The mandatory audit verifies the reporting of the largest business property accounts. The further removed the audit is from the year being audited, the more difficult it may be to obtain the necessary records.

By failing to complete these audits in a timely manner, the assessor is not complying with the provisions of section 469 and making it difficult to complete an audit in the future due to accessibility of financial records.

**Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.**

The assessor is not consistent in requesting waivers of the statute of limitations from taxpayers when his staff anticipates an audit will not be completed in a timely manner.

Section 532 provides that an escape assessment found during an audit must be enrolled within four years after July 1 of the assessment year in which the property escaped assessment or was underassessed. If the assessor cannot complete the mandatory audit within the prescribed time limit, the assessor may ask the taxpayer to grant an extension of time. This can be accomplished by requesting that the taxpayer sign a waiver of the statute of limitations, as authorized by section 532.1. This waiver protects the taxpayer if there was an overassessment and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered.

By failing to obtain waivers, the assessor may have allowed taxable property to escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

**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.

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, the audits that were completed were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

***Business Property Statement Program***

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

the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

### Workload

The following table displays the assessor's workload of property statements for businesses, leased equipment, vessels, aircraft, and other property types assessed on the 2005-06 assessment roll:

<b>BUSINESS PROPERTY STATEMENT WORKLOAD (2005-06)</b>						
	<b>SECURED</b>		<b>UNSECURED</b>		<b>TOTAL</b>	
<b>CATEGORY</b>	<b>NO. ITEMS</b>	<b>ASSESSED VALUE</b>	<b>NO. ITEMS</b>	<b>ASSESSED VALUE</b>	<b>NO. ITEMS</b>	<b>ASSESSED VALUE</b>
Commercial	498	\$4,093,081,283	3,456	\$1,085,557,700	3,954	\$5,178,638,983
Agricultural	111	\$50,273,569	66	\$11,352,175	177	\$61,625,744
Financial	18	\$55,492,484	112	\$14,870,585	130	\$70,262,069
Service Stations	44	\$56,253,816	64	\$17,503,872	108	\$73,757,688
Leased Equipment	4	\$8,148,645	1,813	\$102,289,171	1,817	\$110,437,816
Certificated Aircraft	0	0	3	\$3,293,558	3	\$3,293,558
General Aircraft	0	0	149	\$10,338,299	149	\$10,338,299
Vessels	0	0	2,791	\$40,057,282	2,791	\$40,057,282
4% Vessels	0	0	4	\$74,912	4	\$74,912
<b>TOTAL</b>	<b>675</b>	<b>\$4,263,249,797</b>	<b>8,458</b>	<b>\$1,285,337,554</b>	<b>9,133</b>	<b>\$5,548,587,351</b>

### General Statement Processing

The business property division processes the business property statements (BPS). Our review of the BPS program included processing procedures, use of BOE-prescribed forms, processing by qualified staff, taxpayer interactions, completeness of the property statements, authorized signatures, application of penalties, coordination with the real property division, direct billing, and record storage and retention. Our review also included a sample of active business property statements.

The business property statement processing begins with the office assistants reviewing the mailed BPS's for changes in addressees, date received, and name changes. The statement is date stamped and the mailing envelope is attached to the statement. Statements that are incomplete are copied and the original returned to the taxpayer. The statements are matched with the existing business property files. If the filer is filing for the first time, the clerical staff creates a new business property file. After the initial review, the clerical staff forwards the BPS's to the auditor-appraisers for valuation. The auditor-appraisers check for full disclosure of property

based on the taxpayer's prior BPS and also confirm reporting of leased equipment. Because there is no direct billing program, the BPS's are sent to all active accounts.

### Discovery

The assessor has an efficient discovery program. While taxpayer self-reporting is the principal means of detecting assessable business property, the discovery program also includes field canvassing, reviewing fictitious business name filings, newspaper articles and advertisements, city and county business licenses, referrals from other counties, and BOE notifications. We found that the assessor employs effective methods to discover taxable business and personal property, as well as fixtures.

Based upon our review, we found that the business property statement program is efficiently managed.

### ***Business Equipment Valuation***

#### Commercial, Industrial, and Agricultural Equipment

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

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

This section of the handbook may be used to assist the assessor in the valuation of business property and trade fixtures. The equipment index factors measures the annual trended values of equipment with normal service lives. The percent good factors reflect the average loss in value that commercial or industrial equipment will suffer over its service life.

The following table displays the assessor's current secured and unsecured business property assessments assessed on the 2005-06 assessment rolls:

BUSINESS PROPERTY ASSESSMENT (2005-06)						
	SECURED		UNSECURED		TOTAL	
CATEGORY	NO.	ASSESSED VALUE	COUNT	ASSESSED VALUE	NO.	ASSESSED VALUE
Commercial	830	\$3,159,606,315	7,886	\$1,278,604,494	8,716	\$4,438,210,809
Industrial	3	\$1,248,851,024	10	\$9,120,074	13	\$1,257,971,098
Agricultural	212	\$92,234,785	97	\$13,924,104	309	\$106,158,889
Construction	35	\$41,764,986	243	\$47,982,314	278	\$89,747,300
Biopharmaceutical	3	\$292,657,676	0	0	3	\$292,657,676
Vessels	0	0	23,081	\$102,773,353	23,081	\$102,773,353
4% Vessels	0	0	13	\$136,142	13	\$136,142
General Aircraft	0	0	262	\$22,454,749	262	\$22,454,749
Certificated Aircraft	0	0	5	\$3,313,636	5	\$3,313,636
<b>TOTAL</b>	<b>1,083</b>	<b>\$4,835,114,786</b>	<b>31,597</b>	<b>\$1,478,308,866</b>	<b>32,680</b>	<b>\$6,313,423,652</b>

The Solano County Assessor currently uses the equipment index factors provided by the California Assessors' Association (CAA) which parallel the AH 581, with the exception of specific types of equipment.

#### Minimum Percent Good Factors

The 2005 study by the CAA recommends the use of minimum percent good factors to recognize property that has a minimum fair market value. The minimum factors are based on information in the Marshall Valuation Services (*Marshall*) value guide. *Marshall* indicated an average 9 percent minimum percent good factor for all industrial property and an average 10 percent minimum percent good factor for all commercial property.

In our 2002 survey, we recommended that the assessor discontinue using unsupported minimum valuation factors (based on minimum percent good factors). We found that the assessor does not always use the CAA minimum percent good factors but rather estimates percent good based on the auditor's judgment and experience. The assessor has not changed his practice

**RECOMMENDATION 10:** Use supportable minimum percent good factors.

We found the assessor continues to apply minimum percent good factors that vary from 11 to 26 percent based on the auditor's judgment and experience. No study or analysis exists to support these minimum percent good factors.

Section 401.16 was amended in 2002, effective for the lien date 2003, to prohibit the assessor from using minimum percent good factors that are determined in an unsupported manner. Percent good factors are intended to reflect the average loss in value suffered by specific types of

properties over their normal service lives. The percent good factors in the AH 581 are based on the premise that these types of properties lose value as they age. The AH 581 uses machinery and equipment percent good factors derived from price data from the *Marshall Valuation Service*, Bureau of Labor Statistics, and a study conducted by Iowa State University. Similarly, the CAA minimum percent good factors are based on the *Marshall Valuation Service* table of salvage values and, hence, are considered supportable.

Using unsupported minimum percents good may result in overvaluing older equipment. This equipment will soon be retired but is currently being valued as though it has several years of profitable service left.

### ***Leased Equipment***

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

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

We found the Solano County Assessor correctly distinguished between leases and conditional sales contracts, and followed the correct appraisal and assessment procedures in the application of valuation processes. Additionally, we reviewed several files of lessors and lessees for valuation methods, completeness of reporting, tracking of equipment, assessee designation, leased equipment reported by state assessee(s), and expired lease disposition, as well as processing procedures. We found the leased equipment program to be well managed, with staff doing an excellent job in discovering and assessing leased equipment.

### ***Manufactured Homes***

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, 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.

The following table summarizes the total number of manufactured homes enrolled and their value for recent years:

ROLL YEAR	NUMBER OF ENROLLEMENTS	TOTAL ENROLLED VALUE
2005-06	818	\$40,991,227
2004-05	816	\$39,107,953
2003-04	818	\$37,298,705
2002-03	818	\$36,078,808
2001-02	817	\$34,665,002

The supervising auditor-appraiser appraises all manufactured homes classified as personal property. He enrolls manufactured homes at their unadjusted selling price.

In our 2002 survey, we recommended the assessor classify manufactured homes as personal property and annually enroll the lower of factored base year value or current market value for manufactured homes. In our current review, we found the assessor now classifies manufactured homes as personal property, but does not review manufactured home assessments for possible declines in value. We, therefore, repeat our prior recommendation and make one additional recommendation.

**RECOMMENDATION 11:** Revise manufactured home assessment procedures by:  
 (1) considering published value guides when establishing base year values for manufactured homes located in rental parks, and (2) periodically reviewing assessments of manufactured homes located in rental parks for declines in value.

**Consider published value guides when establishing base year values for manufactured homes located in rental parks.**

The assessor enrolls the full sales price for all manufactured homes without any adjustments for site influence. He does not consider the indicated values in published value guides when establishing the base year values of manufactured homes.

Section 5803(b) prohibits the inclusion of site value in manufactured home assessments. It also requires the assessor to consider published value guides such as the *Kelley Blue Book Official Manufactured Housing Guide*, *National Automobile Dealers Association's Manufactured Housing Appraisal Guide* (NADA), or BOE cost guides in establishing taxable values for manufactured homes in rental parks. Location in certain parks in Solano County may influence sale prices of homes located within them, either positively or negatively. For this reason, the assessor should not rely on nominal selling prices of manufactured homes located in rental parks.

Our review indicates that manufactured homes may be overassessed because the assessor has not removed in-park location value from the nominal selling prices of manufactured homes located in rental parks.

**Periodically review assessments of manufactured homes located in rental parks for declines in value.**

The assessor annually indexes manufactured home values by the article XIII A of the California Constitution inflation index, without any consideration of current market values indicated by manufactured home valuation guides as required by section 5803. We compared the enrolled values to the current market values indicated by NADA, one of the guides recommended in section 5803, and found the enrolled values to be substantially above the values indicated in NADA.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. A review of cost manuals and value guides indicates that it is not unusual for manufactured homes to decline in value. Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of manufactured homes to ensure that declines in value of manufactured homes are recognized accurately and consistently.

The assessor's practice may lead to the overassessment of manufactured homes.

**Aircraft****General Aircraft**

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

The Solano County Assessor assessed 156 general aircraft for the 2005-06 assessment roll with a total value of approximately \$17,826,000. The assessor discovers aircraft through the airport operator reports, other counties' referrals, Federal Aviation Administration reports, and field inspections.

An auditor-appraiser is responsible for valuing general aircraft. An aircraft property statement is mailed each year to the known owner of each aircraft in the county requesting information to be filed. The form lists the aircraft and requests the owner to report added or deleted equipment, engine hours since last major overhaul, date of last overhaul, overall condition, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the aircraft property statement, the auditor-appraiser incorporates adjustments for the overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul, to determine a market value estimate. The values of

newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

We found the procedures to be correctly administered and the estimates of value to be properly calculated.

### **Certificated Aircraft**

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

The assessor correctly assesses the certificated aircraft owned by the three commercial airline companies serving Solano County. The total assessed value of the certificated aircraft is approximately \$3.3 million. The aircraft are assessed using the appropriate allocation formula provided in section 1152, which considers flight and ground time as well as arrivals and departures. This information, critical in determining the aircraft assessments, is routinely gathered from owners of certificated aircraft in the course of the assessor's audits.

We have no recommendations in this area.

### **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 exemption is claimed.

There were 34 historical aircraft exempted on the 2005-06 roll in Solano County with a total exempted value exceeding \$1 million. The assessor has properly obtained a signed affidavit for the historical aircraft exemption pursuant to section 220.5(c). We found the assessor to be in full compliance with the historical aircraft filing procedures.

## Vessels

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

The following table summarizes vessel assessments in recent years:

ROLL YEAR	PLEASURE VESSELS		DOCUMENTED VESSELS	
	NUMBER	ASSESSED VALUE	NUMBER	ASSESSED VALUE
2005-06	4,511	\$81,966,871	8	\$119,834
2004-05	4,423	\$81,731,866	8	\$142,624
2003-04	4,092	\$75,475,699	7	\$102,534
2002-03	3,808	\$66,273,167	8	\$122,548
2001-02	3,568	\$62,253,002	9	\$172,175

Vessels entering the county are assessed based on reported purchase price, DMV values, NADA, or the *BUC Used Boat Guide* (BUC). For subsequent assessment, all vessels are reviewed and valued each year. We found one problem with the assessor's vessel assessment program.

**RECOMMENDATION 12:** Include sales tax as a component of market value when appraising vessels.

The assessor uses the *NADA* and *BUC* value guides to value vessels. Because these value guides are intended for use on a nationwide basis, they do not include the sales and use tax in the values listed. Although we found that the assessor selects the proper values listed in the value guides, he fails to add a sales tax component.

Sales tax is a recognized component of market value and should be added to the values listed in the value guides when determining market values.<sup>8</sup> Assessors' Handbook Section 576, *Assessment of Vessels*, provides that for purposes of property taxation, where a value guide is used to estimate the full cash value of a vessel, a sales tax increment should be added to the listed value if it does not include local sales tax amounts.

Since sales tax has not been included in the vessel appraisals, vessels are being underassessed in Solano County.

<sup>8</sup> *Xerox Corp. v. Orange County* [1977] 66 Cal.App.3d 746.

## APPENDIXES

### A. County Property Tax Division Survey Group

#### Solano County

*Chief, County Property Tax Division*

Mickie Stuckey

*Survey Program Director:*

Arnold Fong

Principal Property Appraiser

*Survey Team Supervisor:*

Peter Gaffney

Supervising Property Appraiser

*Survey Team Leader:*

Glenn Danley

Senior Specialist Property Appraiser

*Survey Team:*

Sally Boeck

Senior Specialist Property Appraiser

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Bob Marr

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Larry Gee

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 also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

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

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

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

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

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

**Revenue and Taxation Code****75.60. Allocation for administration.**

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
  - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
  - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

**Title 18, California Code of Regulations****Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
  - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

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

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

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

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

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

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

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



**MARC C. TONNESEN**  
**ASSESSOR / RECORDER**

675 Texas Street, Suite 2700 • Fairfield, CA 94533- 6338 • 707.784.6200

Public Hours: ASSESSOR DIVISION 8 am – 5 pm • RECORDER DIVISION 8 am – 4 pm

August 22, 2006

Ms. Mickie Stuckey, Chief  
County Property Tax Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0060

RECEIVED

AUG 24 2006

County Property Tax Division  
State Board of Equalization

Dear Ms. Stuckey:

Pursuant to Section 15645 of the California Government Code, I am providing a written response to the findings and recommendations contained in the *July 2006 Solano County Assessment Practices Survey*. Please include my response in your final report.

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.

Thank you for the opportunity to include my concluding comments.

Sincerely,

A handwritten signature in black ink, appearing to read "M. C. Tonnese", written over a horizontal line.

MARC C. TONNESEN  
Solano County Assessor/Recorder

Attachments

Solano County Assessor  
Responses to State Board of Equalization  
Assessment Practices Survey Report  
July 2006

**Recommendation 1:** Revise the appraisal consultants' contracts to meet the statutory requirements of section 674.

**Response:** We agree. We will amend the contracts to conform to the requirements of section 674.

**Recommendation 2:** State the appeals filing period specified by section 170 in the notice of proposed reassessment.

**Response:** We agree. We will revise our notification forms to include language regarding the appeal time limits for section 170 reassessments. Currently we use form BOE-67-A to give notice of a change in value due to calamity as well as other supplementals. That form, while it contains ordinary filing deadlines, does not provide information on appeal filing deadlines for section 170 calamity adjustments.

**Recommendation 3:** Apply the low-value property exemption to all qualifying properties.

**Response:** We agree. We will review all values on the roll that are \$5,000 or lower to determine if the low-value exemption applies.

**Recommendation 4:** Revise assessment forms by (1) using only approved assessment forms, and (2) ensuring that current assessment forms are available on the assessor's website.

**Response:** (1) We agree. The 571L and D forms were combined and reduced to save paper and mailing costs. We will submit this rearranged form to the BOE annually for approval. We will use the full 576D form in the future. (2) We agree. For FY 2005/06 we accepted all forms and published the common forms on our website.

**Recommendation 5:** Apply the penalty for a failure to file *Change of Ownership Statement* as prescribed in section 482(a).

**Response:** We agree. We have adopted procedures to apply the penalty for failure to file under section 482(a). We are completing a software revision of our property system to enact the provisions.

**Recommendation 6:** Issue supplemental assessments only for new construction on home sites.

**Response:** We agree. We have revised the home site treatment of restricted property to provide for the allocation of the original base year value of the land to a home site upon the completion and occupancy of a new home. No supplemental will be issued for the home site.

**Recommendation 7:** Revise assessment procedures for taxable government-owned property by (1) correctly establishing base year values for all taxable government-owned property, and (2) discontinuing the assessment of agricultural leases of taxable government-owned property.

**Response:** (1) We disagree. The Assessor correctly establishes base year values for all taxable government-owned property. The Assessor disagrees with direction provided in LTA 2000/037, specifically, that the restricted value enrolled in the initial year would become the base year value for the property for subsequent years. (2) We agree. We will remove the possessory interest value for agricultural leases located on taxable government-owned parcels.

**Recommendation 8:** Improve the taxable possessory interest assessment program by (1) obtaining copies of all lease agreements that create taxable possessory interests, (2) reappraising taxable possessory interests in compliance with section 61, (3) correcting the error in the electronic worksheet used to calculate the assessed values of taxable possessory interests via the indirect income approach, (4) issuing supplemental assessments on taxable possessory interests when appropriate, and (5) assessing all taxable possessory interests at the county fairgrounds.

**Response:** (1) We agree. We continue to work with public agency personnel responsible for reporting possessory interests. As part of the process we request copies of leases. (2) We agree. We continue to review all possessory interest assessments to ensure we have properly determined change in ownership occurrences. (3) We agree. We will correct the formula. (4) We agree. We are working on this Recommendation. (5) We agree. We have requested complete tenant, vendor and rental lists from the fairgrounds staff. We will analyze those lists to determine if any entity is eligible for a possessory interest assessment.

**Recommendation 9:** Revise audit procedures by (1) timely auditing the books and records of professions, trades, and businesses pursuant to section 469; and (2) requesting a waiver of the statute of limitations when an audit will not be completed in a timely manner.

**Response:** (1) We agree. Recent staff changes better enable us to oversee the annual audit assignments and ensure that audits are completed timely. (2) We agree. Our audit worksheet reminds staff to check for the need for a waiver. If a waiver is needed, staff attempts to obtain one. It should be noted that not every taxpayer agrees to sign a waiver.

**Recommendation 10:** Use supportable minimum percent good factors.

**Response:** We agree. We follow California Assessors' Association (CAA) recommended guideline and will endeavor to provide supporting documentation when CAA Recommendations do not parallel BOE Recommendations.

**Recommendation 11:** Revise manufactured home assessment procedures by (1) considering published value guides when establishing base year values for manufactured homes located in rental parks, and (2) periodically reviewing assessments of manufactured homes located in rental parks for declines in value.

**Response:** (1) We agree. We have adopted BOE cost guides for valuing manufactured homes. (2) We agree. We review manufactured home values periodically for declines in value. For FY 2005/06 we revalued all manufactured homes located in mobile home parks using BOE cost guides.

**Recommendation 12:** Include sales tax as a component of market value when appraising vessels.

**Response:** We agree. We have added sale tax to vessel appraisals.